

# **MOST-FAVORED-NATION TREATMENT FOR HUNGARY**

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**HEARING**  
**BEFORE THE**  
**SUBCOMMITTEE ON INTERNATIONAL TRADE**  
**OF THE**  
**COMMITTEE ON FINANCE**  
**UNITED STATES SENATE**  
**NINETY-FIFTH CONGRESS**  
**SECOND SESSION**  
**ON**  
**S. Con. Res. 76**  
**CONCURRENT RESOLUTION TO APPROVE THE EXTENSION**  
**OF NONDISCRIMINATORY TREATMENT WITH RESPECT TO**  
**THE PRODUCTS OF HUNGARY**

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MAY 9, 1978



Printed for the use of the Committee on Finance

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# MOST-FAVORED-NATION TREATMENT FOR HUNGARY

TUESDAY, MAY 9, 1978

U.S. SENATE,  
SUBCOMMITTEE ON INTERNATIONAL TRADE  
OF THE COMMITTEE ON FINANCE,  
Washington, D.C.

The subcommittee met, pursuant to notice, at 10 a.m., in room 2221, Dirksen Senate Office Building, Hon. Abraham Ribicoff (chairman of the subcommittee) presiding.

Present: Senators Ribicoff, Hansen, and Dole.

[The committee press release announcing this hearing and the resolution, S. Con. Res. 76, follow:]

[Press Release, Apr. 25, 1978]

U.S. Senate, Committee on Finance, Subcommittee on International Trade

## FINANCE SUBCOMMITTEE ON INTERNATIONAL TRADE TO HOLD HEARINGS ON RESOLUTION TO APPROVE THE AGREEMENT ON TRADE RELATIONS BETWEEN THE UNITED STATES AND THE HUNGARIAN PEOPLE'S REPUBLIC

The Honorable Abraham Ribicoff (D., Conn.), Chairman of the Subcommittee on International Trade of the Committee on Finance, today announced the Subcommittee will hold a hearing on Senate Concurrent Resolution 76. Under section 405(c) of the Trade Act of 1974 (19 U.S.C. 2435), an agreement providing nondiscriminatory tariff treatment (Most Favored Nation treatment) to a nonmarket economy country takes effect only if a concurrent resolution of approval is adopted by the Congress within 60 working days after the President submits the agreement to the Congress. Special procedural rules for Congressional consideration of such a resolution are contained in section 151 of the Trade Act (19 U.S.C. 2191). On April 7, 1978, the President transmitted the Agreement on Trade Relations between the United States and the Hungarian People's Republic to the Congress. On that date, Senate Concurrent Resolution 76 approving the Agreement was introduced.

The hearing will be held at 10 a.m., Tuesday, May 9, 1978, in Room 2221 of the Dirksen Senate Office Building.

Witnesses who desire to testify at the hearings should submit a written request to Michael Stern, Staff Director, Committee on Finance, Room 2227, Dirksen Senate Office Building, Washington, D.C. 20510; by no later than the close of business on May 4, 1978.

*Legislative Reorganization Act.*—Senator Ribicoff stated that the Legislative Reorganization Act of 1946 requires all witnesses appearing before the Committees of Congress "to file in advance written statements of their proposed testimony, and to limit their oral presentations to brief summaries of their argument." Senator Ribicoff urged that all parties who share a common interest or a common point of view coordinate their request to testify and make every effort to be represented by a single spokesman. Witnesses scheduled to testify must comply with the following rules:

1. A copy of the statement must be filed by noon the day before the witness is scheduled to testify.
2. All witnesses must include with their written statements a summary of the principal points included in the statement.

3. The written statements must be typed on letter-size paper (not legal size) and at least 75 copies must be submitted by the close of business the day before the witness is scheduled to testify.

4. Witnesses are not to read their written statements to the Committee, but are to confine their oral presentations to a summary of the points included in the statement.

5. A limited amount of time will be permitted for the oral presentation of testimony and the witness may not exceed that amount of time.

Witnesses who fail to comply with these rules will forfeit their privilege to testify.

*Written statements.*—Persons not scheduled to make an oral presentation who desire to present their views to the Subcommittee are urged to prepare a written statement for inclusion in the printed record of the hearing. These written statements should be submitted to Michael Stern, Staff Director, Senate Committee on Finance, Room 2227, Dirksen Senate Office Building, Washington, D.C. 20510, not later than Tuesday, May 16, 1978.

[S. Con. Res. 76, 95th Cong., 2d sess.]

**CONCURRENT RESOLUTION** To approve the extension of nondiscriminatory treatment with respect to the products of Hungary

*Resolved by the Senate (the House of Representatives concurring),* That the Congress approves the extension of nondiscriminatory treatment with respect to the products of the Hungarian People's Republic transmitted by the President to the Congress on April 7, 1978.

Senator RIBICOFF. The committee will be in order.

Our first witness today is Mr. Vest.

Mr. Vest is not here?

The next witness is Mr. Istvan B. Gereben. You may proceed, sir.

**STATEMENT OF ISTVAN B. GERE BEN, EXECUTIVE SECRETARY,  
COORDINATING COMMITTEE OF HUNGARIAN ORGANIZATIONS  
IN NORTH AMERICA**

Mr. GERE BEN. Mr. Chairman, I am Istvan B. Gereben, the executive secretary of the Coordinating Committee of Hungarian Organizations in North America. I am testifying in this capacity today.

Sir, I want to thank you for providing us the opportunity to share our views on this matter with your committee today.

We are in a very special situation, presenting our views here today. Our concern is mostly not economic and political but it represents, to us, a question of conscience. Granting most-favored-nation status for Hungary represents an enigma for us. We tried to get as much information as we could from all sources available to us. We found eagerness on the part of American industry and the administration to extend most-favored-nation treatment to Hungary.

Also, we observed on the part of the Hungarian Government, coolness to, if not straight denunciation of, the granting most-favored-nation treatment to Hungary, based on the Jackson-Vanik amendment. The Hungarian Government considered the requirements of this amendment as interference in the internal affairs of Hungary and repeatedly, as lately as February of this year, announced that it will not accept its terms.

We are puzzled by the sudden change.

The matter of granting most-favored-nation status to Hungary brings forth a question of conscience for the American-Hungarian community: To support the regime is out of the question for us. To

consider the interests of the Hungarian people is certainly close to our hearts.

We derived our recommendations for this matter before the committee today with long deliberations. The World Federation of Hungarian Freedom Fighters repeatedly considered this issue in the past 2 years, passed resolutions, and let its opinion be known to the officials of our Government.

The Convention of the American-Hungarian Federation last September passed a resolution in this matter. The Federation of the Former Hungarian Political Prisoners expressed its views in a letter to the President and the Secretary of State.

The final decision on this matter has been reached on a meeting of our own committee on April 8 of this year. We based our decision on consultations with Congressmen, officials of the Government, representatives of business and with our own conscience. It was very difficult to obtain reliable and quantitative information on the results of this agreement.

Our deliberations were complicated by the Hungarian emigration laws, which are obviously, and, I think, undoubtedly the most restrictive laws of the Eastern European countries, and also with the fact that many Hungarians who desire to visit their relatives living in the West are denied visa, exit visas, from Hungary by the Government in Hungary.

Also, we know that the Hungarian Government maintains a blacklist of Americans of Hungarian descent who cannot obtain visas for visits to Hungary. These facts were presented to American officials, and they could not be denied.

The above-mentioned hard facts, economic uncertainties, and political implications connected to the agreement on trade relations between the People's Republic of Hungary and the United States, compelled us to be cautious in forming our recommendation concerning the implementation of this agreement. The repeated claims by the President, his advisers, officials of the State Department, that the execution of this trade agreement with the People's Republic of Hungary will benefit the people of Hungary and the fact that most-favored-nation status has been granted to Communist countries with similarly dismal or, as in the case of Romania, worse human rights record than Hungary's, are the major factors in forming our views on this agreement.

Considering the short- and long-term interests of the Hungarian people, our committee decided that it cannot, and will not, oppose congressional approval of extending nondiscriminatory treatment to the products of the Hungarians People's Republic. This, however, does not mean that we do not have reservations.

Since the State is the sole trader in Hungary, it is conceivable that the benefits of increased United States-Hungarian trade will be channeled not to the people, but to serve the purpose of the oppressive Government. We suggest that the economic benefits of this agreement to the average Hungarian also be monitored.

Such monitoring should include the following: Effect of U.S. trade on the standard of living of Hungarians; personnel, management, wage policies of jointly owned enterprises formed as the consequence of this agreement; the use of Hungary as a trade intermediary between the United States and a third party.

If Congress, in its wisdom, finds the granting of most-favored-nation status to Hungary beneficial for both the Hungarian and American peoples, it should make abundantly clear that it does so not by recognizing of, but in expectation of compliance with the Jackson-Vanik amendment.

While this procedure will not prevent claims by the Communist Hungarian Government that it has been rewarded by the Congress of the United States for its impeccable emigration policies, for its positive human rights record, at least it will provide us an effective, and credible rebuttal to those claims.

Congress also should encourage U.S. industry to initiate such actions which inherently benefit the people of Hungary. One such action could be the transfer of prefabricated construction technology to ease the pressing housing crisis in Hungary.

The President based his request for congressional approval of his waiver of the requirements of section 402 of the Trade Act of 1974, upon the letter Foreign Minister Puja wrote, which emphasized that the People's Republic of Hungary strives for the full implication of the Helsinki Act. We are pleased that, by making this letter public, the President broadens the scope of the periodic performance review required by the Jackson-Vanik amendment.

The President's action indicates to us and, hopefully, to the Government in Hungary also, that in case of congressional approval of the agreement, performance of the People's Republic of Hungary will be monitored, evaluated, and reviewed not only on the issues of emigration but other and more pertinent human rights issues as well: Freedom of thought, conscience, and religion; freedom of opinion and expression; freedom of peaceful assembly; the principle that the will of the people shall be the basis for the authority of government.

Mr. Chairman, we hope that the Senate will interpret the President's action similarly and these considerations will guide it in its further deliberations and actions. We hope that time will prove your decision, whatever it will, a wise and constructive step on the road leading to the sovereignty of a democratic Hungary and to the freedom of her people.

Thank you.

Senator RIBICOFF. Thank you very much.

We have found in the past with other countries that in monitoring the execution of these agreements, we have improved considerably the rights of the people of these countries and also the ability of those who have families there to help them. I do appreciate the testimony and your entire statement will go into the record as if read.

Thank you very much.

[The prepared statement and report<sup>1</sup> of Mr. Gereben follows:]

STATEMENT OF ISTVAN B. GEREKEN, EXECUTIVE SECRETARY OF THE COORDINATING  
COMMITTEE OF HUNGARIAN ORGANIZATIONS IN NORTH AMERICA

SUMMARY

Hungary—as the long-term result of the 1956 Revolution—achieved a special status among the Warsaw Pact countries. The positive changes, however, could not

<sup>1</sup> The Library of Congress study submitted by Mr. Gereben was made a part of the committee file.

compensate for the fact that Hungarians live in a complex, sophisticated oppressive system. The tangible expression of the oppressive mentality of the system is the Iron Curtain.

In the wake of the President's proclamation, and as a consequence of the commitments expressed in Foreign Minister Puja's letter to our Ambassador to Hungary, it is expected that the Government in Hungary will soon modify its emigration laws, which deny the right of emigration to all Hungarians under 55 years of age.

When we deal with Hungary we must know that it does not have a sovereign government, it is a member of the Kremlin-controlled satellite block, it is occupied by Soviet troops and ideology.

The Government in Hungary consistently denounced the Jackson-Vanik amendment and insisted that it never will accept its terms. It is hoped that reasons for the sudden change are known to the members of the subcommittee.

The meaningful gain realized by the Trade Agreement for Hungary seems to be in obtaining further credits at Western financial institutions. The effects of the increased trade cannot be estimated by us. We could not find anyone who would commit himself to definitive projections. Based on claims by the White House and the State Department that the benefits of this Agreement will be primarily realized by the Hungarian people our committee—considering the short- and long-term economic and political interest of the Hungarian people—decided that it cannot and will not oppose congressional approval of extending nondiscriminatory treatment to the products of the Hungarian People's Republic.

The President—by making Foreign Minister Puja's letter in which it is emphasized that the People's Republic of Hungary strives for the full implementation of the Helsinki Final Act—broadens the scope of the periodic performance review required by the Jackson-Vanik amendment.

Accordingly, performance of the Government in Hungary should be monitored, evaluated, and reviewed not only on the issues of emigration but other and more pertinent human rights issues as well: Freedom of thought, conscience, and religion; freedom of opinion and expression; freedom of peaceful assembly; and the principle that the will of the people shall be the basis of the authority of government.

The economic benefits of this Agreement to the average Hungarian also should be monitored. Such monitoring should include the following: Effect of U.S. trade on the standard of living of Hungarians; personnel, management, wage policies of jointly-owned enterprises formed as the consequence of this agreement; and the use of Hungary as a trade intermediary between the United States and a third party.

Congress, in case of approval of most-favored-nation status for Hungary, should make abundantly clear that it does so not by recognizing of, but in expectation of compliance with, the requirements of the Jackson-Vanik amendment.

#### STATEMENT

My name is Istvan B. Gereben. I am the Executive Secretary of the Coordinating Committee of Hungarian Organizations in North America, the consultative body of all major Hungarian organizations in the United States and Canada. It is in this capacity that I am making this statement. It is a privilege to share our views with the members of this committee. Thank you for this opportunity.

In accordance with Section 407 of the Trade Act of 1974, the President, on April 7, 1978, sent to Congress his proclamation extending nondiscriminatory treatment to the products of the Hungarian People's Republic. He issued an Executive Order waiving the application of subsections (a) and (b) of Section 402 of the Trade Act of 1974, the Jackson-Vanik amendment. The President requested the approval of his actions by both Houses of Congress.

The President's action was based on a recent exchange of letters between the Hungarian Foreign Minister and the American Ambassador to Hungary. The Government in Hungary confirmed that concerning cases of emigration, they undertake to act in accordance with the letter and spirit of the Final Act of the Conference on Security and Cooperation in Europe and to deal with them "promptly, constructively, and with good will."

Foreign Minister Puja's letter further emphasized that his country, along with the United States, "strives for the full implementation of the Helsinki Final Act."

Hungary—as the long-term result of the 1956 Revolution—achieved a special status among the Warsaw Pact countries. Hungarians are said to be better off than their neighbors. Traditional Hungarian ingenuity, endurance, and the brilliance of the people played a heavy role in the undisputed achievements.

The positive changes, however, could not compensate for the fact that Hungarians live in a complex, sophisticated oppressive system. The country is occupied by



foreign troops, the totalitarian one-party rule denies even the basic elements of democracy, human rights are violated by the laws and policies of the system.

A tangible expression of the fundamental nature and oppressive mentality of the system is the Iron Curtain. This mined, mechanical barrier on the western boundaries of Hungary stands as an aberration and anachronism even in the face of present-day "liberalized" policy of the regime.

It is hard to understand why the Hungarian authorities continue to persecute, mine, and shoot people along the western borders at the expense of creating the impression that their contemporary imperium is like one huge Stalinist prison camp.

In the wake of the President's proclamation and as a consequence of the commitments expressed in Foreign Minister Puja's letter to our Ambassador to Hungary, it is hope that the Government of the People's Republic of Hungary will soon modify not only its emigration and passport laws but it will change most of its repressive policies and practices involving the aspects of everyday human life. The abolishment of the Iron Curtain should lead the implemented changes.

I would like to call your attention to a Library of Congress study entitled: "Legal Restrictions on Foreign Travel and Emigration in the People's Republic of Hungary" and which was prepared by Dr. William Solyom-Fekete, a senior specialist in the European Law Division of the Law Library.

This study helps to put the issue of emigration from Hungary in the correct perspective. Its consultation is essential to understand the basic attitude of the Government in Hungary toward emigration, and the meaning of emigration statistics used by both Hungarian and American officials in connection with this agreement.

Hungarian laws outright deny the right of emigration to all Hungarians under 55 years of age. These laws are considered by authoritative experts as the most restrictive of the European Communist countries.

The Government in Hungary in spite of its promise to the President violates the letter and spirit of the Helsinki Final Act by repeatedly denying passports to Hungarians who desire to visit their close relatives in the West. The Government in Hungary also maintains a black list of Americans of Hungarian descent. Those who are included in this list cannot obtain visas for visiting Hungary. These facts were recently presented to the officials of the State Department. Their validity could not be denied.

Granting "most favored nation" status to Hungary is no small matter. Congress must share responsibility with the President in the evaluation of the intent, attitude, practice, and trustworthiness of the Hungarian Government.

Congress also must balance the benefits of the agreement to the average Hungarian against the doubts obviously generated by the promises of a government which is lead by Mr. Kadar, who is known for not keeping his word.

When we improve our relations with Hungary we must know that we do not deal with a sovereign government, we must know that despite the superficial statements of tourists, businessmen, evangelists, and eager diplomats, Hungary is a member of a skillfully controlled block of satellites, occupied by Soviet troops and ideology and serves the interests of the Kremlin. Independence is not the characteristic of the government in Hungary. Reverend Graham in his recent television report of his trip to Hungary pointed out that his invitation to Hungary was approved by the Communist leaders of Hungary's neighbors.

If the leaders of Hungary cannot extend an invitation to Reverend Graham for an inconsequential visit to Hungary without the consent of the leaders of other members of the Warsaw Pact how can we logically assume that their actions involving more pertinent matters are independent.

The leaders of the Government in Hungary consistently opposed the requirements of Section 402 of the Trade Act of 1974. Mr. Kadar, on March 19, 1975, in a speech delivered to the 11th Congress of the Hungarian Socialist Worker's Party, denounced the Trade Act of 1974 saying: "We reject any form of discrimination such as the Trade Act passed late last year by the Congress of the United States."

As late as February 1978, Szulofoldunk, the Hungarian language broadcast of the Communist regime, beamed for Hungarians living in the West denounced the Jackson-Vanik Amendment and stated that the Government in Hungary will never accept its terms.

Why the sudden change? We can only guess, and hope that the President, the State Department, and Congress know.

It is difficult, if not impossible, to obtain reliable estimates of the expected impact of the Agreement on Trade Relations between the United States and the Hungarian People's Republic. The volume of trade between the two countries represent a miniscule portion of their overall foreign trade. Even doubling or tripling the

imports from Hungary to the United States will represent only 2 or 3 percent of the overall exports of Hungary.

The meaningful gain realized by the Trade Agreement for Hungary seems to us will be in obtaining further credits at Western financial institutions.

The effect of increased trade and the anticipated increase in indebtedness on the Hungarian economy cannot be estimated by us. The factors are complex and many of them are unknown to us.

The hard facts, economic uncertainties, and political implications connected to the Agreement on Trade Relations between the People's Republic of Hungary and the United States compelled us to be cautious in forming our recommendation concerning the implementation of this Agreement.

The repeated claims by the President, his advisors, officials of the State Department, that the execution of this Trade Agreement with the People's Republic of Hungary will benefit the people of Hungary, and the fact that "most favored nation" status have been granted to Communist countries with similar dismal, or as in the case of Rumania, worse human rights record than Hungary's, are the major factors in forming our views on this Agreement.

Considering the short and long-term interest of the Hungarian people, our Committee decided that it cannot and will not oppose congressional approval of extending nondiscriminatory treatment to the products of the Hungarian People's Republic.

The President based his request for Congressional approval of his waiver of the requirements of Section 402 of the Trade Act of 1974 upon the letter Foreign Minister Puja wrote which emphasizes that the People's Republic of Hungary strives for the full implementation of the Helsinki Final Act.

We are pleased that by making this letter public, the President broadens the scope of the periodic performance review required by the Jackson-Vanik Amendment.

The President's action indicates to us, and hopefully to the Government in Hungary also, that in case of Congressional approval of the Agreement, performance of the People's Republic of Hungary will be monitored, evaluated and reviewed not only on the issues of emigration but other and more pertinent human rights issues as well: freedom of thought, conscience, and religion; freedom of opinion and expression; freedom of peaceful assembly; the principle that the will of the people shall be the basis of the authority of government.

Since the state is the sole trader in Hungary, it is conceivable that the benefits of increased U.S.-Hungarian trade will be channeled not to the people but to serve the purposes of an oppressive government. We suggest that the economic benefits of this agreement to the average Hungarian also be monitored. Such monitoring should include the following: Effect of U.S. trade on the standard of living of Hungarians; personnel, management, wage policies of jointly-owned enterprises formed as the consequence of this agreement; and the use of Hungary as a trade intermediary between the United States and a third party.

If Congress, in its wisdom, finds the granting of "most favored nation" status to Hungary beneficial for both the Hungarian and American peoples, it should make abundantly clear that it does so not to be recognizing of, but in expectation of compliance with, the requirements of the Jackson-Vanik Amendment. While this procedure will not prevent claims by the Communist Hungarian Government that it has been rewarded by the Congress of the United States for its "impeccable" emigration policies, for its "positive" human rights record, at least it will provide us an effective and credible rebuttal to those claims.

We hope that time will prove your decision, whatever it will be, a wise and constructive step on the road leading to the sovereignty of a democratic Hungary and to the freedom of her people.

I request that a report prepared by me and titled: "The People's Republic of Hungary and Human Rights", and the report titled: "Legal Restrictions on Foreign Travel and Emigration in the People's Republic of Hungary" prepared by Dr. William Solyom-Fekete, be made part of my testimony and included in the record.

#### THE PEOPLE'S REPUBLIC OF HUNGARY AND HUMAN RIGHTS

(Prepared by Istvan B. Gereben, Executive Secretary, Coordinating Committee of Hungarian Organizations in North America)

In January of this year, President Carter delivered the Holy Crown of St. Stephen to the Communist Government of Hungary. The arguments for the return of the 1000 year-old symbol of Hungarian constitutionality and independence included the need of recognition of the liberalization implemented by the Communists in Hunga-

ry during the past years. The determination of the Administration to set-up Mr. Kadar—the murderer of the Hungarian Revolution—as the exemplary human rights commissar of the satellite countries went so far that a State Department spokesman refused to answer questions posed by the press regarding the conditions of basic freedoms in Hungary.

The answers to these questions are best provided by the officials of the Communist Hungarian Government. Mr. Sandor Gaspar, member of the Politburo of the Hungarian Socialist Worker's Party in an article "The Freedom of Socialism", published last year in *Nepszabadsag*, the Party's daily gives the authentic definition of freedom as perceived by the present Hungarian leadership. "The freedom of socialism is not unlimited. The frameworks are determined by the public interest, the order and discipline of the socialist present and future, what we could also call the class content of freedom \* \* \*. We take into consideration also that freedom is not merely a matter of decision, is not a matter of slogans. The economic, political and cultural conditions prevailing at a given time determine the extent to which we can turn our potential into reality \* \* \*. We have never denied that socialism's principles of freedom were established on behalf of and in the interest of the historical objectives of the working class"

This basic philosophy governs the attitude of the regime towards specific issues. And we know what those historical objectives of the working class are \* \* \*

#### FREEDOM OF PRESS

The Hungarian Constitution, modified in 1972 states that: "The Hungarian People's Republic, consistent with the interests of socialism and the people, shall guarantee freedom of speech, freedom of the press and freedom of assembly." In practice, the political leadership exercises full control of these rights. All newspapers, publishing houses, all radio and television stations are owned or controlled by the government or one of its agencies. Anything that will be printed—even mimeographed—must be approved by a designated authority of the State." (Laws No. 4/1959(VI.9) MM and No. 11/1966(III.5) Korm.)

There is no room for pluralism in the press. As the regime does not and cannot tolerate multiple parties, it does not allow other views or opinions than its own in print. In Hungary, "there is no class force, no social base for parties which disavow the system, for opposition parties \* \* \*" writes Gaspar. Accordingly, there is no social base for a press which would provide for the publication of opinions, views and observations not in agreement with the approved, official line either.

A good illustration of the workings of the Hungarian Government's "liberated attitude towards freedom of the press" is the case of Agnes Heller, the well-known Marxist philosopher. Her books were published only in the West. Last year, she submitted one of these books: "The Theory of Needs in Marx" to the Hungarian authorities for publication in Hungarian. Permission was refused. Heller, along with four other philosophers were forced to emigrate. Imre Pozsgay, the Minister of Culture, in an interview published in the February 9, 1978 issue of *L'Unita*, the official paper of the Italian Communist Party, gave the following explanation of the denial: "No, authorization would never had been granted. But there was a limited possibility: we would have indicated what to print, in what form and at what level. This was not possible because the discussions were interrupted. Why the ban? The verdict of the political leadership was clear: part of their thinking was against the foundations of socialism \* \* \*. For instance, in the book is stated that the Russian Revolution of 1917 did not lead to a radical change."

Here is the latest official statement on the liberalized policy of the Hungarian Communist Government concerning free press: "We—the political leadership—have the sole authority to indicate what, in what form, and at what level can be published in Hungary."

Freedom of speech is curtailed and regulated by the Criminal Code of the People's Republic of Hungary (Law No. V of 1961) which states: (Sec. 127)

"Whoever commits an act suitable to incite others to hatred towards:

"(a) the Hungarian nation;

"(b) the Hungarian People's Republic, its political system, any fundamental institution of the political system, the Constitution of the Hungarian People's Republic, against any of its fundamental principles shall be punished with deprivation of liberty ranging from 1 year to 5 years."

If the incitement has been committed through the press, mass reproduction or otherwise so as to reach a large segment of the public, the sentence could be 2 to 8 years. These crimes, the free expression of opinions are not considered political crimes. Statistics do not discriminate between people who were punished for incitement and those who were jailed for armed burglary.

And this is not enough, Sec. 4 of the same law states: "Hungarian law shall apply to criminal acts committed in Hungary and also in cases where a Hungarian citizen committed an act abroad which is considered a criminal act under Hungarian law."

The provision controls the attitudes of Hungarian tourists uttering "authentic opinions" and describing the real situation in Hungary during their visit to the West. Similarly, the eye witness accounts of the thousands of Hungarians escaped from the tyranny of Communism and living in the free world but now visiting Hungary are suspected. The fact that they have double citizenship—the Hungarian Government by law, considers them the citizens of the People's Republic of Hungary—and therefore, subject to this law, may cloud their objectivity. The punishment for expression of unfavorable opinion is not necessarily prosecution. It could be the possibility of denial of visa for the next trip back to the native country. Their opinion can be affected by this fact. The ingenious, masterful exploitation of one's love for his native land and people for the propaganda efforts of the political system which he found so intolerable a few years ago, indicates the sophistication not the liberalization of the regime.

The case of university students—who on October 23, 1976, on the 20th Anniversary of the Hungarian Revolution, in the privacy of their own room discussed the events of 1956 and expressed their admiration of their fellow students of that time—is a vivid demonstration of the extent to which free speech is tolerated under these laws in Hungary. There were only three students who took part in the conversation. One of the three good friends—corrupted and rewarded by the system—turned out to be an informer. The other two have been dismissed from the University, immediately arrested and in early 1977, tried and sentenced to long prison terms for incitement against the People's Republic of Hungary.

#### FREEDOM OF RELIGION

The Hungarian People's Republic systematically violates the letter of its own constitution which states that it: "shall guarantee the freedom of conscience of citizens and the right to free practice of religion."

In its 33-year rule over the Hungarian people, the atheistic communist regime used intimidation, coercion, terror, the law; its educational, political, social and economic means to eliminate the existence of religious ideology and religions in Hungary.

The carefully planned and expertly executed policy of the regime is succeeding. Hungary's churches are intimidated, financed and controlled by the State Office of Church Affairs, the organ of the Government to accomplish the diabolic aim: to establish the Churches as tools in the hands of the atheistic regime.

Since the early efforts of the regime, aimed at the alienation of the Hungarian masses from the Churches, failed in a miserable way, the tactics have been changed. Instead of winning the faithful over ideologically, the regime set out to control the machinery and the hierarchy of the Churches. With the participation of willing and well rewarded members of the hierarchy—with intimidation and jailing of those who resisted—the regime succeeded. Today there is no need to persecute the Churches; they are serving the regime.

This statement is supported by Mr. Imre Miklos, the Chairman of the State Office of Church Affairs who said in an interview published in Magyar Hirlap on August 20, 1977: "The church leadership has come from political resistance, through tactical passiveness to the elaboration and practical implementation of political cooperation."

Mr. Miklos, answering the question that when religion would cease to exist, said: "The withering away of religion is not a prerequisite for communism, but it will be a result of its complete victory." Explaining the reason for tolerance of the Churches in return for their cooperation, he quoted Janos Kadar, the first secretary of the Hungarian Socialist Workers Party: "Could it be that by cooperating, the churches are prolonging their own existence? It could. They too live in a socialist society. However, working for revolutionary objectives we must make a joint stand with all forces prepared to cooperate. This could be said to be a compromise. Of course, it can be termed as such. We have learned from Lenin that any compromise is acceptable which advances our revolutionary cause, only a compromise harming the cause of the revolution is unacceptable. This is not a concession in principle or an ideological concession, but political cooperation being realized for the sake of definite objectives." And, one of those objectives is the withering away of religion.

This is the basis of the liberalized attitude of the regime towards religion.

At the moment when religious activities cannot be controlled by the organized Churches and their trusted hierarchy, the regime ruthlessly intervenes. This happened last year when a group of methodist ministers protested the forced installa-

tion of the leader of their Church. In retaliation of their insistence not to accept the decision of the Office of Church Affairs, the churches were closed. When they held a prayer meeting on the front of the closed-down churches, the ministers were arrested and later tried and sentenced from 2 to 4 years in jail for trespassing and unlawful assembly.

The regime consistently persecutes the so-called base communities of the Catholic Church. An exhaustive evaluation of the situation of these base communities in Hungary was published in the December 1977 issue of "Katolikus Szemle", the quarterly of the Hungarian Actio Catholica Abroad published in Rome.

According to this study, these communities limit their activities almost exclusively to religious meditation, practical exercise of religious life and love of fellow human beings. They are knowingly and willingly staying away from any kind of political activity. All of them express criticism of the internal activities of the Hungarian Church and they desire to be independent from the hierarchy.

In the past years, the State security forces considered the organization of any religious community outside State control as a crime against the State, and persecuted the organizers, the members and even the sympathizers. Even today, all religious activities not transparent to the regime, not controllable by the State—like Bible reading in a private home—are deemed illegal and punishable by law.

The State recently liberalized its attitude towards these communities. The responsibility for their investigation was partially turned over to the trustworthy hierarchy. Thus, the State uses the Bishops as agents in the elimination of these strictly religious but illegal communities.

The general condition of the Churches deteriorated so much in the past years that even the members of the regime-selected hierarchy were forced to break silence on the situation of religious instruction and evangelization.

On October 9, 1977, in an interview for the Radio of the Vatican, Cardinal Primate Laszlo Lekai, who is one of the most trusted churchmen of the Kadar regime, stated that in most parishes, the number of children taking part in church religious instruction did not even reach the pitifully low allowed number of 160 for each parish. In Hungary, the size of a parish can be as high as 10,000 members.

The Hungarian Institute for Sociology of Religion, a Vienna based organization monitoring Church affairs in Hungary, in a 14 page report published in December 1977 gives a sorrowful account of government regulation of religious education. According to this study in 1975, only 6-7 percent of the eligible pupils participated in religious instructions. The reason for this can be found in the intimidation and outright scare tactics, the threatening with loss of job, promotion, scholarship, etc., used by the local authorities of the State and the Party against the parents and students.

The study describes the difficulties posed by State censorship of religious publications. Not only the content but the number and copies of books, newspapers printed are controlled. No visual aids in education can be used. Foreign aids, such as colored slide series, are not allowed, and to date, no Hungarian-made series exists. The percentage of Catholic books—the largest among the publications of all denominations—is 0.1% of all books published in Hungary.

The two most important mass media, radio and television, have remained closed to the work of evangelization. The only exception to this is a half-hour program on the morning of each Sunday. This program is alternately put on by the various denominations. Catholics have 9 hours of program time in a year. In comparison, the Catholic Church in Austria—which is about the same size as Hungary's—has more than 400 hours yearly on radio and television at its disposal. The regime failed to kill outright the Church in Hungary. Now the political leadership strangles it. The pressure of the rope changes according to the requirements of the compromise which serves not a concession in principle, an ideological concession but a definite objective. And the objective is the withering away of religion.

Cardinal Konig, the most knowledgeable authority on the religious affairs of the Eastern European countries, in an interview published recently in the December 1976 issue of *Luterische Monatshefte*, summarized the situation in Hungary: "It is possible to speak about the situation of the Church in East Europe only in terms of generalities and only with the utmost care. The situation changes from country to country. The farther west you get from these countries the more naive the perception about the situation of the Church in these countries gets. The tourists say: 'The churches are full on Sundays; it is marvelous, what constitutes a basis for complaints?' It is clear that these tourists do not see the invisible nets of administrative controls. They do not feel the fear which overwhelms each and every soul. If we compare the individual countries of East-Europe, we find that the situation of the Church is the most difficult in Hungary \* \* \*. My impression is that in Hungary,

the feelings of doubt, anguish, disappointment and despair fill the heart of the faithful, especially in the cities."

The refusal to recognize this truth by some high ranking western churchmen and the experts of western governments, aids the Hungarian Communists. The superficial propaganda permeated from Budapest, and echoed in Rome and Washington, praising liberalization serves only one purpose: to accelerate the accomplishment of the stated objective of the Kadar Regime: the extinction of religious life in Hungary.

#### FREEDOM OF MOVEMENT

The Constitution of the Hungarian People's Republic does not specifically guarantee freedom of movement within or outside Hungary, the right to seek asylum in other countries, or the right to change one's nationality. Section 54(1) of the Constitution offers a general statement reading: "The Hungarian People's Republic shall respect human rights," but this guarantee is effectively curtailed in paragraph (2) of the same section which provides that: "The rights of citizens in the Hungarian People's Republic shall be exercised in accordance with the interest of socialist society."

The political leadership and not the Constitution or other laws, determines what constitutes the interest of socialist society. The laws and other statutes pertaining to freedom of movement, emigration and citizenship have been carefully examined by the European Law Division of the Library of Congress. The results of the exhaustive evaluation were published in May 1977. (Legal Restrictions on Foreign Travel and Emigration in the Hungarian People's Republic, prepared by Dr. William Solyom-Fekete).

Present interest in the West concentrates on the right of emigration. Hungarian emigration laws are the most restrictive in East Europe. Decree No. 4/1970 (III.3) Korm. of the Hungarian Revolutionary Worker-Peasant Government on Passports states: "A passport for final settlement abroad may be issued to a person who has completed the age of 55 years and wishes to depart for abroad for the purpose of living with his parent, child or spouse \* \* \*." (Sec. 12, paragraph 1).

This means that no Hungarian can emigrate lawfully who has no parents, children or a spouse abroad. Hungarians who are younger than 55 years of age have no right at all to emigrate. "The Minister of the Interior may grant an exemption from the restrictions defined in paragraph (1) in well founded cases."—says the 4th paragraph of Section 12 of this decree.

Permission to emigrate thus becomes a privilege granted or withheld by the whimsical officials of the regime. The procedures for applying for special permission are filled with administrative booby-traps. If the permission to emigrate is granted, the holder of an emigrant passport must dispose of his property because nobody may take any valuable property out of the country. If he is entitled to a pension, he has to waive his right thereto. He even has to give up his place of abode and the local authorities will assign it to somebody else. This would be emigrant must do all these divestitures prior to filing for the special exit permission which is required additionally to the passport. This permit may or may not be granted.

Under such circumstances, it is easily understandable why there are so few so-called outstanding emigration cases in Hungary. These circumstances explain the large number of refugees (more than 1,000 per year) who choose the dangerous ways of unauthorized crossing of the border or refusing to return home.

The celebrated number of Hungarians who can visit the West as tourists are doing so by leaving hostages: children, spouse, parents in the hand of the regime whose fate can turn to the worst in case of refusal to return.

Hungarians do not have the right to renounce their citizenship. Law No. V of 1957, maintained the principle that whoever has been a citizen of Hungary at any time and for any reason has neither the right nor the power to terminate that bond. Only the Government has the power to cut that tie by release or revocation.

These provisions make any Hungarian staying outside the country liable to treason, incitement or other crimes against the People's Republic of Hungary, even if he is already the citizen of another country.

On the other hand, the right of the Government to deprive anybody staying abroad of his citizenship without due process of the law may be regarded as an additional punishment of the refugee. If it is considered that the revocation of citizenship may be, and usually is, accompanied by total or partial confiscation of property, the retaliatory nature of the measure may be seen even more clearly.

The Library of Congress study concluded that: "The detailed analysis of the passport regulations of the Hungarian's People's Republic and of the other statutory provisions possibly connected therewith, may serve as evidence that the basic human right to freedom of movement provided for in Article 13 of the Universal

Declaration of Human Rights is not guaranteed by these statutory provisions. The right to seek asylum outside Hungary and the right to a nationality or to a change thereof, are also not guaranteed by the laws of the Hungarian People's Republic."

The incompatibility of the laws mentioned above with the basic human rights and the lack of due process of law are the causes of well-founded fear of persecution for reasons of religion, membership in a particular social group, or political opinion in Hungary.

#### THE IRON CURTAIN: SYMBOL OR ANACHRONISM

The most blatant and highly visible impediment to the free exercise of the elementary human rights in Hungary is the Iron Curtain. Not only a mere figure of speech invented by Winston Churchill, but a real, heavily mined, fortified and patrolled barbed wire fence on the western borders of the country.

A more sinister, and relatively recent development is the active encouragement and large-scale deployment of the so-called voluntary border guards consisting of promising and reliable recruits from among members of the general population who are given paramilitary training to render harmless would be escapees. (Aug. 13, 1976, Nepezsava).

The Iron Curtain on the Hungarian border became more dangerous, more lethal. The VIENNA KURIER in its August 25, 1976 issue in an article entitled: "Shooting at the Iron Curtain" gives a sad account of the fate of a would be refugee: "On Tuesday night, 70 Hungarian soldiers pursued a compatriot who had attempted to escape to Austria near Heiligenkreuz. At about 3 a.m., Heiligenkreuz residents were roused from their sleep by gunshots and searchlight beams. A tumult near border stone No. 98 (arose),—orders could be heard by the Burgenlanders and more shots were fired. Suddenly the submarine gun salvos subsided. The Hungarians had found their victim. The refugee evidently survived the barrage fire of the border troops without injury to let himself be carried away by six men in uniform."

The hypocrisy of the Communist regimes—which profess that in their system the individual human being represents the ultimate value is amply evidenced by this story.

To the Western tourist, the sight of the Berlin Wall or the barbed wire fence, the minefields, the watchtowers on the Austro-Hungarian border, the sound of shots aimed at innocent men, women and children who do not want anything else but to be free, the barking of bloodhounds in pursuit of refugees of a cruel, totalitarian system is a shocking experience. These symbols of forced and forceful isolationism challenge all of our ideals.

The Iron Curtain stands as an aberration and anachronism even in the face of present day Soviet policy. Stalin's prison camps have been abolished, the mass executions have stopped, and his tyranny has been denounced; even the earthly remains of Stalin have been publicly removed from the shrine of the Lenin mausoleum. Yet Stalin's curtain remains, still conveying his cruel determination to liquidate those who disagree and decide to flee.

It is hard to understand why the Communist authorities continue to persecute, mine, and shoot people along their borders at the expense of creating the impression that their contemporary imperium is like one huge Stalinist prison camp. Why compromise some of the positive changes pursued by destalinization internally by keeping and constantly strengthening the iron curtain facing the rest of the world? How does one reconcile this apparent inconsistency? As the preservation of this Stalinist relic is an unequivocal, purposeful activity, it could be that our interpretation of domestic destalinization was somewhat erroneous. It could be that executions and concentration camps were not abolished for humanitarian reasons but merely because these measures had outlived their utility in maintaining social control and political stability.

The Soviet Union and the satellites under her protective political umbrella have apparently reached a point where it is no longer necessary to maintain control by shooting or jailing people by the thousands and millions. Working cooperatively with Soviet assistance, they have developed a well functioning system of social control in which dissent and opposition are not punished by death but are effectively treated, cured, by using the unlimited power of the State. Rather than giving people free choice, independent political parties, democratic freedom, they are apparently able to keep people quiet by increasing their dependence.

The system operating behind Stalin's wall illustrates that, contrary to the expectations of Western economists, industrialization does not automatically lead to personal freedom, liberalization, and human rights. To be realistic, it is essential to recognize that this system does not follow other rules of our society either. Its operation cannot be understood and predicted on the basis of our own experiences.

Living conditions in Communist society are very different from our own. In the Communist system, the State is the only employer. It has primary control over practically all possible sources of income, either directly or indirectly. Sources that are truly independent are likely to be illegal with all the risks involved. The State is also the only source of goods and products, and it owns and controls all channels of their distribution. Through its pervasive control over resources, the State becomes the main source of all important rewards and benefits, including educational and career opportunities. The ideology of the State sets the principles and patterns for how the resources and benefits should be used to serve the interests of the State and the goals of the Communist system.

The Communist Party, with its millions of existentially committed members mixed with an indefinite number of true believers, amounts to a dynamic, ubiquitous force which, according to Lenin, is the motor of the system. The invisible, secret nature of its operation, its access to actively kept, now largely computerized personnel files, and its potential to influence people's personal fates, all make the power of the Party truly formidable. For the isolated individual, and practically everyone is isolated, the only viable strategy of self-defense is to assume a posture of conformity.

These living conditions explain why in modern totalitarian states human rights require special attention. The violation of freedom and civil rights does not present the same problem in a modern Communist dictatorship as in traditional societies under authoritarian or semi-authoritarian rules.

In traditional political systems, there is usually a simple relationship between oppression and protest. The more human rights are violated, the stronger the opposition becomes, the more critical the trade unions will be, the more demonstrations and riots will occur, and the sooner these developments will bring about an overthrow. In the modern totalitarian system, this relationship does not hold. On the contrary, the stronger the oppression, the greater the silence. This explains why democratic systems are so unprepared to deal with the human rights problems of modern totalitarian systems. The smoother the function of the totalitarian system, the more effective is the oppression, the weaker are the voices of protest and dissent, and the fewer the visible signs of discontent. The scarcity of conventional indicators is frequently mistaken as a sign of relative peace and satisfaction rather than what it actually reflects—a new style of social control and oppression.

The Soviet system has reached a high level of efficiency and sophistication in controlling opposition and dissent. This system of social control is working relatively smoothly now without mass executions or confinement. However, it apparently cannot yet work without Stalin's curtain. Without Stalin's curtain, the majority of East Germans, many Hungarians, Czechs, Poles, Slovaks, Romanians would flee, successfully; only a few have managed to escape without losing life or limbs on the mines. Life goes on with no apparent opposition, no protest, no riots; everyone works and is content. The only tangible evidence to the contrary are the few who die on the mines each year—and the very existence of the Iron Curtain.

#### CONCLUSIONS

1. Freedom of speech, is non-existent in Hungary. There are only State run newspapers, electronic communication systems and publishing houses. Every written word is censored. The laws protecting the socialist state punish and therefore stifle any meaningful criticism of the system, its objectives and procedures.

2. Organized religions became tools in the hand of the atheistic government of Hungary. The churches are exploited for the advancement of the political goals of the regime. The faithful in Hungary lost confidence in the leadership of the churches, and are overcome by the feelings of doubt, anguish, disappointment and despair. The churches are infiltrated with agents of the government. These agents are even ordained to be more effective. Ordination is done with the knowledge of the politically cooperative leadership of the churches.

3. Hungary has the most restrictive emigration laws in East Europe. Hungarian citizens under 55 years of age have no legal right to emigrate.

4. The Hungarian Communist regime developed a well functioning, sophisticated system of social control in which dissent and opposition are not punished by death, but are effectively treated, cured, by using the unlimited power of State. Rather than give people free choice, independent political parties, democratic freedom, they are apparently able to keep people quiet by increasing their dependence on the State which controls all resources, all possible sources of income, all important rewards and benefits, including educational and career opportunities. The insecurity of this system, however, is well demonstrated by the maintenance of the Iron Curtain. Liberalization did not result in the elimination of Stalin's curtain, the



physical barrier-barbed wires, minefields, watch towers, bloodhounds—between the West and Hungary.

5. The Hungarian People's Republic with its laws and practices repudiates and negates almost every article in the Declaration of Human Rights: It denies the right to fair and public hearings by independent and impartial tribunal; it denies the right to freedom of thought, conscience and religion; it denies the right to freedom of opinion and expression; it denies the right to freedom of peaceful assembly; and it denies that the will of the people shall be the basis of the authority of government.

**Senator RIBICOFF.** Mr. Vest?

**Mr. VEST.** I am very pleased to be here. I have a statement. I know that there are many others who have things to say as well. I would like to just comment from that statement.

**Senator RIBICOFF.** Your entire statement will go into the record as if read, Mr. Secretary.

**STATEMENT OF GEORGE VEST, ASSISTANT SECRETARY OF STATE FOR EUROPEAN AFFAIRS, ACCOMPANIED BY JOHN CROOK, OFFICE OF THE LEGAL ADVISOR, DEPARTMENT OF STATE; DOUG McMINN, SPECIAL ASSISTANT TO AMBASSADOR ALAN WOLFF, OFFICE OF THE SPECIAL REPRESENTATIVE FOR TRADE NEGOTIATIONS; EDWARD STROH, ACTING DIRECTOR, BUREAU OF EAST-WEST TRADE, DEPARTMENT OF COMMERCE; AND MARJORY SEARING, DIRECTOR, OFFICE OF EAST-WEST ECONOMIC POLICY, DEPARTMENT OF THE TREASURY**

**Mr. VEST.** I would just like to emphasize a few things out of that for the record.

First, as you know, it is our general policy to seek improved relations between the United States and the nations of Eastern Europe. We think this is in the best interests of the American Government and the people, and in doing that, we have had to have very careful evaluations of the ties between East and West and to what extent the nations involved are responsive to the broad goals of the Helsinki Final Act.

In that connection, we have very particularly pursued with Hungary how it was implementing the provisions of the Helsinki Final Act in terms of our bilateral relations and in the broader context of the Conference on Security and Cooperation in Europe. I would have to say that, among all the countries in the Warsaw Pact, probably the record of response from Hungary is about the best.

We have, for example, long discussed family reunification matters with the Hungarian Government and found the Hungarians very responsive in cases of interest to us. Since mid-1975 we have identified 24 divided family problem cases and all but the most recent six, with representation dating from December 1977 or later, have been resolved and we have already been informed that passports will be issued in four of these cases upon new application.

In the same period, about 300 individuals have immigrated to the United States from Hungary.

Throughout this, we have emphasized to the Hungarians the absolute indispensability that this kind of a relationship must be the basis if we are to consider going ahead in the trade area.

I would have to say in the course of these discussions the Hungarian Government has emphasized that it is Hungary's present and future policy to deal with emigration cases promptly, construc-

tively, with good will and in the letter and spirit of the Helsinki Final Act. As you know, the Hungarian Foreign Minister recently reiterated this policy in an exchange of letters with our Ambassador in Budapest, which text the President has transmitted to the Congress, together with the text of the trade agreement.

We believe, on the basis of our experience over the course of the past year, that Hungary's practice reflects this policy and that it will contribute substantially to achieving the objectives we desire.

Thus we found it possible to negotiate and sign the agreement on trade relations, believing that it fully meets the requirements of the Trade Act.

If the agreement enters into force, its most important effect will be to remove discriminatory tariffs in both the United States and Hungary so that each country can compete effectively in each other's market with the exports of the other country. It will mean a substantial reduction in Hungarian tariffs for a wide range of U.S. products in which we have a strong competitive position in world trade, and which Hungarian firms now buy from our principal Western competitors.

U.S. firms have indicated a strong interest in the agreement, and if they develop their markets in Hungary over the next 2 or 3 years, we would expect to see a healthy boost in U.S. trade.

Without going into further detail, I would be, of course, happy to answer questions about the Hungarian attitude toward emigration, toward visitors, toward its treatment of its Jewish citizens, and the whole approach which it has brought specifically to the implementation of the Helsinki Final Act. We do think that they have made steps which provide a basis for going ahead, and we agree that the agreement itself is a well-balanced document, one that incorporates a large area of mutual interest for both us and Hungary; and we would urge your support for approval of the agreement by Congress.

Thank you, sir.

Senator RIBICOFF. Mr. Crook, do you have anything to add?

Mr. CROOK. No, sir.

Senator RIBICOFF. Mr. McMinn?

Mr. MCMINN. No, sir.

Senator RIBICOFF. Mr. Stroh?

Mr. STROH. No, sir.

Senator RIBICOFF. Ms. Searing?

Ms. SEARING. No, sir.

Senator RIBICOFF. If you have prepared statements, which I note here, they will go into the record as if read. I do have a few questions that anyone on the panel may respond to.

In what product areas do you expect U.S. imports from Hungary to increase if most-favored-nation treatment is provided?

Mr. STROH. Hungarian trade has probably got the best product mix of any of our Eastern European trading partners. Fifty-six percent of the U.S. exports to Hungary in 1977 represented manufactured goods.

It is not possible, I believe, to answer your question with great specificity as to which specific products will cause the greatest expansion. However, if we look at the Hungarian tariff rates appended to my statement, which have been submitted for the record,

I think we will probably see a greater expansion in U.S. purchases of manufactured goods.

Senator RIBICOFF. Well, tell us; what is the basic business between the United States and Hungary now?

Mr. STROH. The principal U.S. exports to Hungary in 1977 were soybean oil, cake, and meal, concentrated superphosphates, accessories for wheeled tractors, cattle hides, glass working machinery, and plants.

Senator RIBICOFF. How much did we export in 1977?

Mr. STROH. \$79 million.

Senator RIBICOFF. What did we import from Hungary in 1977?

Mr. STROH. Ham and pork products represented 40-some percent. About 9 percent of our imports were represented by agricultural tractor parts. Light bulbs represented 9 percent. Truck and bus tires represented about 4 percent.

Senator RIBICOFF. How much did we import, in dollar value?

Mr. STROH. Total trade with Hungary was \$127 million, so the difference would be a \$33 million positive balance in our favor.

Senator RIBICOFF. In our favor. There was a balance in our favor of \$33 million?

Do you expect, with the adoption of most-favored-nation, that trade both ways will increase between the United States and Hungary?

Mr. STROH. Very definitely, sir, and I would look for a continued expansion of trade particularly in manufactured goods, where we could see a good flow of trade in both directions.

Senator RIBICOFF. Have you discussed with the Hungarians in anticipation of this expansion, a policy of not too rapid expansion of imports from Hungary that might disrupt American markets; that is, the danger that rapidly increasing imports bring?

Mr. STROH. As a part of the trade agreement, we have addressed the issue of disruption and I think possibly Mr. Crook can amplify upon it. The Hungarians are particularly sensitive to our market and their exports into this market, and do not wish to disrupt or interfere with the normal market flows.

There was a recent visit by an official from the Treasury Department to Budapest to discuss this in greater detail. He examined a number of Hungarian exports to the United States and he seemed very confident that United States-Hungarian working relationships and the Hungarian concern for the continued flow of their products will preclude the disruption of normal trade patterns.

Mr. CROOK. Just briefly, Mr. Chairman, certainly questions of market disruptions were a central part of our negotiations. As you know, sir, the agreement addresses these matters in some detail. The Hungarians are well aware of our concerns and we anticipate that the procedures established under the agreement should be sufficient to insure that problems are managed before they become problems.

Senator RIBICOFF. If this agreement goes into effect, will the United States receive as favorable tariff treatment in its exports to Hungary as other nations?

Mr. STROH. Very definitely, sir. This was discussed in considerable length as a part of the negotiations on the trade agreement.

As you know, Hungary has an effective tariff schedule, both a most-favored-nation and a non-most-favored-nations rate.

Senator RIBICOFF. Let me ask you, one section of the agreement provides, in effect, that no measures should be taken by Hungary which would unreasonably impair contractual rights or other interests acquired within its territory by U.S. firms.

What has been the history of Hungary concerning contractual relations with American business in Hungary? How have they treated those arrangements?

Mr. STROH. We have, to my knowledge, to the extent that I or my office has interfaced with the business community, Hungarian relationships on contractual matters have been excellent.

Senator RIBICOFF. There have been no complaints from American business in their working relationship in Hungary?

Mr. STROH. We have no knowledge of complaints. I am speaking somewhat generally, but I am not aware of any problems.

Senator RIBICOFF. What has been our experience with private claims by American nationals for property nationalized by Hungary?

Mr. CROOK. We have a comprehensive claims agreement with the Hungarians concluded in 1973. So far as I am aware, this has constituted a satisfactory settlement of outstanding claims issues and we have no significant pending claims matters between us.

Senator RIBICOFF. So, in other words, the claims of American nationals whose property has been expropriated have been settled satisfactorily through the years?

Mr. STROH. There may be occasional cases under consideration, Mr. Chairman. This is an area in which I am not personally involved but, as a general matter, it is my understanding that those claims matters which arise are being successfully managed.

Now, there may be particular cases in which we have ongoing discussions, but that I do not know, sir.

Senator RIBICOFF. How will you arrange for U.S. companies to understand the business potentials in Hungary? I mean, do you have a policy of acquainting American business with business potential in Hungary?

Mr. STROH. We have a very active trade promotion program within the Department of Commerce and the Bureau of East-West Trade wherein we interface with the American business community.

We sponsor American firms' participation in the annual Hungarian International Trade Fair. We participated last month and plan on participating again in 1979.

We also have four technical sales seminars wherein representatives from the Department of Commerce will lead a group of, let's say, 10 to 12 firms to Hungary and give them an opportunity to meet and discuss their products with Hungarian users and purchasers of those products.

Senator RIBICOFF. Are you satisfied that American businesses will be on an equal footing with the businesses of other Western countries in doing business in Hungary?

Mr. STROH. I think with the implementation of the trade agreement, it will put American companies on an equal footing.

Senator RIBICOFF. Have you had any complaints from American companies that they have not received equal and fair treatment compared to other Western companies doing business with the Hungarians?

Mr. STROH. We have consistently heard from American companies that they have felt they operated at a significant disadvantage by virtue of the absence of most-favored-nation tariff treatment for both countries' exports.

The other dimension which is not really fully decided at this point in time, was the absence of credits. This is not an issue at this point, but it is a point that the American companies have raised.

Senator RIBICOFF. Senator Hansen?

Senator HANSEN. Thank you, Mr. Chairman.

Mr. Stroh, did you say that about—was it 40 percent or more of the imports coming into this country now from Hungary are represented by ham and pork?

Mr. STROH. That is correct, sir. I believe it is 43 percent to be exact, a combination of pork, bacon, and hams.

Senator HANSEN. In your prepared statement, you speak about the advantages of going to column 1 rates as contrasted with column 2 rates which presently applies.

How much difference is there between those rates as an average, or is that a difficult question to answer?

Mr. STROH. It is a difficult question, because they vary considerably. If you are talking of the U.S. tariff schedule, some products have a very marginal difference in tariffs.

In the U.S. tariff schedule, some of the products have a very marginal difference in tariff rates. I think that, to some extent, Hungarian exports to the United States have generally focused on the products that have the less onerous tariff rate.

When you get into more finished goods, the tariff rate schedule imposes a very significant burden. Sometimes it reaches four and five times the most-favored-nation rate.

Senator HANSEN. I think you said that presently we have a favorable trade balance of around \$33 million annually. Is that right?

Mr. STROH. That is correct.

Senator HANSEN. If this agreement is negotiated and approved, would you expect an expansion of trade both ways, but not necessarily a change in the percentage of that balance, or would you anticipate a change?

Mr. STROH. No; I think in a forward time frame, we are probably looking at a continued favorable trade balance in the United States favor. I think there is just a wider range of American products that the Hungarians are interested in.

I think, obviously in creating a long-term goods trade partnership, the closer we are to parity the better in terms of a trade relationship. I think it will be beneficial on both sides to see a balance achieved between the flow of products in both directions.

Senator HANSEN. Thank you.

Mr. Chairman, I have no further questions.

Senator RIBICOFF. Senator Dole?

Senator DOLE. I apologize for being a little late. We have another committee meeting in progress.

First, I want to commend the chairman. I would just like to have my statement included in this record.

Senator RIBICOFF. Without objection.

[The prepared statement of Hon. Bob Dole follows:]

#### STATEMENT OF SENATOR BOB DOLE

I commend the chairman for his efforts in calling these hearings so that the committee may learn more about trade with non-market economies. The extension of most favored nation treatment is a serious issue and should not be taken lightly.

Mr. Chairman, I would like to bring to the committee's attention some of the concerns I have regarding the Hungarian government. I expressed these concerns at the time the administration returned the Holy Crown of St. Stephens and I believe the concerns are still relevant and important today.

#### THE 1956 INVASION

Let us not forget how the Kadar Regime came into being. It is not a representative government, freely elected by the Hungarian people. It is kept in power today by 50,000 permanently quartered Soviet troops, a grim reminder of 1956 when Moscow sent 17 Soviet Divisions into Hungary to crush the uprising of the Hungarian people. The man who was installed by Moscow in 1956 is still today in power. By returning the Holy Crown to the Kadar Regime, the administration bestowed a legitimacy on it which was undeserved. Since then, the people of Hungary have not had free elections, and still live under the yoke of communist oppression.

#### RETURN OF HOLY CROWN

When the administration decided to return the Holy Crown, it did so over the protest of many members of Congress and every American-Hungarian organization that I know. Yet at the time, the Crown was returned the administration indicated to the House Subcommittee on Europe and Middle East Affairs that the action would "reinforce the western and religious traditions of the Hungarian people" likewise the administration hoped their action would "demonstrate to Moscow and other Warsaw Pact States that pursuit of more moderate policies and greater sensitivity to United States interest and to worldwide human rights concerns has been the correct line to take in order to achieve an improved relationship with the United States".

I have yet to see any movement in that direction. The basic human rights that we take for granted in this country are absent in Hungary. Although there is greater freedom of travel in Hungary than in the Soviet Union and other eastern European countries, passports and exit visas can only be attained as a favor—not as a right. Passports are not issued to persons whose "stay abroad might impair or jeopardize the state or economic interest of the Hungarian people republic or other public interest." Passports are refused to an applicant who wishes to travel to meet with organizations or to a person pursuing a hostile activity against a socialist state. This is hardly in keeping with western traditions.

In other areas of human rights, such as freedom of religion, there is likewise a lack of western tradition. I voiced my objection to the administration's returning a holy religious symbol to a government that espouses atheism. The administration was apparently oblivious to this inconsistency. When the Kadar Regime discovered that it could not turn the people away from religion, it instead decided to control the church and its hierarchy. It has succeeded in controlling the church, and with the death of Cardinal Mindszenty, there is no one of stature left to speak out against the government's subversion of the church.

The church administration and hierarchy is controlled by law through the State office of state affairs. The church is expected to promote the political goals of the government. Episcopal circulars are censored by the State office and the contents are often "suggested". I am concerned about these conditions as are many other Americans, and I will be looking very closely to see whether there is any improvement. Although the Hungarian government signed the final act of the conference on security and cooperation in Helsinki, it has yet to abide by that agreement.

Senator DOLE. There are many of us who are concerned about the Hungarian Government. I expressed my concern at the time the administration returned the Holy Crown of St. Stephen. I think the concerns are still relevant and important.

It is not a free government. It is kept in power today by 50,000 Soviet troops, still a grim reminder of 1956 when Moscow sent 17 Soviet divisions into Hungary to crush the uprising of the Hungarian peoples.

The man who was installed by Moscow in 1956 is still in power. We were told that by returning the crown to the Kadar regime that the administration bestowed a legitimacy which it does not deserve. Since then, the people of Hungary have had no free elections and they still live under Communist oppression.

The crown was returned over the protests of many Members of Congress, Democrats and Republicans alike, and many American Hungarian organizations. The administration indicated to the House Subcommittee on European and Middle East Affairs that the return of the crown would: "Reinforce the Western and religious traditions of the Hungarian people." The administration hoped their action would demonstrate to Moscow and other Warsaw Pact states that the pursuit of more moderate policies and greater sensitivity to the United States interests and worldwide human rights concerns was the correct line to take in order to achieve improved relationships with the United States.

There may have been a movement in that direction, but I have not seen it. Perhaps the basic human rights that we take for granted in this country, may or may not be present in Hungary. I do not know. I have not seen any evidence of change since the return of the crown.

There is greater freedom of travel in Hungary than in the Soviet Union and other Eastern European countries. Passport and exit visas can only be attained as a favor, not as a right. Passports are not issued to persons whose stay abroad might impair or jeopardize the state or economic interests of the Hungarian People's Republic. Passports are refused to an applicant who wishes to travel to meet with organizations, or to a person pursuing a hostile activity against the Socialist state.

This is hardly in keeping with Western traditions.

There is also, in other areas of human rights, such as freedom of religion, a likewise lack of Western tradition.

I voiced my objections to the administration's returning a holy religious symbol to a government which espouses atheism. The administration is apparently oblivious to this inconsistency.

When the Kadar regime discovered that they could not turn the people away from religion, it instead decided to control the church and its hierarchy. It has succeeded in controlling the church and, with the death of Cardinal Mindszenty, there is no one of enough stature left to speak out against the government's subversion of the church.

So it seems to me that there are a number of questions which ought to be addressed before we bestow any favored status on this government. The Hungarian Government, of course, did sign the Final Act of the Conference on Security and Cooperation in Helsinki, but I do not really believe it has fully abided by that agreement. Perhaps the Assistant Secretary of State, or someone on the administration panel, can give this committee an idea of what changes have taken place since the return of the crown.

Has Hungary made any improvements as far as human rights is concerned? What improvements have been made as far as religious freedom is concerned, the right to travel, the right to emigrate? Have there been changes?

Mr. VEST. Mr. Chairman, I would like to talk on this. I am certainly well aware of the debate which has gone on, starting particularly with the discussion about the return of the Crown of St. Stephen. And, if I could start very briefly with that as a departure point, there was a great deal of debate at that time whether the Crown of St. Stephen would be manipulated, or would it be used as a symbol of independence and national unity?

And I think we should record right here that the treatment of the government has been exactly that, to reinforce Hungarian independence and its symbolic value to the Hungarian people as Hungarians. It is on display at the National Museum every day from 10 to 6 and private groups can arrange to visit it as well. There has been a steady flow of visitors, 99 percent Hungarian during exhibit hours and an estimated 200,000 Hungarians have taken the time to go and see that crown.

The Hungarian media have stressed that the crown is a symbol of Hungarian independence—and obviously, the media is state controlled—that it belongs to the Hungarian people. Hungarian newspapers, as well, have described it as something representing Hungary's national history, national significance, and so has television.

So, in that sense, all Hungarians of all ages, including particularly the young people, have been able to see the crown as something that represents Hungary's national future.

So I do think that, to that extent, just disposing of the crown, that the treatment, at least so far, has been exactly what we had hoped it would be.

Now, if I could turn a little bit to passports, emigration and family reunification, we, as I mentioned earlier, do feel that the Hungarian Government has, indeed, increasingly been very responsive in terms of the whole area of emigration and family reunification. We have found in practice that the Hungarian Government has been flexible on a reunification basis. They have informed us that 2,500 to 3,000 Hungarians annually seek to emigrate to all countries and that 92 to 93 percent are granted permission.

Now, this conforms to our own experience that 8 to 10 percent of applications for emigration passports to the United States are those that are initially rejected primarily when the prospective emigrant's sponsor is considered to be residing abroad illegally. That is the percentage of turndown.

At present, we have six pending divided family problem cases. They were first discussed with the Hungarian Government on or after December. They are the problem cases we have left, the only ones; and the resolution of four of these is in progress and we think that they will be worked out.

Everything that we have presented to the Hungarian Government in this area which existed between mid-1975 and last December has, over this time, been resolved. From talking to other governments, we estimate that other Western countries have a total of about 30 emigration problem cases with Hungary, and that is all, and there is the widest consensus among all of us Western coun-



tries who worked together at Belgrade and, before that, in Helsinki, that in dealing with the Eastern European countries, that country which has shown the most progress and has been the most responsive in terms of moving to meet the requirements of the Helsinki Final Act, that country is Hungary.

I should go, as well, to mention briefly religion. I would not want to say anything about Cardinal Mindszenty or Cardinal Lekai or any of those, but I would say that, in the formal sense, in a very different way from many other places in Eastern Europe, there is freedom of religion and I could give the most complete illustration of it, and that is in the treatment of the Jewish population, because we all know that there are certain difficulties that the Jewish population in one country or another has experienced.

In Hungary, the community of some 80,000 is completely free to exercise its religion—in order to comply with its religion. They are not penalized in any way for maintaining their religious practices and their traditions.

Rabbis are being trained to serve there. Fifteen rabbinical students are now enrolled in the Budapest Jewish Seminary including students from the Soviet Union as well and there are some 30 active synagogues.

When it came time to bring together significant leaders of the Hungarian world for the receipt of the Crown of St. Stephen, the Chief Rabbi from Budapest was part of that group.

Similarly, regarding exit from Hungary, people have said there do not seem to be very many Jewish families leaving to go to Israel. The Jewish leaders themselves have said this is because of the nature of their life within the Hungarian community, and that they estimate that they have perhaps 10 families annually who emigrate to Israel. At the same time, opportunities for family visits to relatives in Israel, to tourism, are very broad and some 4,000 Hungarians visited Israel in an extremely broad tolerance within Eastern European perspectives for emigration and visits.

So I would say that, generally speaking, within the Hungarian world we feel that the pattern which we have seen emerge over the last, let us say, year particularly, has been extraordinarily responsive to the objectives set out in the Helsinki document.

Thank you, sir.

Senator DOLE. What about the right to travel? Passports?

Mr. VEST. On passports, as you know, in many countries in Eastern Europe, if you try to get a passport, in some cases you find that you lose your job and get harassed. On the basis of the best information we have and the observations of people that we have there, there is no exceptional harrassment, there are no exceptional fees. The emigration application and passport fees are nominal and, in total, come out to about \$63.

Passport applications are readily available from the Hungarian State Travel Agency. Applications for emigration passports are routinely processed within about 30 days and an additional 30 days, we are told, is needed for military-aged males.

And if this does not happen, they have a right of appeal and it is a public right.

So the entire process is public, and relatively speedy.

Now, I should only say, to illustrate the nature of the case, some 350,000 Hungarians traveled to the West in 1977. That is an extremely broad number, when you consider the total population.

So, from our observations and the facts we have, we would say, when 350,000 are let go anywhere in the West without penalty and with no penalties, as far as we can discern, on their jobs back home, this is a sign that they have been quite responsive indeed.

Senator DOLE. Is there any freedom of the press to criticize or take issue with government policies?

Mr. VEST. This is clearly a Communist country and they clearly control.

Senator DOLE. There are still Communist troops stationed in Hungary.

Mr. VEST. There are still Warsaw Pact Soviet troops there. However, in terms of how life exists in Eastern Europe, it is in Hungary, for example, that we have had the broadest exchange of television programs, of East-West dialog in which, on their own radio and TV, the opinions were freely expressed in that dialog in which representatives of the West criticized what was happening in the East and this was carried on the state radio-TV.

So it is, I would say, the best situation, within the Warsaw Pact countries. Certainly not the ideal, because it is a Communist controlled country. But we have seen more change there than in any other country in this regard.

Senator DOLE. I think that is probably true, at least from my observations as a member of the Committee on Security and Cooperation in Europe. They have made some progress by Communist standards but they have a long way to go by Western standards.

Is there evidence that taking the action requested will be of benefit to the people of Hungary? It would benefit the government but would it benefit the Hungarian people?

Mr. VEST. If we move to this legislation?

Senator DOLE. Yes.

Mr. VEST. Do you want to talk to the commercial effects?

Mr. STROH. Do you mean the broader commercial effects?

I think very definitely, Hungary's global trade approximated somewhere on the order of \$11.5 billion. The U.S. portion of that is very, very small.

The nature of the Hungarian working relationship with American companies has been improving over the past few years and we would hope that the byproducts of this agreement, the ability of American companies to work more closely with Hungarian firms in broadening the flow of technology in both directions and in improving the overall standard of living, one might say, for the Hungarian workers, would probably be the most direct effect that would reach the people.

If I could just go a little further, I would like to look at Hungary in a larger context. It has a gross national product of something close to \$30 billion. It is about \$29.6 billion, I believe. Its net debt figure stands at only about \$3.5 billion.

They have demonstrated, in the international financial arena, a great deal of intelligence. They have earned the respect of the international financial arena for the manner in which they manage their economy.

I think the total relationship between the United States and Hungary has nowhere to go but in the up direction, that is, to improve, to the benefit of the people and the businesses on both sides.

Senator DOLE. What about agricultural exports? I understand that the sale of soybeans has recently been declining. Do you expect an increase? I suppose most of the increase will come in the industrial goods area.

Mr. STROH. I would think that the area that we would see opportunity for growth and trade would be probably more broadly based in manufactured goods. I think agricultural products have a tendency to sometimes distort our trade figures with respect to the smaller economy countries where single sales are of such a magnitude, often reflective of poor harvest periods, that they show upswings and downswings in the trade pattern. We look, I think, with greater care at the manufacturing flow as indicative of more broader, diverse trends in trade between countries.

Senator DOLE. I will not take any more time of the committee. It seems the administration spokesmen are convinced that there are no human rights problems that have not been addressed by the Kadar regime that would, in any way, interfere with the actions that we have been asked to take. Is that correct?

Mr. VEST. That is correct, sir, in the sense that we—and I believe that there has been a statement from the President that has been sent to Congress that says that we think that the progress there makes it satisfactory to go ahead with this particular legislation.

Senator DOLE. Of these six unresolved cases, you expect four to be resolved?

Mr. VEST. Four we expect to be resolved at any time, and we think that we are in a satisfactory relationship in settling divided family cases with the Hungarian Government.

Senator DOLE. What about when people emigrate? Are they required to pay a fee when they leave Hungary?

The Russians have done that successfully.

Mr. VEST. There is no specific fee other than the small fee for the application and the \$63 fee involving the passport and all papers. I know the kind of fee you mean, and that kind of discriminatory fee which socks the person's income when he decides to leave the country. No.

Senator DOLE. Are they permitted to take their property when they leave?

Mr. VEST. Up to \$1,000 in personal property when they leave.

Senator DOLE. What happens to the property they leave behind? Who picks that up?

Mr. VEST. I am sorry, sir. I will have to get an answer to that for you and submit it after the hearing.

Senator DOLE. Can the property be transferred to other family members who stay behind or can it be somehow released later to the family?

Mr. VEST. I simply do not have the answer, but I will get it for you and send it up, sir.

Senator DOLE. Is it customary when someone leaves a country to establish residence in some other country, that they be limited on what they can take with them?

Mr. VEST. In a Communist state it is not remarkable at all because the basic philosophy behind the country is that everything, in a way, belongs to the state. We will get an answer to your question.

Senator DOLE. You do not find that to be an impediment to emigration, the fact that you cannot take anything with you? It would seem to me it might discourage anyone from leaving if they can only have property worth \$1,000. That is not a great deal of money.

Mr. VEST. Those who have wished to emigrate have not found that an impediment. That has not been the basis of any problem that has been cited to us.

They accept the fact that their society has a particular kind of economic basis.

Senator DOLE. What about those who emigrate, are they professors, scholars, professional people, or what?

Mr. VEST. The nature of the emigration I would have to get for you later also, sir.

We will supply it for the record.

[The following was subsequently supplied for the record:]

DEPARTMENT OF STATE,  
Washington, D.C., May 26, 1978.

HON. ABRAHAM A. RIBICOFF,  
United States Senate.

DEAR SENATOR RIBICOFF: During the May 9 hearings on the Hungarian trade agreement, I promised to provide you with additional information about certain aspects of Hungarian emigration practice that are of special interest to the Subcommittee.

The first question was raised by Senator Dole who asked whether persons who emigrate from Hungary may take their property with them. The United States Embassy has reported that emigrants are not divested or required to divest themselves of their property as a condition for being permitted to leave. However, if they do not sell their property, they must leave it in the hands of a designated administrator who may be a relative. If the property is sold, the emigrants may receive the proceeds which are placed in a blocked account in Hungary. Although the funds may not be converted or exported, they are available for the emigrant's use during future visits to Hungary, and can be made available to relatives in Hungary or for other purposes in Hungary as provided for by financial regulations.

Senator Dole also asked about the occupation mix of persons allowed to emigrate. The U.S. Embassy in Budapest issued forty-two immigrant visas between October 1977 and April 1978. The Embassy has provided the following breakdown by occupation.

<i>Occupation</i>	<i>Number</i>
Professional (physician, dentist, computer systems analyst, university teacher).....	4
Artists, performers, media professionals .....	5
Skilled laborers.....	7
Clerical.....	7
Other white collars workers.....	5
Students.....	2
Housewives.....	6
Retired.....	6

I will be glad to provide you with any additional information you may need.

Sincerely,

GEORGE S. VEST,  
Assistant Secretary for European Affairs.

Mr. VEST. There is one fact about emigration from Hungary, and that is there is a very strong ethnic attitude and center to Hungarians. They are the one people in the world who speak that language. There is a very deep attachment to their own center and their own world, and given the relative preferent economic status in Hungary today in relation to their Eastern European neighbors and the fact that there is, by contrast to their neighbors, such a broad range of openness in terms of movement, of visiting and tourism, there is largely much more acceptance of staying in their own country than in some of the others where they cannot tour and where the situations are not as free and comfortable.

Senator RIBICOFF. Thank you very much.

[The prepared statements of the preceding panel follow:]

STATEMENT OF GEORGE VEST, ASSISTANT SECRETARY FOR EUROPEAN AFFAIRS,  
DEPARTMENT OF STATE

I am very pleased to have this opportunity today to testify on behalf of the Agreement on Trade Relations that we have signed with Hungary on March 17 and which the President transmitted to the Congress for approval on April 7.

It is our general policy to seek improved relations between the United States and the nations of Eastern Europe that in turn reciprocate our desire for improved relations. We believe that this is in the interest of the American government and people. We believe that better relations, based on the principle of mutual benefit, will strengthen the positive and constructive ties between East and West and promote the broader goals of the Helsinki Final Act.

This policy is exemplified by President Carter's visit to Poland last December, by President Ceausescu's visit to the United States in April, by the return of the Crown of St. Stephen to the Hungarian people early this year, and now by the signing of this trade Agreement with Hungary.

The efforts of this Administration and previous Administrations to improve relations with the countries of Eastern Europe in no way indicate a lessening of our concern about the lack of democratic institutions and other basic elements of a free society in that part of the world. We continue to have profound disagreements with the governments of Eastern Europe over many questions of political freedoms and basic human and social values. Indeed, the very expansion of relations with these countries has enabled us to talk more candidly with their governments about our differences both in bilateral discussions and in multilateral forums. We intend to continue to foster respect for the values that this country cherishes and are included in the Helsinki Final Act.

We have achieved significant progress in U.S.-Hungarian relations throughout this decade, to the advantage of both our nations and peoples. Several major agreements have been signed and implemented, including a consular convention and a cultural and scientific exchanges agreement. We have developed a productive and ongoing dialogue on topics of mutual interest. And Hungary's record in implementing provisions of the Helsinki Final Act, in terms of our bilateral relations and in the broader context of the CSCE, is among the best in the Warsaw Pact.

Developments in our economic relations with Hungary also reflect this progress with such steps as conclusion of a claims settlement agreement, Hungarian payment of all debt arrearages to the U.S. Government including those dating back to the period just after World War I, the growth of industrial cooperation and joint ventures, and the founding of the Hungarian-U.S. Economic Council by the United States and Hungarian Chambers of Commerce.

While U.S.-Hungarian trade has grown—considerably during the early 1970's, and more modestly over the past two years—the United States still accounts for only about one percent of Hungary's total trade. Both we and the Hungarians are convinced that the growth of trade in both directions has been impeded by the absence of mutual non-discriminatory tariff treatment. Indeed, the lack of MFN tariff relations is the major outstanding issue in our overall bilateral relationship.

While both nations some time ago came to accept that a trade agreement providing for MFN tariff treatment would be mutually advantageous, we made it clear to

the Hungarians that such an agreement could only be concluded in compliance with the Trade Act of 1974, including its provisions on emigration.

We have long discussed family reunification matters with the Hungarian Government and generally found the Hungarians responsive in cases of interest to us. Since mid-1975 we have identified 24 divided family problem cases. All but the most recent six, with representation dating from December 1977 or later, have been resolved; and we have already been informed that passports will be issued in four of these cases upon new application. In the same period about 300 individuals have immigrated to the United States from Hungary.

During the past year we undertook a thorough review of Hungarian emigration policy, regulations, and practice and entered into detailed discussions on these subjects with Hungarian officials. At the same time we carefully explained the concerns of the American Government and people that gave rise to Section 402 of the Trade Act.

In the course of these discussions, the Hungarian Government emphasized that it is Hungary's present and future policy to deal with emigration cases promptly, constructively and with good will and in the letter and spirit of the Helsinki Final Act. The Hungarian Foreign Minister recently reiterated this policy in an exchange of letters with our Ambassador in Budapest, which the President has transmitted to the Congress together with the text of the trade agreement. We believe, on the basis of our experience, that Hungary's practice reflects this policy and that it will contribute substantially to achieving the objectives of section 402. Thus, it has been possible to negotiate and sign the Agreement on Trade Relations which fully meets the requirements of the Trade Act.

The central purpose of the Trade Agreement is to remove discrimination from our bilateral trading relationship. Throughout our negotiations, Hungarian officials stressed their concern that the Agreement adhere as closely as possible to the nondiscriminatory principles of the General Agreement on Tariffs and Trade (GATT). We are equally interested in strengthening these principles as a matter of general trade policy, and have therefore agreed to apply the terms of the GATT to the extent permitted by the Trade Act, with the exceptions required by the Act clearly spelled out in the Agreement.

If this Agreement enters into force, its most important effect will be to remove discriminatory tariffs in both the United States and Hungary, so that each country can compete effectively in each other's market with the exports of other countries. This will mean a substantial reduction in Hungarian tariffs for a wide range of U.S. products in which we have a strong competitive position in world trade, and which Hungarian firms now buy from our principal Western competitors. U.S. firms have indicated a strong interest in this Agreement and, if they develop their markets in Hungary, over the next two or three years we would expect to see a healthy boost in U.S. exports to Hungary.

If the Agreement is approved, the United States will, for its part, cease to apply the Smoot-Hawley tariff of 1930 (now referred to as Column II rates) to Hungarian products and will begin applying the Column I rates we apply to almost all other countries. Since Hungarian exports to the U.S. are now very low, it is difficult to predict which products will respond to lower tariffs. However, we neither expect a high level of imports from Hungary, nor expect them to be concentrated in one or two products. Should a problem develop regarding Hungarian imports, we retain the full range of measures available under our laws, as well as specific provisions in this Agreement for prompt consultations and a variety of remedies in the event of a threat of market disruption. We have discussed our concerns with the Hungarian Government in detail, and are confident that the Hungarians understand our needs on this point.

The Trade Act also calls for a number of provisions designed to assist U.S. firms in nonmarket-economy countries, taking into account that foreign businesses normally enjoy less freedom of action in a state-controlled economy than in the United States. The provisions of the Trade Agreement reflect these requirements.

The Agreement also reflects the Trade Act's requirements that it must be subject to termination if Hungary's waiver is not extended every year, and that its term is only three years. Nevertheless, we are entering into this Agreement with the intention that it will become the basis for our commercial relations with Hungary for the foreseeable future. The conditions required by the Trade Act for the Agreement's renewal—a satisfactory balance of concessions in trade and services, and satisfactory reciprocity for reduction in trade barriers in multilateral negotiations—are written into the text of the Agreement itself.

We believe the Agreement is a well-balanced document, one that incorporates a large area of mutual interest for both the United States and Hungary. Neither country is giving up as much as it gains through this Agreement. We believe it is in

the U.S. interest to seize this opportunity to strengthen our trade with Hungary, and to demonstrate our continuing interest in expanding relations with the countries of Eastern Europe on the basis of mutual benefit.

We urge your support for approval of this Agreement by the Congress.

**STATEMENT OF THE HONORABLE EDWARD H. STROH, ACTING DEPUTY ASSISTANT SECRETARY OF COMMERCE FOR EAST-WEST TRADE**

**MR. CHAIRMAN:** It is a privilege to appear before this subcommittee today to speak in support of the Agreement on Trade Relations between the United States and the Hungarian People's Republic.

United States trade with Hungary has been expanding rapidly and advantageously since 1972. Interest in further developing commercial relations continues to grow on both sides. This Agreement, one in a series of recent advances in U.S.-Hungarian relations, gives both the United States and Hungary the opportunity to take another step toward the goal of more normal bilateral trade and commercial relations. It thus is consonant with our overall economic policies and interests and, at the same time, supportive of our global political and humanitarian objectives. The Commerce Department, therefore, strongly urges your approval of S. Con. Res. 76 which would enable us to bring the Agreement on Trade Relations between the United States and Hungary into force.

Three basic subject areas comprise this Agreement which will guide future U.S.-Hungarian commercial relations. The first and most important area covers the reciprocal extension of Most-Favored-Nation (MFN) tariff treatment. I would like to stress the word reciprocal: Hungary's tariff system now effectively discriminates against U.S. goods. Reciprocal extension of MFN status will facilitate growth and diversification of U.S. exports to Hungary, as well as Hungarian exports to the U.S. The second area provides the necessary safeguards to prevent market disruption by the other country's exports. In the third, both countries commit themselves to the further facilitation of business and resolution of business problems.

My colleagues from the Executive Branch, who join me today, will address bilateral policy issues and the financial and market disruption safeguard provisions of the Agreement in their respective statements. In my remarks, I would like to focus on the provisions of the Agreement concerning business facilitation—an area which is of particular concern to the Department of Commerce. However, before I turn to this important area, I think it is useful to review the development of U.S.-Hungarian commercial and trade relations to date, and to speculate about the trade expansion we can expect with the reciprocal extension of MFN tariff treatment.

**STATUS OF TRADE RELATIONS**

Over the past several years there has been a marked improvement in our trade relations with Hungary, as shown by the significant increase in U.S.-Hungarian trade. In 1970, U.S. two-way trade with Hungary was a modest \$34 million. In 1977, this trade reached a record level of \$126 million. U.S. trade with Hungary, moreover, has been running about 2 to 1 in favor of U.S. exports during the 1970-1977 period.

This incremental trade growth has been accompanied by steady improvements in our bilateral relations, particularly in economic and commercial relations. The conclusion of a series of government-to-government agreements over the past six years illustrates this point. The United States and Hungary concluded Consular and Civil Aviation Agreements in 1972, a Claims Agreement covering nationalized and expropriated property in 1973, and a Scientific and Cultural Exchange Agreement in 1977. Other important developments include the settlement concluded by Hungary with the Foreign Bondholders Protective Council in 1975 covering privately-held bonds, and the exemption of Hungary from the Johnson Debt Default Act in December 1976 following the settlement of arrears on government-to-government debt. A Convention on the Avoidance of Double Taxation is currently under negotiation, with signing hoped for by the end of this year.

Within the private sector, the U.S.-Hungarian Economic Council, created in March 1975 by the U.S. and Hungarian Chambers of Commerce, provides a very useful forum for direct dialogue between key commercial decision makers and encourages the expansion of contacts between U.S. firms and Hungarian enterprises. The Council concluded its third annual meeting in September 1977 in Budapest and its fourth plenum is scheduled for October 1978 in Chicago.

The Hungarians also have indicated their interest in expanding trade relations through independent initiatives. They undertook a series of promotional seminars last November to increase awareness within the U.S. business community of opportunities for U.S.-Hungarian trade. These "Hungary Days" seminars were sponsored

in Washington, D.C., New York, Chicago, and San Francisco by the Hungarian Chamber of Commerce. They focused on developments in the Hungarian economy, Hungarian banking and trade practices, and business prospects for expanded U.S.-Hungarian commercial relations. The group of Hungarian experts participating included high-level trade, banking, planning, and licensing officials.

It is these developments which have laid the foundation for the conclusion of the Trade Agreement and for the promising future for U.S.-Hungarian trade and commercial relations.

#### UNITED STATES-HUNGARIAN TRADE POTENTIAL UNDER MFN

As I emphasized earlier, the extension of MFN tariff status provided for in this Agreement is a reciprocal action, affecting both our exports to Hungary as well as Hungarian exports to this country. A natural question is what effect the introduction of non-discriminatory tariffs may have on U.S.-Hungarian trade.

Looking first at U.S. exports to Hungary, we see that last year, 1977, they reached a record level of \$79 million. We have traditionally exported to Hungary large quantities of soybean oil cake and meal, and concentrated superphosphates. While agricultural products and minerals remain an important component of our exports to Hungary, increased sales of manufactured goods and machinery account for the growth of our exports. In 1977, manufactured goods comprised over 55 percent of our exports to Hungary, compared to only 30 percent but three years ago. Among the leading products are tractor parts, glass working machinery, computer peripherals, and agricultural implements. Detailed information on Hungary's commercial status and our trade is appended to this statement.

Looking into the next decade, we see the possibility that, with the application of the lower, non-discriminatory tariff rates, U.S. exports to Hungary in real terms could triple or quadruple over current levels. It is unrealistic to expect large immediate gains in U.S. exports, for there are many variables other than reduced tariffs which influence trading decisions. For instance, Hungary's traditional Western European suppliers will continue to enjoy the advantages of familiarity and proximity. We expect, however, that the lifting of discriminatory duties will make Hungary a much more attractive market for U.S. exporters to explore. At the same time, Hungarian purchasers will be encouraged to at least consider American products, rather than eliminating them automatically as too expensive when the duties are included.

We see increased opportunities for U.S. exports in technology items and manufactured goods such as agricultural machinery, especially the larger sizes of tractors and combines; industrial furnaces; process control equipment and similar products. A list of product areas which we believe have a good export potential appears at Appendix B.

How much business will result in the long run depends above all on the competitiveness of U.S. products and the aggressiveness of American marketing efforts. The Commerce Department looks forward to assisting vigorously U.S. firms in identifying trade leads and developing marketing strategies designed to take advantage of this important new trade expansion opportunity.

On the other side of the picture, Hungarian exports to the United States also will be expanding as a result of this agreement. In 1977, U.S. imports from Hungary totaled almost \$47 million. Hungary traditionally has sold the United States large quantities of canned hams and other pork products. In 1977 over 40 percent of its exports to the United States—over \$20 million—consisted of such products. Other important exports to the United States were agricultural tractor parts, light bulbs, tires, paprika, and natural drugs.

Trade in these products is expected to continue, but there are additional commodities not currently sold to the United States in any great quantity that Hungary will certainly attempt to sell here if discriminatory tariffs are removed. These include Hungarian pharmaceuticals, medical equipment, precision and measuring equipment, and textiles and finished garments.

Hungary is a small country with comparatively limited export potential. Its producers, too, will have to exert considerable effort to develop the goods and marketing network necessary for expanding their sales here. Thus, we do not see Hungarian products causing particular problems, even in those few categories in which the United States has been sensitive to imports from other parts of the world. However, in the event that U.S. jobs and firms are threatened by Hungarian exports, the safeguard provisions of the trade agreement will provide the greatest possible flexibility to deal with these problems.



## BUSINESS FACILITATION

The trade agreement, in addition to reducing tariff barriers, offers the American business community specific guarantees concerning the conditions for conducting business in Hungary. This business facilitation section of the agreement, Article III, will play a key role in the future expansion and diversification of U.S.-Hungarian trade by assuring U.S. companies the best possible business conditions available to foreign firms in Hungary. Therefore, we in the Department of Commerce regard these provisions as particularly important, since their conscientious application will surely signal the earnest commitment of both sides to implement this agreement.

The agreement provides for firms of either country to deal with the buyers, users, and suppliers of the other country in sales promotion, procurement, and servicing. Furthermore, it contains provisions for the facilitation of entry and travel of foreign business representatives and encourages each country's participation in trade fairs and exhibits in the other country. The Hungarians also are committed to continue to make commercial and economic information available in order to promote trade and help firms already engaged in commercial activities.

Commercial transactions are facilitated by provisions concerning the establishment of independent representation offices in Hungary. The agreement assures equitable treatment of U.S. companies in the establishment and operation of independent representation offices in Hungary, and in securing necessary facilities. It also confirms the right of U.S. companies to hire, directly compensate, and fire local employees for these offices.

The rights and interests of U.S. companies that enter into commercial transactions, industrial cooperation projects, and joint venture agreements in Hungary also are protected by provisions covering the prompt resolution of business disputes, protection of copyrights and trademarks, and conduct of financial transactions. Furthermore, the U.S. business community shall be afforded access to all Hungarian courts and appropriate officials in order to resolve any potential business facilitation problems.

These and other business facilitation provisions of the trade agreement will promote the interests of U.S. companies in Hungary and provide an incentive to U.S. firms to seek business in Hungary.

Although some of the benefits outlined in the agreement already are accorded by Hungary, their specific identification in the trade agreement assures their continued availability and enables U.S. companies to enter Hungary with added confidence about their future prospects.

## CONCLUSION

We believe we have presented Congress with a trade agreement that offers important benefits to the United States and its business community. We are convinced that this agreement will provide a proper non-discriminatory basis for the development of U.S.-Hungarian economic and trade relations. By providing for the expansion of cooperation between our two countries on a solid and enduring basis, it also will further our national economic and commercial interests.

[Appendix A]  
**TRADE PROFILE—GLOBAL HUNGARIAN TRADE**

[In millions of dollars—Hungarian data]

	1973	1974	1975	1976
Total Hungarian exports .....	4,425	5,129	6,066	4,929
To Communist countries .....	3,018	3,441	4,381	2,983
To non-Communist developed countries .....	1,085	1,221	1,096	1,290
To less developed countries .....	322	467	589	656
Total Hungarian imports .....	3,926	5,575	7,181	5,536
From Communist countries .....	2,475	3,185	4,716	2,985
From non-Communist developed countries .....	1,135	1,862	1,895	1,860
From less developed countries .....	316	528	570	691

Major markets, 1976: CEMA (56.3 pct), FRG (8.0 pct), Austria (3.7 pct), Italy (4.0 pct), USA (1.0 pct).

Principal exports: Nonelectric machinery, transport equipment, electrical machinery, grain, iron and steel, fruits and vegetables, meat, clothing, pharmaceuticals, textiles.

Major suppliers, 1976: CEMA (51.4 pct), FRG (9.6 pct), Austria (4.8 pct), Italy (4.0 pct), USA (2.0 pct).

Principal imports: Transport equipment, petroleum, iron and steel, chemicals, nonferrous metals, feedstuffs, textiles, fertilizers, wood and lumber.

**U.S. TRADE WITH HUNGARY**

[In millions of dollars—U.S. data]

	1974	1975	1976	1977
U.S. exports .....	56.2	76.1	63.0	79.7
Manufactured goods (SITC Nos. 5-8) .....	17.9	35.3	40.0	44.8
Agricultural goods .....	37.2	40.5	22.4	33.9
Other .....	1.2	.4	.6	1.0
U.S. imports .....	175.4	34.6	49.0	46.6
Manufactured goods (SITC Nos. 5-8) .....	64.7	20.9	26.3	20.3
Agricultural goods .....	10.1	13.6	22.5	26.2
Other .....	.6	.1	.2	.1

<sup>1</sup> A one-time shipment of gold coins accounted for \$50 million of total U.S. imports from Hungary in 1974. Such a transaction is not likely to occur again.

**UNITED STATES-HUNGARIAN TRADE, BY MAJOR COMMODITIES, 1977**

[Millions of dollars]

Major commodities	U.S. exports to Hungary	U.S. imports from Hungary
Food and live animals .....	25.11	21.95
Beverages and tobacco .....	0	.51
Crude materials, except fuels .....	9.62	.51
Mineral fuels and lubes .....	( <sup>1</sup> )	0
Edible oils and fats .....	0	0
Chemicals .....	11.26	4.76
Manufactured goods .....	3.80	3.97
Machinery and transport equipment .....	27.29	9.59
Miscellaneous manufactures .....	2.51	5.19
Other .....	.13	.09
Total .....	79.72	46.58

<sup>1</sup> Negligible.

Source: Department of Commerce, Bureau of East-West Trade, "U.S. Trade Status With Socialist Countries."

## PRINCIPAL U.S. EXPORTS TO HUNGARY, 1977

[Dollars in millions]

	Value	Percent of total
Soybean oil cake and meal .....	\$12.3	15
Concentrated superphosphate .....	8.5	11
Parts and accessories for wheel tractors .....	5.7	7
Cattle hides .....	4.3	5
Glass working machinery .....	2.3	3
Glass, unworked .....	1.5	2

## PRINCIPAL U.S. IMPORTS FROM HUNGARY, 1977

[Dollars in millions]

	Value	Percent of total
Hams .....	\$18.1	39
Agricultural tractor parts .....	4.0	9
Light bulbs .....	4.0	9
Natural drugs .....	3.5	8
Pork bacon .....	1.9	4
Truck and bus tires .....	1.7	4

**APPENDIX B.—Export Opportunities for U.S. Products Under MFN Trading Status With Hungary**

[Attached is a list of selected product areas in which U.S. exports to Hungary may increase as a result of MFN trading status. This list includes products which would be significantly affected by Hungarian tariff reductions, which Hungary already imports from the West, and which Hungary is interested in purchasing from the U.S. Prepared by: U.S. Department of Commerce Industry and Trade Administration.]

## HUNGARIAN TARIFF RATES

[Percent ad valorem]

Commodity	MFN rate <sup>1</sup>	Non-MFN rate <sup>2</sup>
Pumps for liquids.....	20	60
Air pumps, vacuum pumps, and air or gas compressors.....	40	80
Air-conditioners.....	30	60
Industrial and laboratory furnaces and ovens.....	35	70
Refrigerators and refrigerating equipment.....	45	90
Lifting, loading, handling machinery.....	25	100
Excavating, extracting, leveling machinery.....	40	80
Agricultural machinery for soil preparation.....	12	50
Harvesting machinery.....	15	50
Dairy machinery.....	17.5	70
Automatic packers.....	35	70
Rolling mills.....	40	80
Machine tools for working stone ceramics, wood, et cetera.....	35	70
ADP machines.....	20	80
Bearings.....	10	100
Electrical generators, transformers.....	30	100
Portable electric batteries and magneto lamps.....	50	100
Electric heaters and apparatus.....	35	100
Disinfectants—insecticides products w/base in DDI.....	25	100
Disinfectants—put up for retail sale in packings not exceeding 3.5 kg.....	18	60
Electrical capacitors, transistors, insulators et cetera.....	20-30	40-60
X-ray diagnostic apparatus.....	15	30
Hydrometers and similar instruments.....	30	60
Instruments for physical or chemical analysis.....	35	70
Electrical production control meters.....	35	70
Photographic film.....	15-20	50-200
Ethyl antiknock preparations.....	15	60
Hand tools (hammers, vices, clamps).....	25	100

<sup>1</sup> Applicable to U.S. goods under trade agreement.<sup>2</sup> Currently applicable to U.S. goods.

**STATEMENT BY GARY C. HUFBAUER, DEPUTY ASSISTANT SECRETARY OF THE  
TREASURY FOR INTERNATIONAL TRADE AND INVESTMENT POLICY**

Mr. Chairman, I am honored to join in this review of the U.S.-Hungarian Trade Agreement. Both the Department of the Treasury, and the East-West Foreign Trade Board, chaired by Secretary Blumenthal, strongly favor the President's determination to waive the application of subsections (a) and (b) pursuant to the authority conferred by Section 402(c)(1) of the Trade Act of 1974. Approval of the U.S.-Hungarian Trade Agreement will promote continued improvement in our economic and political relations with that country and serve our national interest. It will allow us to build upon the important foundations laid in the last few months.

I am convinced that the U.S.-Hungarian Trade Agreement will, if entered into force, remove discriminatory tariffs in both the United States and Hungary, so that each country can compete effectively in the other's market with the exports of other countries. This Agreement marks a major step forward in our economic relations with Hungary. It will place our bilateral trade on a basis beneficial to economic growth in both countries. Further, it will bring our commercial relations into accord with our improved overall relations.

**TRADE OVERVIEW**

We strongly favor the expansion of American-Hungarian economic and commercial contacts and believe this will tend to encourage an independent Hungarian foreign and economic policy. The notable increase in total U.S.-Hungarian trade during the last ten years is evidence of the potential for mutually beneficial economic and commercial cooperation that will undoubtedly result from approval of the Trade Agreement.

U.S.-Hungarian trade turnover was \$11 million in 1967, \$49 million in 1973, and reached a high of over \$131 million in 1974. The 1974 peak of \$131 million was an aberration from the trend in the 1960's and 1970's, caused by a one time Hungarian sale of \$50 million in gold coins to the United States. Although total bilateral trade declined from 1974 to 1975, due to the absence of gold coin shipments, the 1975 volume of \$111 million was more than three times the total in 1971. Total trade turnover continued to increase during 1976 and 1977, reaching \$112 million and

\$127 million respectively. Throughout this period of increasing trade the United States has consistently sustained a positive annual trade balance with Hungary.

#### PROSPECTS FOR U.S.-HUNGARIAN TRADE

##### *U.S. Exports*

If this Agreement enters into force, the prospects for future U.S. exports of goods and services to Hungary are good because of the tariff reductions provided for in the Trade Agreement. We believe that reductions in the Hungarian tariff will encourage American businessmen to cultivate the Hungarian market more actively and will enable U.S. firms to compete with other Western suppliers more effectively. We anticipate that the availability of CCC credits and eventually of Eximbank credits will also help to promote U.S. exports to Hungary. It is difficult at this time to estimate the amounts by which U.S. exports might increase, since that will depend upon marketing efforts by U.S. firms.

We also expect the business facilitation provisions of the Trade Agreement to minimize trading barriers with Hungary for American businessmen. We expect a greater climate of receptivity in Hungary to commercial contacts with U.S. firms. The provision of multiple entry and exit visas, and access to Hungary enterprises will assist American firms in either expanding their share of the Hungarian market or in entering it effectively for the first time.

##### U.S. IMPORTS

For its part, the United States will begin applying the Column I tariff rates to Hungarian products. We apply these same rates to goods from almost all other countries. It is difficult to predict which Hungarian products will respond to the lower U.S. tariff rates, because the current level of Hungarian exports to the U.S. is very low. We do, however, expect to see continued growth in existing imports—such as pharmaceuticals, wine, glassware, and some articles of clothing—as well as imports of new Hungarian products. We do not expect a high level of imports from Hungary, nor do we expect imports to be concentrated in one or two products.

##### MARKET DISRUPTION

As is the case with all other countries, we will continue to monitor our imports from Hungary. Should we determine that there is a threat of market disruption the Trade Agreement provides for prompt consultations at our initiative. The Agreement also provides for a variety of remedies, including voluntary arrangements to limit imports as well as unilateral restrictive measures.

The Trade Agreement also will not affect the application of the Antidumping Act to Hungary, a fact which we have made very clear to Hungarian officials. As you know, the Act is intended to protect American industry from unfair price discrimination.

Further, we have a bilateral textile agreement with Hungary which reserves for us the right to begin government-to-government consultations quickly whenever exports of any cotton, wool or man-made fiber products cause or threaten to cause disruption in U.S. markets. If consultations under the textile agreement do not produce a mutually satisfactory solution, we may take unilateral action to restrict imports of particular products pursuant to Section 204 of the Agricultural Act of 1956 and Article 3 of the Multifiber Arrangement.

##### TRADE FINANCING

During the past two or three years, with world trade growing more slowly than previously, some of our major trading partners have undertaken aggressive export promotion activities. Officially-supported export trade finance has been one of the mechanisms used by governments to promote their exports. Eximbank support for export credits to Hungary would help assure that U.S. firms can compete in the highly competitive world market on the basis of price, quality, and product servicing. According to provisions of the Eximbank Act, the Bank may assist financing of U.S. exports to any communist country only if the President determines that such action would be in the national interest and reports such determination to Congress. We anticipate that the President will make such determination when the Trade Agreement becomes effective.

Although Hungary is more self-sufficient in agriculture than other Eastern European countries, and its tariff differentials for agricultural products are not as great as for industrial products, Commodity Credit Corporation (CCC) credits could play an important role in our trade with Hungary. Hungarian officials have expressed interest in using CCC credit to increase their purchases of U.S. Soybean products, and breeding cattle and swine.

## CONCLUSION

Mr. Chairman, we believe the approval of the U.S.-Hungarian Trade Agreement will mark the beginning of a new era in our economic relations with Hungary. In commercial and economic terms it will serve as the central propellant to the growth of U.S.-Hungarian relations.

In granting MFN to Hungary, the United States will not of course be extending that country any special privilege; we will simply be allowing Hungary's products to enter the U.S. market and to compete on an equal footing with the products of over 120 other nations which also receive MFN tariff treatment from us. By not providing MFN, we would force Hungary to continue to conduct much of its hard currency business with our Western European and Japanese competitors, and we could face the possibility of losing our potential exports to Hungary in the process.

Reciprocal MFN tariff treatment by Hungary for U.S. products will allow American businessmen to compete more effectively with our major competitors who already benefit from MFN status in Hungary.

In conclusion, then, we believe that enactment of the U.S.-Hungarian Trade Agreement is in our national interest.

STATEMENT OF STEPHEN L. LANDE, ASSISTANT SPECIAL TRADE REPRESENTATIVE,  
OFFICE OF THE SPECIAL REPRESENTATIVE FOR TRADE NEGOTIATIONS

Mr. Chairman and Members of the Subcommittee: It is a pleasure for me to testify this morning, on behalf of STR, in favor of the Agreement on Trade Relations between the United States and Hungary. STR supports this Agreement because it meets the requirements of Title IV of the Trade Act as well as the objectives of Section 2 of the Act by opening up opportunities for U.S. commerce in nonmarket economies while providing adequate import safeguards for American industry and labor. Assistant Secretary Vest has spelled out the beneficial impact implementation of this Agreement will have on our overall relations with Hungary. Therefore I would like to focus on the economic benefits the United States can expect to receive as a result of this Agreement.

The most fundamental achievement of this Agreement is the elimination of discrimination in our bilateral commercial relations. This discrimination currently works in both directions. For both countries most favored nation tariff treatment is a slightly misleading term—both countries now grant such treatment to all but a few countries. The Hungarian tariff which has been applied to us is generally twice the MFN rate. Elimination of this discrimination will now put us on equal footing with our West European, Japanese and other industrialized country competitors.

Since the Agreement extends reciprocal nondiscriminatory treatment, through the terms of the GATT, it might be useful for me to clarify Hungary's unique role within the GATT. Hungary acceded to the GATT in 1973, the third Communist country to join with a special protocol of accession. Neither Poland, nor Romania, which accede prior to Hungary, offered tariff schedules as their basis of concessions. Instead, each undertook general commitments to increase imports by given amounts from GATT countries. Hungary acceded to the GATT in 1973 after having undergone thorough economic decentralization reforms. Though these reforms did not establish a market economy the GATT contracting parties decided to accept Hungarian entry with a schedule of tariff concessions, in part as an encouragement for further reform. In accepting the tariff, GATT members took into account the large measure of operational independence Hungary's New Economic Mechanism gives to trading and producing enterprises. The New Economic Mechanism relies on profit maximization as the main criterion of enterprise success.

The Government does not ordinarily intervene directly in managerial decisions though it does use a variety of policy instruments including a tariff to adjust the economic environment and indirectly lead profit maximizing firms to make decisions supportive of the Plan. Payment of duties by importing enterprises is in most cases reflected in higher prices for dutiable imports on the Hungarian market. The tariff system does have an effect on the composition of trade and does affect the choice between domestic and foreign sources of supply. Since the non-MFN rate substantially exceeds the MFN rate for the majority of products, the tariff can be decisive in affecting the choice between the MFN supplier and the non MFN supplier such as the United States.

Though the focus of the Agreement is on MFN, we are in effect applying the GATT bilaterally through this Agreement, even though the United States cannot enter into a full formal GATT relationship with Hungary and remain consistent with the provisions of Title IV. Hungary takes its GATT obligations seriously and is an active participant in the MTN. In the MTN Hungary has tabled a tariff offer in accordance with the Swiss Formula. Given adequate reciprocity, from Hungary's

most important suppliers, the implementation of this offer would lower average Hungarian tariffs facing United States exporters to less than 10 percent assuming this Agreement is approved.

This Agreement presents American suppliers with considerable export opportunities in the Hungarian market. Several factors are at work which are optimistic that these opportunities will be translated into increased sales. First, Hungary is actively seeking to diversify its import sources. Because the EC maintains quantitative restrictions against numerous Hungarian exports, Hungary would prefer not to become dependent upon the EC for the wide range of industrial and agricultural items it imports from the West. Secondly, the United States has continuously maintained a balance of trade surplus with Hungary. United States exports are currently very attractive because of the exchange rate adjustments of recent months and should have a competitive edge over the prices of other Western suppliers. Finally, the Administration, led by the Department of Commerce, has already begun to aggressively identify the product areas where United States firms can best be expected to increase sales. This information will be made available to the business community and strong backup support will be provided. The business facilitation provisions of the Agreement itself will go a long way to helping United States businessmen make the inroads necessary to develop a stable long-term trading relationship.

While we tend to look at the export side in emphasizing the economic benefits of this Agreement, I would also like to touch on the import side. United States consumers will benefit from a wider variety of goods at competitive prices. Hungary has a diversified export base and is not dependent upon a narrow range of products for its foreign exchange earnings. Hungarian exports to the United States today are minimal, and we do not anticipate substantial expansion of individual products.

During the negotiations the Hungarians expressed understanding of the problems rapid increases of imports could cause to United States workers and firms. We fully expect the Hungarians to market their products responsibly, with this problem in mind.

The Agreement itself provides very secure protection from market disruption. First, the Hungarians accepted the fact that the United States will apply the "material injury" standard required by Section 406 which is easier to meet than the "serious injury" standard agreed to by other GATT members in Hungary's GATT protocol of accession. The Agreement also provides for consultations in the event we foresee a market disruption problem. The Hungarians understand our sensitivity on this issue and appear willing to be reasonable and flexible in solving potential problems. In the event we are unable to agree upon a joint solution, the United States retains the right to impose whatever form of import relief it deems necessary.

To conclude, Mr. Chairman, it is STR's view that these provisions of the Agreement, ending the discrimination against our exports, and protecting us from imports which may cause injury to United States workers and firms, taken in conjunction with strong business facilitation provisions and other provisions required by Section 405, make this a strong and comprehensive agreement solidly in our economic interest. It opens the way to improved relations with Hungary, a responsible contracting party to the GATT and a country which has made great strides in decentralizing its domestic economy. This Agreement advances the mutual goals of the Congress and the Administration spelled out in the Trade Act of 1974, and STR strongly urges the Subcommittee to give this Agreement its approval.

Senator RIBICOFF. The next witness is Mr. Allan Merken.

Mr. CERINO. Mr. Chairman and Senator Dole, my name is Ronald Cerino. I am attorney with the law firm of Morgan, Lewis and Bockius in Washington, D.C. We are counsel to the Joint Venture Corp., Action Tungsram, Inc.

Mr. Merken, president of Action Tungsram is unable to be here today as a result of a serious illness. With the chairman's permission, I would like to present Mr. Merken's summary statement to the subcommittee.

Senator RIBICOFF. All right.

Without objection, the entire statement will go into the record as if read.

Mr. CERINO. Thank you.

**STATEMENT OF RONALD J. CERINO, ESQ., ON BEHALF OF  
ALLAN MERKEN, PRESIDENT, ACTION TUNGSRAM, INC., EAST  
BRUNSWICK, N.J.**

Mr. CERINO. Action Tungfram, Inc., a Pennsylvania corporation with headquarters at 11 Elkins Road, East Brunswick, N.J., was formed in 1977 as part of a joint venture between Action Industries, Inc. of Cheswick, Pa. and United Incandescent Lamp and Electrical Co., Ltd. of Budapest, Hungary, known as Tungfram. This joint venture corporation is a unique East-West cooperative enterprise that is making a substantial investment of \$7 million in the United States.

We support passage by Congress of the United States-Hungarian Trade Agreement. We have just completed construction of a new light bulb factory in New Jersey and our local work force is expected to grow from an initial 30 workers to over 100 in the early years of factory operation.

We have been able to attract investment from Hungary to build this factory as a result of the modest position we have established in the household light bulb market through the sale of Tungfram light bulbs.

We believe that the light bulb making machinery made by Tungfram is the most advanced and efficient produced in the world. The extension of nondiscriminatory trade treatment to Hungary will permit us to expand our New Jersey factory using such machinery much more rapidly than would otherwise be possible. Up until now, it has been very difficult for a new entrant to successfully enter this highly concentrated industry because state of the art light bulb manufacturing lines could not be purchased in the United States.

Access to this advanced production equipment and technology from our Hungarian partner, Tungfram, will be facilitated if nondiscriminatory trade treatment is extended to Hungary. This will make it possible for us to expand our U.S. manufacturing facility at a maximum rate, resulting in rapidly increasing employment here.

Moreover, since all of our raw materials and components will be purchased in the United States, rapid expansion of our manufacturing facility will increase demand for these items. This, in turn, will have a favorable economic and employment impact on the supplying industries.

The light bulb industry is one of the most highly concentrated in the United States. The growth of our company as a viable new competitor will be aided by the proposed trade agreement, and this can only be highly beneficial to U.S. consumers as well as to U.S. labor.

In this regard, however, I wish to note that the board of directors of Action Tungfram, at a meeting held April 18, 1978, discussed the implications for our business of the possible adoption of the proposed trade agreement. The board determined that if the proposed trade agreement is approved by the Congress, any reduction in duty on household light bulbs produced in Hungary and imported into the United States by Action Tungfram, Inc. will accrue to the benefit of the Hungarian manufacturer, Tungfram.



Thus, if the proposed agreement is approved, there will be no decline in the effective price at which Hungarian light bulbs are imported into the United States. Rather, the effective price will remain the same as immediately before the effective date of the proposed agreement because the amount of the duty savings under the agreement will be added to the price paid to Tungsram. Accordingly, the granting of most-favored-nation status to Hungary will not aggravate competition from Hungarian household light bulbs in the domestic market.

The United States has traditionally had a favorable balance in its trade with Hungary. Last year, U.S. exports to Hungary were approximately \$80 million while our imports from Hungary were less than \$47 million. We believe that the mutual lowering of tariff barriers will increase this favorable balance, thereby helping to relieve the overall trade deficit of our country. This is because the demand for U.S. products in Hungary exceeds the demand for Hungarian products in the United States. Thus, the proposed trade agreement will open up valuable opportunities for U.S. manufacturers. One of the principal roles of Action Tungsram, Inc. is to seek out and purchase from U.S. suppliers products for export to Hungary. Action Tungsram's staff will be devoting significant time to identifying products needed by our Hungarian partner and other industrial concerns there. Indeed, we are already actively involved in this aspect of our business and are in the process of placing orders for exports to Hungary in the millions of dollars. Action Tungsram, Inc., believes that it will be able to compete successfully with Western European and other world suppliers of materials and products to Hungarian companies as a result of the removal of discriminatory tariffs.

Action Tungsram, Inc. is a unique business entity which demonstrates the sound economic cooperation possible in the private sector between the United States and Eastern European business entities. The trade relations between Hungary and the United States will be well served by the adoption of the proposed trade agreement between the United States and Hungary. Additional information is set forth in the written comments of Action Industries, Inc. dated April 4, 1978, submitted herewith.

Senator RIBICOFF. Thank you very much, Mr. Cerino.

[The prepared statement of Mr. Merken follows:]

**STATEMENT OF ALLAN L. MERKEN, PRESIDENT, ACTION TUNGSRAM, INC.**

Action Tungsram, Inc., a Pennsylvania corporation with headquarters at 11 Elkins Road, East Brunswick, New Jersey, was formed in 1977 as part of a joint venture between Action Industries, Inc. of Cheswick, Pennsylvania and United Incandescent Lamp and Electrical Company, Ltd. of Budapest, Hungary (known as "Tungsram"). This joint venture corporation is a unique East-West cooperative enterprise that is making a substantial investment (\$7 million) in the United States. We support passage by Congress of the United States-Hungarian Trade Agreement.

We have just completed construction of a new lightbulb factory in New Jersey, and our local workforce is expected to grow from an initial 30 workers to over one hundred in the early years of factory operation. We have been able to attract investment from Hungary to build this factory as a result of the modest position we have established in the household lightbulb market through the sale of Tungsram lightbulbs.

We believe that the lightbulb making machinery made by Tungsram is the most advanced and efficient produced in the world. The extension of nondiscriminatory trade treatment to Hungary will permit us to expand our New Jersey factory, using

such machinery, much more rapidly than would otherwise be possible. Until now it has been very difficult for a new entrant to successfully enter this highly concentrated industry because state-of-the-art lightbulb manufacturing lines could not be purchased in the United States. Access to this advanced production equipment and technology from our Hungarian partner, Tungram, will be facilitated if nondiscriminatory trade treatment is extended to Hungary. This will make it possible for us to expand our U.S. manufacturing facility at a maximum rate, resulting in rapidly increasing employment here.

Moreover, since all of our raw materials and components will be purchased in the United States, rapid expansion of our manufacturing facility will increase demand for these items. This, in turn, will have a favorable economic and employment impact on the supplying industries.

The lightbulb industry is one of the most highly concentrated in the United States. The growth of our company as a viable new competitor will be aided by the proposed trade agreement, and this can only be highly beneficial to U.S. consumers as well as to U.S. labor. In this regard, however, I wish to note that the Board of Directors of Action Tungram, Inc., at a meeting held April 18, 1978, discussed the implications for our business of the possible adoption of the proposed trade agreement. The Board determined that if the proposed trade agreement is approved by the Congress, any reduction in duty on household lightbulbs produced in Hungary and imported into the United States by Action Tungram, Inc. will accrue to the benefit of the Hungarian manufacturer—Tungram. Thus, if the proposed agreement is approved, there will be no decline in the effective price at which Hungarian lightbulbs are imported into the United States. Rather, the effective price will remain the same as immediately before the effective date of the proposed agreement because the amount of the duty savings under the proposed agreement will be added to the price paid to Tungram. Accordingly, the granting of most favored nation status to Hungary will not aggravate competition from Hungarian household lightbulbs in the domestic market.

The United States has traditionally had a favorable balance in its trade with Hungary. Last year, U.S. exports to Hungary were approximately \$80 million, while our imports from Hungary were less than \$47 million. We believe that the mutual lowering of tariff barriers will increase this favorable balance, thereby helping to relieve the overall trade deficit of our country. This is because the demand for U.S. products in Hungary exceeds the demand for Hungarian products in the United States. Thus, the proposed trade agreement will open valuable new export opportunities for United States manufacturers.

One of the principal roles of Action Tungram, Inc. is to seek out and purchase from U.S. suppliers products for export to Hungary. Action Tungram's staff will be devoting significant time to identifying products needed by our Hungarian partner and other industrial concerns there. Indeed, we are already actively involved in this aspect of our business, and are in the process of placing orders for exports to Hungary in the millions of dollars. Action Tungram, Inc. believes that it will be able to compete successfully with Western European and other world suppliers of materials and products to Hungarian companies, as a result of the removal of discriminatory tariffs.

Action Tungram, Inc. is a unique business entity which demonstrates the sound economic cooperation possible in the private sector between the United States and Eastern European business entities. The trade relations between Hungary and the United States will be well-served by the adoption of the proposed trade agreement between the United States and Hungary.

[Additional information is set forth in the written comments of Action Industries, Inc. dated April 4, 1978, submitted herewith.]

#### COMMENTS SUBMITTED BY ACTION INDUSTRIES, INC. ON THE PROPOSED TRADE AGREEMENT BETWEEN THE UNITED STATES AND HUNGARY

##### SUMMARY

Action Industries, Inc. ("Action") of Cheswick, Pennsylvania, has prepared the following comments in explanation of its interest in and support of a proposed trade agreement between the United States and Hungary. These comments are briefly summarized below:

(1) Action has been the importer of lightbulbs manufactured in Hungary by United Incandescent Lamp and Electrical Company, Ltd. ("Tungram") for a little over five years, during which time there has been a gradual increase in the total value of lightbulbs imported by the United States from Hungary from \$2.1 million in calendar 1973 to about \$4.0 million in calendar 1977.

(2) Action and Tungram have recently formed a United States joint venture corporation called "Action Tungram, Inc.", which has constructed a factory in East Brunswick, New Jersey to manufacture general household lightbulbs. Action Tungram, Inc. also has become the importer of these and other bulbs from Hungary.

(3) Action Tungram, Inc. has become the United States purchasing agent and exporter of United States manufactured products and raw materials to Tungram in Hungary. Action believes that with "most favored nation" treatment under the proposed trade agreement, the volume of its exports to Hungary will grow substantially.

(4) Action further believes that the already existing balance of trade with Hungary in favor of the United States (\$80 million U.S. exports v. \$46.8 million U.S. imports in 1977) will widen if the proposed trade agreement with Hungary is adopted.

(5) The lightbulb market in the United States is dominated by a few giant manufacturers of which three, General Electric, GTE Sylvania and Westinghouse, account for more than 80 percent of the market; together with the Norelco brand of North American Philips, they account for nearly 90 percent. In this highly concentrated industry, Tungram bulbs have over the last five years achieved a market share of slightly over 3 percent (in dollar volume) of the general household bulb segment of the lightbulb market. Additional supplies of general household lightbulbs to accommodate further growth of Action Tungram's share of the general household lightbulb market will come from U.S. manufacturing at Action Tungram's New Jersey factory.

(6) In 1974, shipments of general household bulbs by domestic United States manufacturers totalled 1.155 billion pieces for a total value of \$200.6 million dollars. By 1977, these totals rose to 1.277 billion pieces for a total value of \$294.3 million dollars. Thus, over that four-year span, the average price per bulb (total dollar value divided by total number of pieces) rose over 33 percent for domestically produced lightbulbs. It is therefore evident that imported lightbulbs from Hungary have not adversely affected either the total production or the average price of lightbulbs manufactured in the United States.

#### DISCUSSION

##### *Background*

Tungram has been in business in Hungary for over eighty years, and is a leading manufacturer of electronic and lighting products. Sales of Tungram lighting products through distributors in the United States commenced several years ago. In 1972, Tungram entered into a relationship with Action with respect to the importation and distribution of lightbulbs in the United States. Action markets a wide range of hardware and houseware products through special promotional programs in discount, department and chain stores and through company-owned retail stores. Accordingly, Action has directed sales of the bulbs to the United States household consumer in these markets. The kinds of bulbs Action has imported from Tungram are general service household bulbs of the 15 to 150 watt variety, as well as three-way bulbs. In 1976, Action and Tungram determined that it would be desirable to establish a factory in the United States for the production of lightbulbs.

##### *The joint venture*

After approximately one year of negotiations, arrangements between Action and Tungram were finalized in mid-1977, and Action Tungram, Inc., was organized as a Pennsylvania corporation in November, 1977, to serve as the legal vehicle for the joint venture. The initial equity investment of the two parties in Action Tungram, Inc., was \$2,750,000. Action provided 51 percent of this amount and Tungram provided the balance. In addition, the parties agreed to guarantee an aggregate amount of \$4,250,000 in bank borrowings by Action Tungram, Inc., for a total capitalization of \$7 million. Action will guarantee 51 percent of this debt, and Tungram will guarantee the balance.

The Board of Directors of Action Tungram, Inc. consists of five persons—two directors representing Action, two representing Tungram, and a non-voting director who holds the position of President of Action Tungram, Inc.,. Unanimous consent is required for corporate actions. The President of Action Tungram, Inc. is an American with wide experience in the lighting industry.

Construction of a lightbulb manufacturing facility for Action Tungram, Inc. was recently completed in leased space in East Brunswick, New Jersey. The lightbulb manufacturing equipment has been purchased from Tungram, and when it is installed and functioning in this plant in the latter half of 1978, the initial United States production line for the manufacture of general service lightbulbs will be

operational. Action Tungram, Inc. will employ approximately 30 persons as the initial manufacturing workforce in the plant, and these individuals, of course, will be residents of the local area. It is expected that the local workforce will grow to over 100 in the early years of factory operation. Of course, Action Tungram, Inc. personnel also will include warehousing and distribution employees as well as sales, administrative and clerical staffs.

#### Imports to date

As noted above, Action became the U.S. distributor for Tungram lightbulbs during 1972. From the first full year of importation (1973) through 1977, the value of lightbulbs imported from Hungary has grown gradually as set forth below: 1973—\$2,145,405; 1974—\$2,262,000; 1975—\$2,292,000; 1976—\$3,876,000; and 1977—\$4,046,161.<sup>1</sup>

#### Competition in the lighting industry

Based on available data and appropriate inquiries of government agencies, Action believes that the following companies have the approximate market shares of the total lightbulb market set forth below:

	Percent
General Electric Co.....	39-40
GTE Sylvania.....	25-26
Westinghouse Electric Corp.....	15-18
North American Philips (NORELCO).....	7
Total.....	86-91

<sup>1</sup> See also U.S. Department of Commerce, Census of Manufacturers (1972).

Thus, these few companies account for approximately 90 percent of the market, resulting in a very highly concentrated industry.

Over the last five years Action and Tungram have managed, gradually and with difficulty, to build their market share to slightly over 3 percent of the dollar value of general household lightbulbs sold in the United States. Action Tungram bulbs account for approximately ½ of 1 percent of the total dollar value of all lightbulb sales in the United States.

The following data obtained from the U.S. Department of Commerce, Bureau of the Census, "Current Industrial Reports," reveal the continuing growth in both United States production of lightbulbs, and value of shipments by United States manufacturers:

#### TOTAL U.S. PRODUCTION OF HOUSEHOLD LAMPS

	Industry shipments	Value of shipments	Average price per bulb <sup>1</sup>
1974.....	1,155,142,000	\$200,656,000	\$0.174
1975.....	1,118,700,000	233,272,000	.209
1976.....	1,229,688,000	274,491,000	.220
1977.....	*1,267,331,000	*294,311,000	.232

<sup>1</sup> Dollar value divided by shipments.

\*Fourth quarter information for 1977 was not available at this time. Therefore, first quarter data for 1977 were utilized in lieu of fourth quarter data for 1977 to arrive at total 1977 production and dollar value figures, even though fourth quarter data historically have exceeded first quarter data.

It can be seen from these figures that there has been a dramatic increase in the average price per United States bulb (more than 33 percent) over this four year span. Both the total number of bulbs produced and the average price per bulb have risen for United States manufacturers during this period of modest import growth. Thus, imported lightbulbs have had no apparent adverse effect upon United States

<sup>1</sup> Sources: U.S. Department of Commerce, Bureau of the Census, U.S. Imports for Consumption and General Imports, Report FT 246 (issued annually) and U.S. International Trade Commission, Quarterly Reports to the Congress and the East-West Foreign Trade Board on Trade Between the United States and the Nonmarket Economy Countries.

lightbulb production, either in terms of total pieces produced or of total dollar value of United States production.

#### *U.S. exports to Hungary*

The United States has traditionally realized a favorable balance of exports to imports in its trade with Hungary. According to figures from the U.S. International Trade Commission,<sup>3</sup> this return was \$76 million exports to Hungary v. \$35 million imports from Hungary in 1975, \$63 million exports v. \$47.5 million imports in 1976, and \$80 million exports v. \$46.8 million imports in 1977. Most observers agree that a lowering of mutual tariff barriers by trade agreement will increase the preponderance of United States exports to Hungary over all imports from that country, thus helping to ameliorate the overall trade deficit of the United States. This is because growing potential demand perceived to exist in Hungary for United States products, while a lesser demand is believed to exist here for Hungarian items.

Business International pointed out in its March 10, 1978 edition:

U.S. companies may gain more benefits from the recently initialed Hungarian-U.S. trade agreement than meets the eye. The agreement gives most-favored-nation (MFN) status to Hungarian exports to the U.S. But it also dismantles stiff, discriminatory Hungarian tariffs that previously had been leveled against U.S. goods in retaliation for the U.S. refusal to grant MFN status to Hungary. The tariffs were about double the rates for other 'capitalist' imports.

The trade agreement—expected to be ratified by midsummer—should thus open up attractive opportunities for U.S. firms, especially manufacturers of high-technology products. Increased exports to the U.S. will also enable Hungary to obtain needed hard currency to purchase more U.S. goods.

Both Washington and Budapest have high hopes once the treaty comes into force. The U.S. envisions becoming Hungary's largest Western trading partner (West Germany is in first place today), and Hungary reckons that the two-way trade could be boosted to four times the current volume. Hungarian imports from the U.S. totaled \$64 million in 1976.

In signing the trade arrangement Hungary has agreed to abide by the requirements of the U.S. Trade Act of 1974 on freedom of emigration. It is the fourth East European country to obtain MFN status from the U.S.; the others are Poland, Romania and Yugoslavia.<sup>4</sup>

#### *Action Tungram's exports to Tungram*

One of the important elements in the role of the new joint venture is to act as United States purchasing agent for, and exporter to Tungram in Hungary. For example, Action Tungram is presently completing negotiations for a multi-million dollar glass contract for export to Budapest. Action Tungram believes that it can compete very successfully with Western European and other world suppliers of materials and products now purchased by Tungram, insofar as it will be able to avoid the present discriminatory duties suffered by American exports in the absence of most favored nation treatment. With the advent of the proposed trade agreement between the United States and Hungary, Action believes that United States raw materials and manufacturing commodities can and will become the products of choice for the Hungarians.

#### CONCLUSION

Action Tungram, Inc. is a unique business entity which demonstrates the sound economic cooperation possible in the private sector between the United States and Eastern European business entities. The share of the general service household lightbulb market held by Action Tungram, Inc. is extremely small compared to the market shares held by the four major companies in the field. Further, although the volume of lightbulbs sold by the joint venture represents a miniscule portion of total lightbulb sales, and the lightbulb market remains heavily dominated by four major companies, the activities of Action Tungram, Inc. provide a quality product to the U.S. marketplace at a reasonable cost to the consumer. Statistics show that the number of bulbs produced by United States manufacturers and the value of shipments have both risen over the past four years. To the extent further expansion of general household lightbulb supplies are required, it is the intention of Action Tungram, Inc. to fill such demand with lightbulbs manufactured in its plant in New Jersey, thus utilizing additional American workers in the manufacturing,

<sup>3</sup> U.S. International Trade Commission, Quarterly Reports to the Congress and the East-West Foreign Trade Board on Trade Between the United States and the Nonmarket Economy Countries.

<sup>4</sup> *Business International*, page 80 (March 10, 1978).

supervisory, administrative and clerical segments of its operation. As purchasing agent for Tungram, Action Tungram, Inc. foresees increasing exports to Hungary from the United States if the proposed trade agreement is adopted by Congress.

The trade relations between Hungary and the United States will be well-served by the adoption of the proposed trade agreement between the United States and Hungary.

For further information contact: Sholom D. Comay, Senior Vice President and General Counsel, Action Industries, Inc., Allegheny Industrial Park, 460 Nixon Road, Cheswick, Pennsylvania 15024, 412-782-4800 or Ronald J. Cerino, Morgan, Lewis & Bockius, Suite 800 North, 1800 M Street, N.W., Washington, D.C. 200036, 872-5048.

**Senator RIBICOFF. Mr. Ronan?**

**STATEMENT OF A. P. RONAN, PRESIDENT, ON-HIGHWAY GROUP OF THE AUTOMOTIVE OPERATIONS, ROCKWELL INTERNATIONAL CORP.**

Mr. RONAN. Thank you, Mr. Chairman, and we at Rockwell appreciate the opportunity to come before you this morning to basically outline our position on this proposal.

Mr. Chairman and members of the subcommittee, I am Art Ronan, president of the Automotive Operations of the On-Highway Group for the Rockwell International Corp.

The automotive operations of Rockwell International Corp. is a major manufacturer of foundation brakes and axles for class 7 and 8 over the road truck tractors, heavy-duty trucks, buses, construction equipment, farm vehicles, and specialized vehicles.

We directly employ nearly 8,000 people in the United States in the manufacture and assembly of these components. Many thousands more are employed by our subcontractors and suppliers throughout the country.

Although it is not our intention to contest the Agreements on Trade Relations Between the United States and the Hungarian People's Republic, we would like to alert Congress to the probability of a significant disruption of the United States heavy-duty axle industry once such an agreement is signed.

Even though Congress, in enacting the Trade Act of 1974, provided safeguards against such disruptions, because of the nature of the heavy-duty axle market with its high capital investment, significant harm can occur if the matter is deferred until after the agreement with Hungary is implemented.

Therefore, we feel that attention should be given now to the potential disruption in the heavy-duty axle market rather than after final approval by Congress of the agreement.

While there has been some heavy-duty axles imported into the United States in the past, there have not been any significant foreign manufacturers in the U.S. market, since overseas manufacturers, for the most part, produce axles in configurations suitable principally for their sphere of operations. However, the Hungarian People's Republic has obtained the technology and capacity to produce heavy-duty axles specifically for the U.S. market and currently axles are being exported to the United States from Hungary for the class 7 and 8 type vehicles.

The current exports are presently competitive with the U.S.-made axles since they are subjected to the 25-percent tariff called for by the existing U.S. General Tariff Schedule.

The proposal now before Congress would reduce that tariff rate of 4 percent immediately, giving the Hungarian manufacturer an unfair competitive edge over U.S.-based axle makers.

The Hungarian manufacturer, being state-owned, enjoys lower labor rates, does not need to price products for profit, and does not need to be concerned with the depreciation costs of plant and equipment as do U.S. manufacturers.

These are the major reasons for their ability to compete, even under the current 25-percent tariff conditions. By enacting the agreement on trade relations without some special consideration being given to axle manufacturers before the fact, Congress would essentially further subsidize a state-owned axle manufacturer in a Communist country at the expense of U.S.-based enterprises and our labor force.

Since the majority of heavy-duty axles used in the United States is made by independent manufacturers, as opposed to the vehicle manufacturers themselves, the unfair competition would have a substantial and immediate impact on this segment of American industry and would ultimately force vehicle manufacturers to obtain the bulk of their heavy-duty axles from non-U.S. type companies.

Such a situation would be devastating to the small manufacturers of heavy-duty vehicles such as fire engines and municipal utility trucks which rely on independent axle suppliers for variations of standard type products.

In summary, Rockwell's intent is not to contest the agreement between the United States and the Hungarian People's Republic, but rather to seek reasonable action to prevent a market disruption in heavy-duty axles and axle components.

Because of the swiftness with which the hearings have proceeded, Rockwell has not had sufficient time to quantify the impact such an agreement would have on jobs or markets in the near or long term, although we deem them to be significant.

Without the implementation of special safeguards under Article VII, Hungary, which operates in government-controlled industries, could sacrifice labor and materials costs over an extended period of time in order to disrupt our free and competitive marketplace.

We, therefore, request such special consideration to forestall what could be a potentially disastrous result for this industry in our country.

If you have any questions, Mr. Chairman, I would be pleased to try and answer them.

Senator RIBICOFF. Thank you very much. We understand the situation and the various authorities from the executive branch have testified that they are aware of the need to assure that there not be undue market disruption by a rapid increase in exports to this Nation. I am sure the committee, as well as they, will monitor the import situation. I think I understand the potential problem.

Thank you, sir.

Mr. Max Berry.

**STATEMENT OF MAX BERRY, EXECUTIVE DIRECTOR, EAST-  
WEST TRADE COUNCIL**

Mr. BERRY. Mr. Chairman, I am pleased to have this opportunity to appear before you today on behalf of the East-West Trade Council. I am executive director of the council, which is a nonprofit organization established in June of 1972 whose membership is comprised solely of U.S. business, financial institutions, farm interests, associations, academicians, and individuals interested in East-West trade.

We are financed solely through our membership and through various activities undertaken by the council to promote the expansion of East-West trade.

The council strongly supports the resolution before the committee today which provides for the approval of the United States-Hungarian Trade Agreement which, in part, provides for most-favored-nation tariff treatment for the products of Hungary. This United States-Hungarian Trade Agreement represents the second agreement negotiated pursuant to the authority set out in title IV of the Trade Act of 1974 since its adoption.

The council is pleased to see the successful conclusion of any agreement negotiated pursuant to title IV.

The fact that this agreement is now before you for consideration represents the growing economic interrelationship between the United States and nonmarket economies in Eastern Europe and elsewhere. The growing importance of trade within our own national economy has led U.S. businessmen to develop markets and increase trade throughout the world, including Eastern Europe. At the same time, the countries of Eastern Europe have become more dependent on the markets in the Western industrialized countries.

Adoption of the resolution currently before the committee will serve to promote the further growth of trade between the United States and Hungary. Furthermore, the negotiations on the United States-Hungarian Trade Agreement have been completed at a very appropriate time in light of the new Hungarian enterprise law which came into force January 1, 1978.

This law provides individual enterprise in Hungary with a great deal of independence with respect to control over operational policy decisions. Individual enterprises will now have responsibility for investment decisions, price policy, drafting of overall plans, as well as the undertaking of contractual obligations.

In addition, foreign businesses will now be able to deal directly with Hungarian firms.

Although central ministries will still maintain a certain amount of overall control, the new law is a major step towards decentralization which should better enable businesses in the United States, and in Hungary, to take advantage of the increased opportunities which the United States-Hungarian Trade Agreement will make possible.

Once the agreement is approved, Hungary will also be granted MFN tariff treatment with respect to products which it exports to the United States. In order for viable two-way trade to grow, it is necessary that both countries have equal access to the markets of the other.



The United States-Hungarian Trade Agreement will serve to facilitate access by U.S. exporters to the Hungarian market. Likewise, MFN tariff treatment will permit Hungary to compete in the U.S. market on terms equal with most other foreign countries.

In addition, congressional approval of the current resolution will permit the extension of Eximbank and other credits to Hungary in order to promote the sale of U.S. goods to that country. This step should also serve to increase U.S. exports to that country to the benefit of our U.S. economy.

In 1975, the United States sold over \$76 million worth of goods to Hungary while importing approximately \$35 million of Hungarian merchandise. In 1976, U.S. exports decreased to \$63 million to Hungary, while Hungarian imports increased to a little over \$48 million, still representing a surplus of over \$15 million for the United States.

During 1977, U.S. exports to Hungary increased 27 percent, totaling a recordbreaking \$79.7 million. Imports from Hungary, on the other hand, continued to enter the United States during 1977 at a stable rate of about the level of 1976, or more precisely, \$46.8 million.

While the trade balance remains favorable to the United States the overall trade turnover between the two countries has been relatively static. The lack of access to Eximbank credits and the inability to import subject to the lower MFN duty rates has done much to slow down the potential trade between the two countries.

Thus, it is with great expectations that the members of the U.S. East-West Trade Council look forward to favorable consideration of this resolution by this committee. The principal concerns and goals of the council are economic in nature. However, the approval of this resolution will help to promote overall relations between the United States and Hungary.

Hungary has expressed her desire to improve economic relations with our country through its willingness to negotiate this trade agreement. It would therefore appear to serve the best interests of the United States to demonstrate its support for the Hungarian decision by approving this agreement.

On behalf of the East-West Trade Council, I sincerely thank the committee for this opportunity to express our views on this resolution currently before your subcommittee. This concludes my testimony today and I will certainly be happy to answer any questions which you might want to address to me.

Senator RIBICOFF. Thank you, Mr. Berry.

**STATEMENT OF Z. MICHAEL SZAZ, VICE PRESIDENT,  
AMERICAN FOREIGN POLICY INSTITUTE**

Mr. Szaz. Mr. Chairman, I thank you for this opportunity to hear our views on the coming granting of the MFN status to Hungary.

The American Foreign Policy Institute has long been concerned with the question of security and cooperation in Europe. It sponsored a symposium in 1973 on this topic and continued to observe developments.

We are primarily interested in how events in east-central Europe have an impact regionally upon U.S. interests and strategy. The

institute believes that it has been the policy of this administration and of past administrations to promote the national independence of the peoples of east-central Europe, politically and economically, despite the overwhelmingly military presence and economic influence of the U.S.S.R. in the region since 1945.

Of course, at times, our verbal pronouncements have not been followed by deeds, as in the case of the Hungarian freedom fight of 1956 when, despite calls by the legal Nagy government for assistance, our friends were left to the not too tender mercies of the invading Red army.

For this tragic historical event, our policies toward Hungary are looked upon for proof for our continued dedication to deal with the nations of the region on an individual basis rather than as appendages of our policy vis-a-vis the Soviet Union. In turn, we have been looking to the Hungarian Government for expanding the severely constrained parameters of human rights and individual freedoms in order to meet in part some of the requests of the freedom fighters of 1956.

Now, our President requests the granting of the most-favored-nation status to Hungary. This would be a major step in improving our bilateral relations and in expanding our trade with this Danubian nation that relies on foreign raw materials and the technical ingenuity of its people to augment its role in international trade.

The road from 1963 to 1978 was beset by many obstacles, both by bilateral issues and the feeling based on irrefutable facts that democracy and freedom in our meaning of the word did not return to Hungary. The Hungarian Government imitates closely Soviet policies toward the United States, adopting identical attitudes, thereby creating strains in our bilateral relations. While it is true that the Hungarian system is the least oppressive among the Warsaw Pact nations, it is also true that the trappings of the Communist totalitarian state—one party rule, demands for ideological conformity, and limitations on human rights—have not disappeared.

Yet, the ledger shows some positive accomplishments. The new economic mechanism of 1968 abolished the centrally administered and unsuccessful Socialist economic models of the neighboring countries by promoting decentralization of decisionmaking and freer contact with foreign countries for the individual economic enterprises. This led to a great improvement of the living standards of the Hungarian farmers, and also of workers.

A more tolerant interpretation of repressive laws and practices have provided some freedom of speech over and above the limits usually set by Warsaw Pact countries.

Bilaterally, we have concluded cultural, indemnification, and consular agreements and now also a trade agreement. There exists a joint American-Hungarian Chamber of Commerce and Hungarian legislation of 1972 has been amended in 1977 to permit the participation of foreign companies of joint ventures in the production rather than on a holding company level.

It is within this context of developments that we must analyze a request of nondiscriminatory tariff treatment. Would it help promote Hungarian economic independence? Would it, therefore, serve our interest in the region? Finally, but not less importantly, does

Hungary fulfill the requirements of section 402 of the Trade Reform Act of 1975?

With ambitious economic growth set under the last Five Year Plan and with Western markets shrinking rather than expanding, Hungary needs both to export to the United States and to receive imports of technology from us. The coming energy shortage within the Soviet bloc, estimated by our Government agencies for the 1980's, foreshadows increased need of the Hungarian economy for hard currencies. In turn, we would also acquire export opportunities once the corresponding Hungarian tariff, imposed as a retaliation for the lack of most-favored-nation status of Hungary will have been removed from American imports.

Many of our businessmen have found that they lost out in their bids against West German and other European bidders because of the tariff differential. This would be removed if the President's recommendations become law.

Does the granting of the most-favored-nation status serve our national interest? The answer must be affirmative as we have already extended such treatment to three other East Central European countries, that is, Poland, Romania, and Yugoslavia. Certainly, the qualifications of Romania both on human rights and emigration and of Poland on emigration are much more inadequate than those of the People's Republic of Hungary.

It is in our interest to establish closer economic relations with these countries in order to provide an alternative to their excessive economic dependence upon the U.S.S.R. There is a justified question: Are we not strengthening the present governments thereby?

The answer must be affirmative, but it must be added that the peoples of these states are also beneficiaries of our action. As there is no prospect of changing the government, the benefit of the peoples must remain a major aim of our policies. While the ways in which we act for this purpose must be decided individually, country by country, it is the opinion of the institute that the granting of the most-favored-nation status to Hungary would fit our policy in the region.

The third question remains: Does Hungary promote human rights and free emigration? The answer must be a qualified "No." While the parameters of literary freedom and freedom of speech are wider than elsewhere in the region, human rights are not protected under any Western democratic definition of the terms.

Yet, they are even less protected in Romania and Poland which continue to enjoy most-favored-nation status. And while there is no free emigration, the Hungarian Government has fulfilled mostly to our satisfaction, the Helsinki Agreement on reunification of families and the sense of the Helms amendment incorporated into section 402.

The State Department sources mentioned only a few isolated cases which remain unresolved. Thus, it could be said that the granting of the most-favored-nation status would be better justified than its further extension to Romania.

In summation, we take the position that American foreign policy ends, political and economic, would be well served by granting the most-favored-nation status to Hungary.

Thank you, Mr. Chairman.

Senator RIBICOFF. Thank you very much, Doctor. I appreciate your testimony.

Mr. Robert McMEnamin is our next witness.

**STATEMENT OF ROBERT J. McMENAMIN, VICE CHAIRMAN, U.S. SECTION, HUNGARIAN-UNITED STATES ECONOMIC COUNCIL, ACCOMPANIED BY DONALD J. HASFURTHER, EXECUTIVE SECRETARY**

Mr. McMENAMIN. Mr. Chairman, I am Robert J. McMEnamin, recently retired, vice president of International Harvester Co., past chairman of the Department of Commerce Advisory Committee on East-West Trade, and currently a vice chairman of the U.S. Section of the Hungarian-United States Economic Council.

With me is Donald J. Hasfurther, executive secretary of the council.

I am testifying today on behalf of the American membership of the Hungarian-United States Economic Council, a list of which I am submitting with this statement. They are senior executives of firms and trade associations representing a broad cross-section of American industry committed to improving commercial relations with Hungary.

To this end, the United States-Hungarian Trade Agreement will make a valuable contribution.

United States-Hungarian relations have improved dramatically since the early 1970's and with this improvement has come a significant increase in bilateral trade between our two countries.

This trade has grown from \$36 million in 1972 to \$126 million last year. Nevertheless, the absence of nondiscriminatory tariff status has had a crippling effect on the volume of trade that could otherwise have taken place.

In examining the likely economic impact of a mutual extension of most-favored-nation, it should be emphasized from the beginning that, unlike many of the other Eastern European countries, Hungary has an effective tariff system. The Hungarian tariff is far more than a bookkeeping mechanism. Hungarian firms must absorb the duty on imports from abroad.

As you are aware, the Hungarian non-most-favored-nation duty is, on the average, double the most-favored-nation rate. This has put American companies at a great disadvantage in competing in the Hungarian market.

The absence of most-favored-nation, moreover, has had a particularly detrimental impact on American manufacturers of industrial equipment.

Because of the high Hungarian duty on most industrial products, roughly 80 percent of U.S. exports to the Hungarian market remains intermediate products and agricultural materials. An examination of the Hungarian tariff easily illustrates the difficulty American firms face in penetrating the Hungarian market.

For example, America's trade competitors selling machine tools to Hungary face a duty, on the average, of 35 percent to 40 percent ad valorem. U.S. companies wishing to export similar types of machine tools to Hungary face an ad valorem duty of 70 percent to 80 percent.

The list of areas in which American goods face tariff discrimination is almost endless. It includes most types of chemicals, agricultural machinery, air pumps and compressors, sewing machines, refrigeration equipment, electrical generators, data processing equipment, excavating, and materials handling equipment.

These are just a few of the many areas in which we expect to see U.S. exports in a substantial expansion.

In addition to providing a normal basis for trade, the trade agreement provides other important benefits for the American community. In the area of business facilitation, the agreement contains provisions for the facilitation of entry and travel by business representatives and, in other ways, encourages contacts between producers and users in the two countries.

The agreement, moreover, offers facilitation to United States-Hungarian joint ventures in our two countries. This is a point of some importance to several of our council members who have established joint ventures or are currently contemplating joint venture involvement.

In this regard, the trade agreement also provides for the repatriation of capital between our two countries. The agreement also provides a consultative mechanism to safeguard against market disruptions caused by one country's exports. This mechanism, together with those found in current U.S. trade legislation, establishes an effective procedure to prevent a market disruption situation caused by increased U.S. imports from Hungary.

In conclusion, I would like to affirm our belief that our two governments have negotiated a good agreement, offering important benefits to the U.S. business community. Our only reservation regarding the trade agreement concerns the agreement's duration. The initial term of the agreement is 3 years.

The agreement, moreover, must be reviewed annually, as required by U.S. legislation.

As you are aware, trade and cooperation is a long-term arrangement. The notion of limiting such an important basis of trade of several years could cause uncertainties and have a disruptive effect on trade.

Despite this reservation, we are convinced that the trade agreement will provide a firm foundation for the continued development of United States-Hungarian commercial relations. We consequently recommend prompt congressional approval of the United States-Hungarian Trade Agreement.

Thank you. If there are any questions, I would be happy to try to answer them.

Senator RIBICOFF. Let me ask you, how do American companies find the Hungarians as partners in joint ventures?

Mr. McMENAMIN. My own experience has not been in joint ventures but in other kinds of relationships. The contacts are provided through the chamber of commerce in Budapest to various foreign trade ministries—

Senator RIBICOFF. I know, but from the experience of your group, how do you find living with one another, American companies with the Hungarians, in these joint ventures?

Mr. McMENAMIN. I would say that, in general, the relationship is the best that exists East and West. The Hungarians live by their

agreements. If the contract is made, they follow it to the letter, and I believe the relationship is a good one beyond that.

I mean, once a position of trust is established both ways, it is like a business agreement between East and West.

Senator RIBICOFF. Do you find now that other Western industrial countries have a trade advantage over the United States because of the high tariffs against the United States?

Mr. McMENAMIN. Yes, sir. I can give you a personal experience on that.

American industry had a great deal to do to help modernize Hungarian agriculture, particularly in the cultivation and expansion of corn growing, and, as a result, exported in the past, even with the limitations on trade, substantial quantities of plows, harrows, and planters. But the more sophisticated machines, combines, combine-harvesters, were at a distinct disadvantage.

As a result, notwithstanding the fact that American practices and American cultivation methods were used in Hungary, nearly all of that business has gone to West Germany. I am told that with most-favored-nation treatment coming there is a possibility that the American competitive position for combine-harvesters will be improved.

Senator RIBICOFF. Do the members of your association look forward to increased exports from the United States to Hungary once this agreement is signed?

Mr. McMENAMIN. Yes, sir. I believe that all the members are looking to an expansion.

Senator RIBICOFF. Thank you very much.

Mr. McMENAMIN. Thank you, Mr. Chairman.

[The prepared statement of Mr. McMEnamin follows:]

STATEMENT ON U.S.-HUNGARIAN AGREEMENT ON TRADE FOR THE U.S. SECTION OF THE HUNGARIAN-U.S. ECONOMIC COUNCIL BY ROBERT J. McMENAMIN

SUMMARY OF TESTIMONY

The American membership of the Hungarian-U.S. Economic Council consists of senior executive of firms and trade associations representing a broad cross section of American industry committed to improving commercial relations with Hungary. To this end, the U.S.-Hungarian Trade Agreement will make a valuable contribution.

As a result of improvement in bilateral relations, total trade between the United States and Hungary increased from \$36 million in 1972 to \$126 million last year. However, the absence of nondiscriminatory tariff status has had a crippling effect on the volume of trade that otherwise could have taken place.

The Hungarian tariff is far more than a bookkeeping mechanism; Hungarian firms must absorb the duty on imports from abroad. As in the case of the U.S. tariff system, the Hungarian non-MFN duty is often double or triple the MFN rate. Consequently, the total cost of many American goods is prohibitively high for Hungarian firms, as is the cost of many Hungarian goods in the U.S. market.

In addition to providing a normal basis for trade, the trade agreement provides other important benefits for the American business community, such as the facilitation of business and the exchange of economic and commercial information.

The trade agreement also provides an important mechanism for safeguarding the American economy against potential market disruption caused by increased imports from Hungary.

Mr. Chairman, I am Robert J. McMEnamin, formerly vice president of the International Harvester Company and chairman of the Advisory Committee on East-West Trade, and currently a vice chairman of the U.S. Section of the Hungarian-U.S. Economic Council. With me is Donald J. Hasfurther, executive secretary of the Economic Council.

I am testifying today on behalf of the American membership of the Hungarian-U.S. Economic Council, a list of which I am submitting with this statement. They

are senior executives of firms and trade associations representing a broad cross section of American industry committed to improving commercial relations with Hungary. To this end, the U.S.-Hungarian Trade Agreement will make a valuable contribution.

As you may be aware, the Council was established in March 1975, by an agreement signed by the Chamber of Commerce of the United States and the Hungarian Chamber of Commerce. Since the Council's establishment, the U.S. Section has consistently supported the conclusion of a trade agreement, including provision for the mutual extension of nondiscriminatory tariff status (MFN). I am glad, therefore, to have the opportunity to appear before this Subcommittee in strong support of the U.S.-Hungarian Trade Agreement.

#### U.S.-HUNGARIAN COMMERCIAL RELATIONS

If one examines the chronological development of U.S.-Hungarian relations, it becomes evident that a trade agreement is the logical next step in the process of trade normalization. In recent years our two countries have signed a number of agreements intended to facilitate commercial relations. The United States and Hungary concluded Consular and Civil Aviation Agreements in 1972; a Claims Agreement in 1973; and a Scientific and Cultural Exchange Agreement in 1977. In 1975, the Bondholders Protective Council concluded a settlement with Hungary on privately held bonds. In December 1976, Hungary reached an agreement on all outstanding financial claims with the United States Government and was, consequently, exempted from the Johnson Debt Default Act. A bilateral Convention on the Avoidance of Double Taxation is currently under negotiation.

As a result of the improvement in bilateral relations, total trade between the United States and Hungary has increased from \$36 million in 1972 to \$126 million last year. However, the absence of nondiscriminatory tariff status has had a crippling effect on the volume of trade that otherwise could have taken place.

The absence of MFN has also had an important impact on the commodity composition of U.S.-Hungarian trade. Because of the high duty on most industrial products traded between the two countries, roughly 80 percent of U.S. exports to Hungary remain intermediate products and agricultural materials, while 60 percent of Hungarian exports to the United States are consumer goods and foodstuffs.

#### U.S.-HUNGARIAN TRADE POTENTIAL UNDER MFN

In examining the likely economic impact of a mutual extension of MFN, it should be emphasized from the beginning that, unlike many of the other Eastern European countries, Hungary has an effective tariff system. The Hungarian tariff is far more than a bookkeeping mechanism; Hungarian firms must absorb the duty on imports from abroad. As in the case of the U.S. tariff system, the Hungarian non-MFN duty is often double or triple the MFN rate. Consequently, the total cost of many American goods is prohibitively high for Hungarian firms, as is the cost of many Hungarian goods in the U.S. market.

An examination of the Hungarian tariff easily illustrates the difficulty American firms face in penetrating the Hungarian market. For example, America's trade competitors selling agricultural equipment to Hungary face a duty on the average of 12-15 percent ad valorem. U.S. companies wishing to export similar types of agricultural equipment to Hungary face an ad valorem duty of 50 percent.

The list continues. Submersible pumps manufactured in the United States face a 60 percent non-MFN duty compared to the 15 percent ad valorem rate faced by our competitors. American companies wishing to export most types of air pumps and compressors face an 80 percent ad valorem duty versus a 40 percent MFN rate. Photographic film: 50-200 percent Non-MFN rate, versus 15-50 percent ad valorem MFN rate; Most types of machine tools: 70-80 percent, compared to 35-40 percent. Finally, most American manufactured chemicals face a non-MFN duty of 50 percent and higher, versus a 10-30 percent MFN rate. We mention these as just a few of many areas in which we expect U.S. exports to see substantial expansion.

Similarly, we would expect to see a selective expansion of Hungarian exports into the U.S. market in those areas in which the Hungarians have a strong export tradition. These areas include pharmaceuticals, medical and surgical instruments, including X-ray equipment, computer peripherals, buses, axles, certain machine tools and manufactured aluminum products. We recognized these and other Hungarian goods for their quality and dependability and welcome their availability in the U.S. market.

But the important thing to keep in mind is that the Hungarians definitely do not intend to build up a trade surplus with the United States. In other words, for the

foreseeable future we can expect to see U.S. exporters consistently selling more to Hungary than vice versa.

#### BUSINESS FACILITATION

In addition to providing a strong basis for regular bilateral trade, the trade agreement provides other important benefits for the American business community. Article III provides for the facilitation of business and the exchange of economic and commercial information between the United States and Hungary. The agreement contains provisions for the facilitation of entry and travel by business representatives, encourages each country's participation in trade fairs and exhibitions in the other country, and in other ways encourages contacts between producers and end-users in the two countries. In addition, the agreement specifically recognizes the importance of commercial offices of American firms in Hungary, and vice versa.

The agreement, moreover, offers support for the operation of U.S.-Hungarian joint ventures in our two countries. This is a point of some importance to several of our members who have established joint ventures or are currently contemplating joint venture involvement. In this regard, the trade agreement also provides for the repatriation of capital, as outlined in Article IV.

#### MARKET DISRUPTION SAFEGUARDS

The trade agreement also provides, in Article VII, safeguards against market disruption. Hungary and the United States have agreed to consult promptly in cases where one country's actual or prospective exports threaten to cause or significantly contribute to market disruption in the other. Should consultations fail to bring an accord, the importing country is free to take whatever action it believes is necessary to remedy the situation.

According to the annex of the trade agreement, moreover, restrictions may be put into effect prior to consultations if an emergency situation exists. These guarantees, together with those found in current U.S. trade legislation, establish an effective mechanism to prevent a market disruption situation caused by increased U.S. imports from Hungary.

In conclusion, I would like to affirm our belief that our two governments have negotiated a good agreement which offers important benefits to the U.S. business community. We are convinced, moreover, that this agreement will provide a firm foundation for the continued development of U.S.-Hungarian commercial relations and, in general, strengthen the ties between our two countries.

HUNGARIAN-U.S. ECONOMIC COUNCIL,  
CHAMBER OF COMMERCE OF THE UNITED STATES,  
1615 H Street NW., Washington, D.C., April 1978.

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Erwin Tomash, Chairman, Dataproducts Corporation, 6219 De Soto Avenue, Woodland Hills, Calif. 91365, (213) 887-8000.

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Donald E. O'Neill, President, Parke, Davis & Company, Joseph Campau at the River, P.O. Box 118, Detroit, Mich. 48232, (313) 567-5300.

William Paul, President, PepsiCo World Trading Co., Purchase, N.Y. 10577, (914) 253-3100.

Floyd T. Read, President, Read Steel Products, 906 North 40th Street, Birmingham, Ala. 35223, (205) 595-2181.

Pierre-Louis Roederer, Vice President, Corning Glass International, S.A., 251 Boulevard Pereire, Batiment A, 4eme Etage, 75017 Paris, France, 766.51.62.

Robert Rumler, Executive Chairman, Holstein-Friesian Association of America, P.O. Box 808, Brattleboro, Vt. 05301, (802) 254-4551.

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C. F. Smith, Vice President, Business Development and Government Affairs, Sperry Vickers, World Headquarters, International Group, Troy, Mich. 48084, (313) 576-3616.

Emrik M. Suichies, Manager, Business Development, Eastern Europe, Continental Can International Corp., 72 Cummings Point Road, Stamford, Conn. 06902, (203) 357-8110.

George M. Weimer, Vice President, Europe, Merck Sharp & Dohme International, Rahway, N.J. 07065, (201) 574-4000.

Senator RUBICOFF. The committee will stand adjourned.

[Thereupon, at 11:20 a.m., the hearings in the above-entitled matter were adjourned.]

[By direction of the chairman the following communications were made a part of the record:]

U.S. SENATE,  
COMMITTEE ON THE BUDGET,  
Washington, D.C., April 20, 1978.

Hon. RUSSELL B. LONG,  
Chairman, Senate Finance Committee,  
Dirksen Senate Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: The Finance Committee will shortly be hearing testimony on the President's proposal to grant most-favored-nation status to Hungary. I understand tentative hearings are scheduled for May 9th.

I would very much appreciate your consideration of the enclosed letter from my constituent, Mr. Imre Kerényi of Pittsburgh, Pennsylvania, in reference to the President's proposal, and I request that it be included in the Committee's hearing record.

Mr. Kerényi has a very strong interest in this subject and has suggested an amendment to legislation granting MFN status to Hungary which would require Hungarian government-owned importing agencies to consider bids from American companies in exchange for extending MFN status.

He would, of course, be happy to appear before the Committee to express his views on his proposal personally, if you feel it necessary.

Thank you for your assistance in this matter.

Sincerely,

H. JOHN HEINZ III,  
U.S. Senator.

IKER INTERNATIONAL INC.,  
Pittsburgh, Pa., March 7, 1978.

Re: most favored nation trade status for Hungary.

Hon. H. JOHN HEINZ III,  
Senator from Pennsylvania,  
Russell Senate Office Building, Washington, D.C.

DEAR SENATOR HEINZ: I have just learned that the Executive Branch has decided to grant the Most Favored Nation trade status to Hungary which is subject to congressional approval.

I feel that this is not only the best opportunity for the Congress to deal with the discrimination some of the Hungarian government and foreign trade employees are allegedly practicing against the U.S. companies whose insistence on obeying the U.S. law and whose lower prices endanger the lucrative black-market activities and trading with the "established" Western European friends, but a congressional approval of the Most Favored Nation trade status for Hungary without requiring its government to end such alleged discriminatory practices would also be contrary to the stated policy of the Congress. Section 3 (5) of the Export Administration Act of 1969, as amended, states that: "It is the policy of the United States (A) to oppose restrictive trade practices or boycotts fostered or imposed by foreign countries" \* \* \* "against any United States person".

The basic idea of granting the Most Favored Nation trade status to Hungary in order to build closer ties between the two nations by increasing the direct contacts between the people of the two countries through increased trade is correct.

Without stopping this alleged discrimination the granting of the Most Favored Nation trade status to Hungary could have an adverse effect on the United States. It would certainly help the Hungarians to sell their products in the United States due to the lower import duty but it might neither improve the U.S. export to Hungary in proportion to the increased import from Hungary because a large part of the extra dollars the Hungarians would earn from the increased import would more likely be spent on increased purchases from the cooperating "established" Western European friends who ignore the CoCom export controls, nor would it help to build close ties between the two countries because the secretive foreign trade would keep the U.S. suppliers isolated from the Hungarian end-users. Hence, it might just increase our negative trade balance.

There is no doubt that the Hungarian government would never accept the allegation that it practices or allows to practice such a discrimination against U.S. companies and would probably protest against any such implication by the U.S. government.

Therefore, I would like to ask you to introduce such an amendment to the Administration's request for the approval of the Most Favored Nation trade status for Hungary which would only require each Hungarian government owned importing company to give an opportunity for any U.S. company to bid for supplying all the importing company's needs in specific fields, if requested by a U.S. company, and to provide the reason, if requested by a U.S. bidder, for rejecting his bid. This amendment could be called the equal opportunity amendment and it would achieve, if properly worded, the same result as an amendment dealing with discrimination.

The Hungarian government owned importing agencies certainly have the right to decide from whom to ask an offer, but so has the U.S. government the right to decide to whom to extend the Most Favored Nation trade status. Hence, such a requirement combined with the MNF would involve an equal give and take.

The MNF, having the above endorsement, combined with the introduction of a special type of multi-transaction U.S. export license (that could be used by the various sections of the industry to clear the export of most of their products in advance, hence, which would not only remove the uncertainty and delay from export licensing but would also make the consideration of end-users and end-users meaningful) would make the United States the winner, while without the above two changes the United States could only be the loser in the effort of building up closer ties between the United States and Hungary.

Therefore, please, do not miss this opportunity. I am always ready to assist you with these and other matters.

I look forward to hearing from you.

Best regards,

IMRE KERENYI, *President.*

Enclosure.

A SUMMARY OF THE EXISTING U.S. EXPORT ADMINISTRATION AND  
RECOMMENDATIONS FOR IMPROVEMENT

1.0 *Basic Concept of Export Administration in East-West Relation.*

1.1 High technology is one of our most valuable assets in East-West relation because the Eastern bloc is lagging behind us in this field and is very much seeking our high technology.

1.2 The aim of our Export Administration is to control the flow of our high technology to our adversaries in order to maintain our leadership in high technology and to enable us to obtain political concessions in exchange for high technology.

1.3 In order to make export controls effective an international Coordinating Committee (CoCom) has been established to maintain a uniform embargo on the exportation of specific commodities from the NATO countries and Japan.

1.4 In addition to the CoCom embargo the United States government extended the embargo unilaterally to commodities not embargoed by the other CoCom countries.

1.5 This embargo means that the exporters have to apply for validated export licenses in connection with the intended exportation of embargoed commodities and individual judgments, based on the intended end-uses and end-users, have to be made in connection with the granting of exemptions to the embargo.

2.0 *Some of the Problems with the Administration of Export Controls.*

2.1 The granting of exemptions to the embargo usually involves a complex procedure and a large number of people which can result in long delays and in uncertainty.

2.2 Because of the complexity in the processing of the validated export license applications the Office of Export Administration (OEA) cannot predict the outcome of any application, and because of the heavy workload of the OEA, the OEA is generally unable to process validated export license applications not related to firm orders, i.e.: to inquiries.

2.3 Because of the circumstances described in 2.2, the U.S. exporters often have to spend a considerable sum of money on obtaining the orders and have to wait for a long time in uncertainty before they can learn whether they are allowed to export the commodities related to the orders.

2.4 Due to the close geographical proximity of most of our CoCom partners to the Eastern bloc and due to the lack of sufficient enforcement of the CoCom embargo in those CoCom countries, the Eastern bloc buyers are able to purchase most of their high technology needs, especially in electronic components, over-the-counter in those CoCom countries and to take the purchased goods home. These transactions are generally considered as domestic sales by most of the Western suppliers.

2.5 The transactions described in 2.4 involve both the commodities manufactured in the CoCom countries where they are diverted to the Eastern bloc and the commodities which were manufactured in the USA. Since the imported U.S. controlled commodities are registered by the export control authorities, it is safer for the Western European suppliers to sell domestic than imported American products to the Eastern bloc buyers if equivalent domestic products are available.

2.6 The Eastern bloc, as it frequently stated, cannot afford the uncertainty and long delay associated with the processing of U.S. export licenses, therefore, the Eastern bloc buyers give all their business in both embargoed and non-embargoed commodities to those who deliver all their needs without uncertainty and delay, i.e.: to those Western European suppliers who ignore the CoCom export control regulations.

2.7 In addition to being difficult to enforce the export control regulations in Western Europe due to the heavy flow of people and traffic through the iron curtain, the strong enforcement of export controls is really not in the interest of the Western European governments. Western Europe's safety depends on the American nuclear umbrella and on the strength of their economy, therefore, a "friendly gesture" of not stopping the flow of embargoed commodities toward the Eastern bloc can only help the Western European countries.

2.8 Such a "friendly gesture", described in 2.7, will make the Eastern bloc more friendly (the U.S. might abandon Europe), does not harm the safety of the Western European countries because commercial products usually do not embody the latest technology, shifts the export in non-controlled commodities to Western European

suppliers from the U.S. suppliers which creates new jobs and a strong economy in Western Europe and, in case of diversion of U.S. made commodities to the Eastern bloc, it produces income from import duty and tax and a more healthy balance of payment for the Western European countries involved.

2.9 Because of this uncontrolled flow of high technology to the Eastern bloc, the United States cannot use the sale of high technology, except in cases of bulky equipment, for obtaining political concessions from the Eastern bloc.

### 3.0 *Controversies Related to export Controls.*

3.1 At present all commodities whose export might have some adverse effect on the CoCom partners under some specific conditions are placed on the embargo list, hence, their exportation requires validated export licenses, i.e.: individual consideration taking the end-use and end-user into consideration.

3.2 Within the Eastern bloc there is a controversy between the end-users and the importing agencies. The Eastern bloc end-users would like to shift their purchases to the U.S. suppliers and to deal directly with them in an open manner. On the other hand, the import agencies do not wish to lose their exclusiveness in dealing with foreign suppliers and, therefore, many of them have been stating that the delay and uncertainty in U.S. export licensing makes it often impossible for them to deal with U.S. suppliers in connection with embargoed commodities because in case of the unsuccessful license applications it would be very difficult for them to obtain the same commodities from their established Western European blackmarket suppliers as the CoCom export control authorities might be watching for such sales. They also claim that openness could endanger their blackmarket connections which would result in shortages.

3.3 The prices on the blackmarket are much higher than on the open market and they vary widely from deal to deal which are strictly on a cash basis, therefore, there is an opportunity for the buyers to divert some of the cash to other purposes.

3.4 Although the Eastern bloc buyers have to obtain competitive offers they can manipulate their purchases by asking offers from carefully selected suppliers only and by rejecting any inconvenient unsolicited offers on formalities.

3.5 A U.S. supplier inconveniences the established operation of the Eastern bloc buyers if he contacts the Eastern bloc end-users directly, learns about their need of embargoed commodities and sends unsolicited offers to their purchasing agencies for supplying the required embargoed commodities at normal open market prices but with the precondition of obtaining the required validated export licenses.

3.6 The unanimity rule of the U.S. interagency ACEP Operating Committee (OC), which makes the recommendations in connection with the validated export license applications, provides the opportunity for any member of the OC to prevent the granting of an exception to the embargo or to delay the processing of any validated export license application. This is so, because the processing of the applications is carried out in secret, hence the applicants do not have the opportunity to protest against unnecessary delays and unjustified denials, and because many of the people involved in the processing of validated export license applications do not have sufficient technical background to make a proper judgment, hence they have to rely on the judgment of the others, and therefore, they are inclined to support a negative recommendation more readily than to recommend an exemption to the embargo when they are uncertain about the situation.

3.7 The aim of both, our foreign competitors and the blackmarket operators, is to prevent the issuance of validated U.S. export licenses in cases when a U.S. supplier inconveniences their established operation. Hence, a U.S. exporter whose export license application has been delayed and rejected without any apparent or reasonable cause cannot be certain whether the treatment he received was caused by overzealous patriotism or by foreign influence or just by plain incompetence.

3.8 The justification for the individual processing of validated export licenses is based on the assumption that the consideration of end-user and end-use in export licensing is meaningful, i.e.: the United States' government is able to ensure that the export, the OEA licensed for a specific end-use by a specific end-user will not be diverted to other end-users without the permission or knowledge of the United States' government. In case of large bulky equipment, large computers, complete plants, etc., to be used in places accessible by the public, it might be possible to observe the licensed end-use of such equipments, etc. Unfortunately, this is not so in case of other commodities, which should normally represent the bulk of our export, because of the secretiveness of the Eastern bloc foreign trade.

3.9 It can be seen from the aforesaid that there is a controversy and impasse in connection with U.S. export licensing. The only justification for the individual processing of validated export licenses is the individual consideration of the end-uses and end-users, however, because it is usually impossible to verify the licensed end-uses due to the secretiveness of the Eastern bloc foreign trade, no exemption to the

embargo can reasonably be granted on the account of the unverifiable Statements by Ultimate Consignees and Purchasers about the intended end-uses. Hence, the requirement for the individual processing of the validated export licenses cannot be justified in most of the cases. Furthermore, the Eastern bloc countries justify their separation of the U.S. businessmen from their domestic end-users and the secretiveness of their buyers on the basis that direct contact between the U.S. businessmen and their end-users would give away their blackmarket contacts and, because of the uncertainty and long delays in the U.S. export licensing, they are forced to use the blackmarket. Hence, on one hand, the OEA blames the secretiveness of the Eastern bloc buyers for the uncertainty and delays in U.S. export licensing and, on the other hand, the Eastern European buyers blame the uncertainty and delays in U.S. export licensing for their secretiveness. This is a vicious circle.

3.10 The Eastern bloc end-users have stated that they could live with reasonable U.S. or CoCom export controls because their regulations do not allow them to use Western made components and equipment for any application which is related to their national security. The only exception is when an Eastern bloc manufacturer guarantees that it would produce those Western made parts and equipment within two years. Also, the Eastern European end-users are very pleased to open their doors to Western inspection in connection with the use and whereabouts of the commodities they purchase from the West as they are used for commercial and industrial purposes.

3.11 The U.S. Department of Commerce stated that over 90 percent of the validated export license applications in connection with communist country destinations are approved. This statement could mean that either the OEA approves 90 percent of the Eastern bloc requirement in embargoed commodities, or it could mean that the Eastern bloc is able to learn, in advance, with 90 percent accuracy, which sales would be approved by the OEA and places orders only for those commodities with U.S. exporters. This is rather interesting because U.S. suppliers generally do not have this capability.

3.12 The U.S. unilateral embargo in addition to the CoCom embargo means that the Eastern bloc buyers can purchase less sophisticated commodities from a U.S. supplier than from our Western European competitors. Hence, our national security is adversely affected because the sale of such commodities are shifted to our competitors within CoCom, therefore, the viability of our industry is affected. An example of this is electronic transistors, diodes, etc. which shifts even the sale of the non-embargoed components to our Western European competitors.

#### 4.0 *Summary of Recommendations.*

4.1 At present, the Commodity Control List (CCL) of the Export Administration Regulations lists the controlled commodity groups in a manner often not compatible with the way the specifications of the related commodities are presented, and the CCL only states whether a validated export license is required for the exportation of specific commodities to specific country groups. Besides, the consideration of the end-use and end-user during the processing of validated export licenses is generally meaningless in case of the type of commodities not listed in 4.2 because of the difficulty in verifying the licensed end-uses and end-users. Therefore, the following recommendations have been made to improve the export administration system:

4.2 The individual consideration of export license applications based on the end-user and end-use should be maintained in connection with military equipment, complete plants and other large value orders. However, preliminary licensing decisions should be made during the negotiations of the contracts to enable the exporters to terminate costly negotiations if the issuance of the related export licenses is not likely.

4.3 With respect to other commodities the delay and uncertainty should completely be eliminated from export licensing. As, at present, 90 percent of the validated export licenses to non-market country destinations are approved mainly on the basis of precedent, there is no reason why such precedent information could not be published in order that the U.S. exporters could judge whether their marketing effort is worthwhile and the end-users could judge whether a U.S. supplier could deliver them a specific commodity.

4.4 The commodities not listed in 4.2 should be listed on the CCL according to the way their significant parameters are presented in the published specifications of the commodities in order that an exporter, without the knowledge of a technical expert and without special tests, could decide whether he could export specific commodities.

4.5 The rest of the recommendation is based on the concept that the specification limits of the commodities for validated export license requirement shown on the present CCL are the worst case figures, as far as end-use and end-users are concerned, and if 90 percent of the validated export license applications are approved

on the basis of end-uses and end-users, i.e.: in 90 percent of the cases an exemption is made to the embargo using the rule of precedent, etc. then one should be able to tabulate the cases, even, one should be able to determine in advance the tabulated results assuming various types of end-users and end-uses.

4.6 In the recommended system under each CCL entry the selected specification items would be listed on the left side of the tables as lines, instead of the present continuous text, and the actual figures for each specification item (line) would be shown in the various columns within the line. There would be a number of columns relating to the various types of end-uses. In connection with a specific export to a specific end-user for a specific end-use the figures for the specification items (lines) of the exported commodity could not exceed the sum of the figures shown in the specific end-use and end-user columns in each line.

4.7 A specific lowest end-user column would be assigned to each presently existing country group and the specification figures in that column would be the same as the figures shown now in the CCL for that country group (the only difference would be that the specification items would be listed in the same manner as the specifications of the related commodities are published, instead of being the products, etc. of published and unpublished specification items as it is being done now on the CCL in some cases). Hence in case of a secretive purchaser in a specific country, where neither the end-use and end-user could be verified, nor diversion of licensed end-use could be detected, no end-use could be considered and the specification limits would be those which are shown in the lowest end-user category assigned to his country, i.e.: same as the presently existing figure in the CCL.

4.8 In some Eastern European countries, especially in Hungary, there is a tendency to authorize the domestic organizations to handle their own foreign trade, however, this is being resisted by the existing foreign trade organizations fearing the loss of their exclusiveness. To accelerate this tendency, because it opens up the direct contact between foreign end-users and Western suppliers leading to a more friendly relation between the United States and the Eastern European countries, there would be an incentive for the foreign end-users to cooperate with the CoCom Export Administration. Those end-users who would, on a voluntary basis, offer the periodic reporting of the whereabouts and use of the commodities purchased under "Special Privileges" from CoCom country suppliers and would allow an acceptable verification of their statements, like unannounced spot checks, etc., would be graded into more advantageous end-user categories.

4.9 The foreign end-users enjoying the "Special Privileges" (SP) would be able to obtain more sophisticated equipment from CoCom country suppliers than those not having SP. In case of SP customers the intended end-use would also be taken into account and they would be able to purchase equipment with specifications given by the sum of the figures shown in the end-user column allocated to them and in the related end-use column. This SP system would be very similar to the MFN (Most Favored Nation) system and would encourage more openness.

4.10 This SP system would stop the Eastern European foreign trade organizations from being the purchasing agents of the Soviet organizations. At present, they purchase the goods as if they would be buying it for one of their own domestic commercial end-users and afterwards they pass it to the real buyer. The SP system would eliminate this possibility because secretive purchasers would be able to buy commodities with the poorer specification only.

4.11 The U.S. Government in cooperation with CoCom would issue guidelines for the U.S. industry for the preparation of the new type of CCL. The representatives of each section of the industry would prepare, within the guidelines, the drafts of the section of the CCL related to their products, would clear it with the related government agencies advising the OEA on export control matters and would submit it to the OEA for approval. After approval and publication, the U.S. exporters would know what they could sell, the foreign buyers would know what they could purchase, and there would not be any delay and uncertainty in exporting. Whenever the circumstances would change, either the industry or the OEA would initiate a change in the CCL.

4.12 The U.S. embassies abroad (or other CoCom country embassies) representing CoCom would deal with the local end-users in connection with their grading into end-user categories, their reporting of the whereabouts of the commodities they purchased under the SP and the verification of their statements. As there is only a limited number of business organizations in Communist and in less developed countries this would not cause such an excessive work for the embassies which could not be handled by their existing commercial staff. On the other hand, it would bring the embassy staff into close contact with the local business communities. The grading would be published. The list of the graded customers is not likely to be

excessive because there are not many organizations who purchase CoCom controlled commodities in the less developed and Communist controlled countries.

5.0 *The Export Administration Act of 1969, as amended, versus Export Licensing.*

5.1 Section 5(b)(1) of the Export Administration Act of 1969, as amended, states that "In authorizing exports, full utilization of private competitive trade channels shall be encouraged insofar as practicable, giving consideration to the interest of small business, merchant exporters as well as producers, and established and new exporters, and provision shall be made for representative trade consultation to that end".

5.2 The present system of Export Administration does not satisfy the requirement of this Section of the Act because export license application cases without precedent require a lot of expensive dealings with the OEA which is generally beyond the means of small business. The cases, presented by Iker International Inc. in Documents Nos. 2500 through 2505, demonstrate the prohibitive cost and hopelessness for a small company to deal with the OEA even when there is every reason for granting the licenses but there is no positive precedent. For this reason big business hires ex-OEA employees, etc. for dealing with the OEA.

5.3 In order to counteract the practice that the Eastern Europeans receive their need of electronic components and parts for the development of commercial equipments from Western European suppliers without regards to export license requirement (which leads to using Western European components in the production of licensable commercial equipments) a suggestion for licensing some selected U.S. exporters (whose activity can be supervised by the OEA) for supplying U.S. made-electronic components for the commercial equipment development work of the cooperating Eastern European manufacturers was made to the OEA in 1975 to ensure that U.S. components would be used in the final products. The Director of the OEA turned down this suggestion on the basis that this selected licensing would be discriminatory to exporters not so licensed, and therefore it would be in violation of section 5 (b)(1) of our Act.

5.4 If the above selected licensing, just what the Act does in case of Short Supply, is discriminatory and is in the violation of the Act, then the present method of export licensing, due to the problems described in 5.2, is much more discriminatory against the small business and is a violation of the Act.

IKER INTERNATIONAL INC.,  
Pittsburgh, Pa., May 5, 1978.

Re: MNF status for Hungary.

Hon. RUSSELL B. LONG,  
Chairman, Senate Finance Committee,  
Dirksen Senate Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: Further to Senator H. John Heinz's letter of April 20, 1978, requesting that my letter of March 7, 1978, containing a request for amending the U.S.-Hungarian trade agreement by the Congress to ensure nondiscriminatory treatment for U.S. firms doing business with Hungary, to be included in the Committee's hearing record on the same, please include this letter as well in the Committee's hearing record.

This letter analyzes the content of Mr. Gene E. Godley's (Assistant Secretary of the Secretary of the Treasury for Legislative Affairs) reply of April 17, 1978 to Senator Heinz containing apparently, the Executive Branch's comment on the request in my above letter of March 7, 1978.

Mr. Godley argues in his letter of April 17, 1978 (a copy of his letter is enclosed) that the U.S.-Hungarian trade agreement, negotiated by the Executive Branch, for the extension by the United States of most-favored-nation treatment to Hungary, which is subject to Congressional approval, ensures nondiscriminatory treatment for U.S. firms doing business with Hungary and, therefore, there is no need for the Congress to amend this agreement.

However, if Mr. Godley's argument is analyzed, taking the governing Hungarian Foreign Trade Law of 1974, the existing Hungarian foreign trade practices and the possible personal interest of those who exercise an influence on the activities of the Hungarian foreign trade into consideration, it becomes obvious that the negotiated U.S.-Hungarian trade agreement is even more nonspecific than the Panama Canal Treaties were before Congress amended them and it would provide a complete freedom for the Hungarian side in interpreting the various provisions of the agreement.

Mr. Godley is right in his letter about criticizing the nonspecific wording of the request. This oversight has been corrected and the improved text is presented in capital letters in the COMMENT to Section 3 later in this letter.

If the U.S.-Hungarian trade agreement is not amended in Congress to provide unambiguous nondiscriminatory provisions the result could be disastrous for the United States, especially if this agreement would serve as a pattern for further East-West trade agreements.

It is not likely that the Hungarian foreign trade employees would voluntarily abandon their established alleged cozy relationship with the various Western European competitors of the American firms (especially with those who ignore the COCOM export control regulations and sell controlled commodities for cash at unspecified prices without documentation) for untested American companies whose products may be better and cheaper but who might be unfamiliar with the way of life in Hungarian foreign trading.

If the U.S.-Hungarian trade agreement is not amended in Congress to ensure mutual nondiscriminatory trading, it is quite likely, based on the knowledge of various factors influencing Hungarian foreign trading and on past experience, that a large portion of the Hungarian's income from increased sale of Hungarian commodities in the United States would be spent by the Hungarian foreign trade organizations on additional purchases from their established Western European trading partners, i.e.: from the competitors of the American firms. Also, many of these extra dollars are likely to cause an increase in the controlled flow of our controlled high technology products to the Eastern bloc through the Western European blackmarket traders. The end result would be a negative increase in the U.S. balance of payment, a positive increase in the balance of payment of some Western European countries and a large increase in the already serious U.S. national security problem. Therefore, not only the amendment of the trade agreement but also some changes in the execution of the Export Administration Act of 1969 are necessary.

In order to produce a satisfactory U.S.-Hungarian trade agreement the U.S. negotiators must be very familiar with the Hungarian law and with the aim, method, background and power of the Hungarian scrupulous and unscrupulous people in the government and in the domestic and foreign trade organizations. The trade negotiators should also be familiar with the Leninist Soviet ideology and should have some practical experience of the Hungarian system (living in Hungary for a time under Soviet management). Such knowledge and experience would enable them to predict and to understand the motives of the Hungarian side.

I have all the above knowledge and experience, therefore I am very surprised about the content of the negotiated U.S.-Hungarian trade agreement. It is beyond the scope of this letter to describe such an experience, however, the following should be of interest:

The Hungarian Foreign Trade Law of 1974 reconfirmed that the Hungarian foreign trade is a state-monopoly and is, actually, run directly by the Ministry of Foreign Trade. There is no competition between the foreign trade companies, because a different area of foreign trade activity is allocated to each foreign trade company, hence each foreign trade company enjoys a complete monopoly in its own area of activity.

Towards the Western world the Hungarian Ministry of Foreign Trade has been stating that the Hungarian foreign trade companies are independent companies and neither the Hungarian government, nor the Hungarian Chamber of Commerce, etc., can interfere with their activities, i.e.: to assist the Western firms in their disputes with the Hungarian foreign trade companies (see the enclosed letters of the Hungarian Chamber of Commerce and the Director General of the Hungarian Ministry of Foreign Trade).

The Hungarian users would very much like to establish direct contact with American firms but the powerful people in the foreign trade have been preventing this.

In Communist countries, in the absence of drug trafficking, the best opportunity for making illicit money should be the involvement in the blackmarket purchases of controlled Western high technology commodities. There are undetermined high prices on the blackmarket and the deals are made on a strictly cash basis without any documentation. Even the governments are supporting this operation because of their need for the commodities.

It can be assumed that those communist purchasing agents, who operate together with Western crooks on the blackmarket and break the law of the Western countries, might also break the law of their own country by misappropriating a large portion of the cash which is trusted to them for affecting the blackmarket purchases of controlled commodities from their Western crook friends. These purchasing agents could be certain that their crook friends would not give them away because the crooks also violate their own law.



For maximizing their profit from the blackmarket operation these unscrupulous purchasing agents would need to put some of their bosses, some of their high ranking government officers and some of the key employees in the state owned domestic companies (which actually pay the high prices for the commodities) on their payroll to ensure the total separation of the Western manufacturers from the people in the domestic companies (which would provide a free ground for their operation), and the freedom from interference with their operation. In addition, they would need to bribe some Western government officers to ensure that trading with export license, due to the difficulties in obtaining them, would become non-profitable for Western suppliers and that those Western suppliers, who manage to achieve direct contact with their domestic companies and push for direct trading with export license, would fail in obtaining their export licenses.

Please note that the above assumption is not intended to suggest that this is the actual case in Hungary, however it is intended to suggest that possible interest of the various people who might be behind the U.S.-Hungarian trade agreement.

It is not difficult to realize that the interest of the American people and of the U.S. government as well as of the Hungarian people and of the Hungarian government is to establish a close relation and open trade. The Hungarian people have been considering the American people as their closest friends. A properly prepared trade agreement would help to warm up this relation by increasing the direct contacts between all types of people in both countries and by increasing the standard of living in Hungary. Also, such a move would help the Hungarian government's partially capitalist economic policy to succeed.

For the above reasons it would be very strange if the Executive Branch would oppose the requested amendment. Such action would indicate the lack of familiarity with the situation, because, the agreement as it is worded now supports the interest of the unscrupulous people, who are considered criminals by the Hungarian law, and ignores the interest of the American and of the scrupulous Hungarian people.

According to Assistant Secretary Godley the "trade agreement as it now stands contains provisions designed to secure non-discriminatory treatment for American firms". In support of this statement Mr. Godley offers the following considerations which will be commented point by point:

1. "Article I of the agreement provides for nondiscriminatory trade, stipulating that the United States and Hungary shall apply between themselves the applicable provisions of the General Agreement on Tariffs and Trade (GATT), to the extent that it is consistent with the U.S.-Hungarian trade agreement. The GATT contains requirements for nondiscriminatory treatment on the part of state-trading enterprises in dealing with private traders, including requirements that purchases or sales be made solely in accordance with commercial considerations, and that such traders be afforded adequate opportunity, in accordance with customary business practice, to compete for participation in such purchases or sales."

*Comment:* The Hungarian foreign trade organizations will never admit officially that any of their negative purchasing decisions is based on anything but on commercial considerations. This is easy to do for the Hungarian foreign trade because they do everything in the greatest secrecy and no outsider can ever learn officially what actually happened. The main problem is that no-one can learn the requirement of a Hungarian foreign trade organization unless the FTO itself reveals it to a selected supplier or suppliers who, naturally, will not notify the competitors. Also, the "customary business practices" of the Eastern bloc countries are completely different from the same of the industrialized Western nations, hence both sides may interpret this provision in its own way.

2. "These provisions of the GATT are re-enforced in the U.S.-Hungarian trade agreement, which states that enterprises of each country may initiate and maintain contact with present and potential buyers, users, and suppliers, and that contracts will generally be concluded on the basis of commercial considerations on terms customary in international commercial practice."

*Comment:* The Hungarian Minister of Foreign Trade's Order No. 7/1974(X.17)Kk M, which is part of the execution of the Hungarian Foreign Trade Law of 1974, forbids such contacts between Hungarian end-users and foreign business which could lead to a foreign trade contract (a purchase order, or a sale). On the other hand, the same regulations allow the Hungarian end-users to collect technical information directly from foreign suppliers, etc.

Apparently, this part of the U.S.-Hungarian trade agreement is non-specific as well, it does not specify the type of "contact", hence it allows the Hungarian side to interpret this part of the agreement as well in its own way, i.e.:

- (a) nothing forbids the Hungarian side from limiting the contacts between the U.S. suppliers and the Hungarian users to a one directional flow of technical information on U.S. products without the Hungarian users revealing whether there

are potential purchases behind their technical inquiries or they just wish to learn the techniques used in the American products in order to use the same in their own products;

(b) also, what is the value for an American firm in having the right of maintaining often expensive contacts with the Hungarian foreign trade organizations if the FTOs do not reveal to the American firm their needs of import from the Western industrialized nations, such contact could only be money wasting for the American firm;

(c) besides, the "international commercial practice" of the Eastern bloc is completely different from the "international commercial practice" of the Western industrialized nations, hence, by not specifying which "international commercial practice" the agreement allows the Hungarians to carry on with their existing "international commercial practice";

(d) in addition, the word "generally" allows the worst type of discrimination by the Hungarian side which is usually exercised against those relatively small number of U.S. suppliers who refused to break the U.S. law when such action was implicitly suggested to them.

3. "The U.S.-Hungarian trade agreement also stipulates that the two governments will provide their good offices to assist in the solution of business facilitation problems. For this purpose, appropriate organizations within each government will be designated, to which enterprises of the other party will have ready access in order to present business facilitation problems, in case where all normal channels have been exhausted. Also, of course, if an American businessman feels that he is being discriminated against, he can appeal to U.S. Government officials in the United States or, in Hungary, to the American Embassy."

*Comment:* This part of the agreement sounds very assuring to those who have not had experience in this field and who are not familiar with the methods of the U.S. bureaucracy and of the Eastern bloc systems. The following of my own experience, which is a very typical one according to my findings, will show why this stipulation of the agreement will not prevent discrimination or will not help American firms in any way:

My discussions with several Hungarian foreign trade, domestic and other organizations in 1974 suggested that our company had unlimited business opportunities in Hungary. Unfortunately, it turned out soon that not all the opportunities were for the type of business which the U.S. law allows. My belief, supported by a letter etc. from the U.S. Department of Commerce, that the U.S. government would approve the sale of many controlled commodities for commercial applications if the Hungarians would be open about their purchases and my insistence on the observance of the U.S. export control regulations, when the contrary was implicitly suggested to me, resulted in a specific export license application (beside other orders) for testing the correctness of my belief.

Apparently, one of the reasons for their interest in the testing of my above publicized belief was that my belief was weakening the justification for their need of blackmarket purchases. The people who provided me this test case were heavily involved in blackmarket activities<sup>1</sup> and they appeared confident that I would fail in obtaining this test case export license which would prove me and some Hungarian users, who were pushing with me for direct open trading with the U.S. suppliers, to be wrong.

When we submitted this export license application we explained the situation. The U.S. Office of Export Administration stated it could not see any reason for denying this application if the delivery would be made in a specific form and we would submit some additional documentation. The Hungarian user immediately agreed to this condition but the importing agency, which was our only official contact, would not respond to our repeated request for forwarding, from the user to us, the additional documentation the OEA requested; therefore, the OEA returned the application without action stating that we could re-submit it with the requested additional information. Hence, we failed to prove that timely delivery of some controlled electronic components with export license in appropriate cases is possible, which justified the further use of the blackmarket.

<sup>1</sup>This import agency had to provide parts and components for a section of the Hungarian industry always in time to maintain production schedules and they believed that it was cheaper to pay high prices on the blackmarket than to suffer expensive production hold-ups due to the delay and uncertainty in delivery as a result of the same in U.S. export licensing. On the other hand, the prices on the blackmarket can be very high and irregular, there is not document to support what cash a purchasing agent actually spent for a specific commodity on the blackmarket, therefore, it depends on the honesty of the purchasing agent whether or not he makes a personal profit on a blackmarket purchase.

In our desperation we made use of an earlier offer of the Hungarian Chamber of Commerce and requested it to urge the FTO for forwarding the requested information. The result was that the importing agency, EMO, broke up all relation with us using strange excuses. In spite of that, several of its employees were very enthusiastic about doing business with us due to our favorable offers in connection with non-controlled commodities, and would not give us the opportunity to bid for supplying any of their requirement since that time, although, we are the exclusive distributor for Hungary for some products which this agency is purchasing in large quantities on the blackmarket.

The Hungarian Chamber of Commerce's letter of 2/5/75, a copy of which is enclosed, stated: "Hungarian enterprises, just like EMO, are acting as individual economic units, under one-man responsibility of the general managers. Thus, neither the authorities, nor other institutions—in the present case the Hungarian Chamber of Commerce—are entitled to have a say in the matters of the enterprises."

After this failure we still hoped to restore the situation because we had a couple of other test case export license applications from two other Hungarian import agencies pending in the OEA and the OEA could not see any reason for denying those applications either.

Unfortunately, the situation changed. The Hungarian organizations, enthusiastic to do business with us, suddenly withdrew using strange excuses (allegedly on instruction from high ranking government people). Also, the processing of our other two export license applications suffered a year delay and rejection in spite of that the removal from controls of the commodities involved was already approved but not published.

The U.S. government documents related to the processing of these two export license applications, which we have obtained under the Freedom of Information Act, showed that there was no justification at all for the delay and denial, and the delay and denial were caused by one of the advisers using his power which he enjoyed as the result of the unanimity rule. It looks that the other officers involved either lacked the technical knowledge to judge the situation or had no reason to oppose the wish of a colleague. The documents also showed that the U.S. government employees allegedly violated several sections of the Export Administration Act of 1969 during the processing of these applications. Detailed analysis of these cases and related matters are given in Documents 2500 to 2505 which are enclosed.

Finally, when we could deliver the orders, one of the Hungarian import agencies sent the related Letter of Credit promptly, while the other agency refused to take delivery of the order in spite of that the expensive equipment was already especially manufactured for him because the user urged delivery and the OEA could not see initially any problem with the license.

We contacted the Hungarian Embassy in New York for help. The Embassy used incorrect information to prove that the Hungarian import agency did not violate the contract by refusing to take delivery. After we provided the correct information from the related documents, the Embassy would not respond to our repeated requests for a reply.

As the Hungarian Embassy put most of the blame on a misleading letter from the U.S. Embassy in Budapest, which was issued without our knowledge, we contacted the U.S. Embassy in Budapest for assistance and also asked the Embassy to take up the other problems, we had in Hungary, with the Hungarian government. The U.S. Embassy in Budapest acknowledged our letter and sent it to the State Department for advice. Since that time we cannot obtain any further response from the Embassy.

When Mr. Tibor Antalpete, Director of the Hungarian Ministry of Foreign Trade, visited the United States we took the matter up with him. In his reply of December 8, 1977, which is enclosed, Mr. Antalpete ignored the critical issues and repeated again the same strange excuses the FTOs used earlier, which were supported by incorrect and incomplete data. Mr. Antalpete also emphasized that the foreign trading companies enjoy independence to a great extent in Hungary, therefore, the Ministry of Foreign Trade is not in the position to influence an importing company.

In response, in our letter of December 30, 1977, we supplied Mr. Antalpete the documented correct information but we are unable to obtain any further communication from Mr. Antalpete. In the meantime we had a discussion with the commercial secretary of the Hungarian Embassy who, after inspecting the related documents, agreed that our statements were correct, but we have heard no further news.

From the above it should be clear that the proposed "good offices of the two governments", without specifying correctly the rights and responsibilities of the parties, would not be more effective than the League of Nations was.

4. "We do not support Mr. Kerenyi's proposal that each Hungarian government-owned importing company be required on request to afford an opportunity for any U.S. company to bid for supplying all the importing company's needs in specific fields, and to give reasons if the bid is rejected. We would not be willing to accept an arrangement which would impose a similar requirement on U.S. companies. On the other hand, were we to insist on a unilateral requirement with respect to Hungarian enterprises, this could be considered discrimination against Hungary in comparison with other countries to which we extend most-favored-nation treatment without imposing such a requirement.

*Comment:* Here Mr. Godley is perfectly right, the text of my letter of March 7, 1978, related to this section, is not more specific than the text of the trade agreement itself. Under "all the importing company's needs" I meant "all the importing company's needs within East-West trade". Naturally, we can only be concerned with East-West trade and cannot interfere with the Hungarians' trade within the Soviet bloc and with third world countries. On the other hand, in connection with the Western industrialized nations (within which many of the products embody technology developed in the United States and there is a joint COCOM export control policy) we can expect the Hungarian government's cooperation (in exchange of the MNF and, especially, when such a cooperation results in cheaper and better imported products for Hungary) in ensuring that we do not suffer a decrease in domestic employment and a negative movement in our balance of payment (which would occur if the increased income from the sale of Hungarian products in the United States would be spent in Western Europe) as a result of the extension of the MNF status to Hungary. This situation would especially be embarrassing if the Hungarians would spend the money they earned in the United States on products made in Western Europe with American technology and would pay higher prices for them than the same American made products would cost.

Therefore, it is justified to require the Hungarian government to instruct their government run foreign trade companies to observe specific rules in their trading with respect to American firms. Also a similar requirement from the American firms can also be required.

Hence, the amendment to the U.S.-Hungarian Trade Agreement should state that:

(a)(1) Any Hungarian supplier may request any American company to place its name on any of the American company's specific Eastern bloc supplier bidder's list related to specific types of products and services.

(2) If an American company intends to seek or to consider a bid from any supplier, who is based within the Eastern bloc,<sup>2</sup> for supplying specific products or services the American company must also invite all those Hungarian suppliers, whose names appear on its specific bidder's lists related to the same products and services and must not provide a less favorable treatment in bidding to any Hungarian bidder than that which it gives to any other bidder, who is based within the Eastern bloc.

(3) Also, the American company, on request from a Hungarian bidder, must supply a sufficient reason to that bidder for not being selected if any supplier, who is based within the Eastern bloc, is awarded the contract.

(b)(1) Any American supplier may request any Hungarian company to place its name on any of the Hungarian company's specific Western industrialized nations supplier bidder's list related to specific types of products and services.

(2) If a Hungarian company intends to seek or to consider a bid from any supplier, who is based within the Western industrialized nations,<sup>3</sup> for supplying specific products or services the Hungarian company must also invite all those American suppliers, whose names appear on its specific bidder's lists related to the same products and services, to bid for supplying the same products and services and must not provide a less favorable treatment in bidding to any American bidder than that which it gives to any other bidder, who is based within the Western industrialized nations.

(3) Also, the Hungarian company, on request from an American bidder, must supply a sufficient reason to that bidder for not being selected if any supplier, who is based within the Western industrialized nation, is awarded the contract.

I believe, the above provisions would not place any unreasonable requirement on either the American or the Hungarian companies and, therefore, they should be acceptable to all parties.

The U.S.-Hungarian trade agreement should also be used to require our new most favored Hungarian trading partner to assist us in combating the blackmarket.

<sup>1</sup> Eastern bloc includes the USSR and the Eastern European countries.

<sup>2</sup> Western industrialized nations include: U.S.A., Canada, Japan and all European countries outside the Eastern bloc.

Hence, the agreement should state that any Hungarian foreign trade organization caught in being engaged in a specific blackmarket deal would be denied of ex-*im* bank credit for a specific period of time.

Mr. Godley's reasoning for not specifying the way in which certain trading should be carried out to safeguard the interest of the United States and Hungary against unscrupulous traders because it was not done in previous similar trade agreements is rather unusual, i.e.: if a mistake is made in one case, the same mistake must be repeated in all future cases.

5. "The United States is working with other members of the GATT, including Hungary, in the multilateral trade negotiations to draw up a new international government procurement code, which would meet the basic objectives of Mr. Kerenyi on a multilateral basis. We believe that it is better to pursue these objectives on a multilateral basis rather than on a country-by-country basis."

*Comment:* In this section Mr. Godley, apparently, admits that there is a need for the type of safeguard I am proposing to be included in the trade agreement but, instead, he suggests that the new international government procurement code being negotiated at present would meet the basic objective of my proposal on a multinational basis. Unfortunately, Mr. Godley does not mention it that the Hungarians consider their foreign trade organizations as independent companies as it can be seen from the enclosed letters of the Hungarian Chamber of Commerce and the Director General of the Hungarian Ministry of Foreign Trade, hence the Hungarian side is not likely to accept that this procurement code would apply to their foreign trade companies. Also, our Western European allies would not support my proposal because its purpose is to shift the business from the Western European suppliers to the American companies.

6. "We have been advised by the Department of Commerce that they perceive problems with Mr. Kerenyi's proposal for a special type of multi-transaction export license. The small segment of the total U.S. industrial output requiring individual approval by the Department of Commerce for export to Communist destinations is composed largely of high-technology commodities having both strategic and peaceful uses. Mr. Kerenyi's proposal, while commendable in its intent, would require a very elaborate control mechanism over a very small range of commodities and is of questionable value in assuring, to the extent practicable, that such dual-use goods proposed for export to Hungary are intended for a peaceful use by a peaceful end-user. The list of multilateral and unilateral commodities under Commerce's control is currently under review. Undoubtedly, certain commodities at the lower end of the strategic spectrum will eventually be removed from control. In addition, the Department of Commerce is considering means of publishing information that will assist potential exporters in assessing the likelihood of their being able to obtain validated licenses for Communist countries. The Department of Commerce believes that these two steps should alleviate the export control problems addressed in the enclosure to Mr. Kerenyi's letter.

*Comment:* I do not recognize my proposal from Mr. Godley's comment. I have not yet seen any comment on my export control related proposal from any Executive Branch personnel which dealt with my actual proposal. Their comments always reject something which is not in my proposal at all.

My proposal for an improvement in the processing of U.S. validated export licenses is rather simple, it separates the export of controlled commodities into two categories. Category I includes those few cases in which the technology or quantities involved may have a significant effect on our national security and foreign policy and their end-use can be observed, therefore, their individual post-order consideration of the related validated export license applications is necessary and justified. The rest of the export of controlled commodities, which consists of the various individual exports of insignificant quantities of controlled products (that do not include the latest significant technology) whose end-use cannot be observed under the present secretiveness of the foreign purchasers, belongs to Category II.

This separation of the export of controlled commodities into two categories and an improvement in the handling of the validated export license applications related to the export orders for products within Category II seems to be possible and necessary because:

(a) the delay and uncertainty in the delivery of many U.S. export orders for controlled commodities, resulting from the same in obtaining the related U.S. validated export licenses, allegedly, forces the foreign purchasers to be secretive in order to hide their blackmarket purchases necessitated by the above problems;

(b) the uncertainty and delay in obtaining the validated export licenses, allegedly, result from the often impossible task of judging many different applications of high technical complexity by an Operating Committee;

(c) according to the U.S. Department of Commerce over 90% of the validated export license applications to communist destinations are approved (the apparent reason for this high percentage is that the purchasers in the communist countries do not give an order to a U.S. supplier if they expect any difficulty with the processing of the related validated export license), in spite of that, in most of the cases, the end-use cannot be taken into consideration due to the lack of our capability to observe the licensed end-use after the delivery of the commodities, therefore, some of the rules used for approving these applications could be provided to the exporters in some form;

(d) if the end-use cannot be considered then there is no justification for the requirement of the individual post-order processing of the export license applications;

(e) the requirement for a U.S. exporter for spending a lot of money on marketing its products abroad before their exportability can be established (because the OEA can only make a final licensing decision if the quantity, value, end-use, end-user and purchaser in connection with a proposed export have been finalized and the OEA has put the application through all the various stages of the processing of an export license) and the uncertainty during the often long delay before a foreign purchaser can learn whether an American supplier can deliver his often urgent requirement usually discourage the U.S. manufacturers from marketing in communist countries and compel the communist country purchasers to obtain all their requirement in controlled and non-controlled commodities from those suppliers who deliver everything without mentioning the export license requirement;

(f) there is no reason why the Commodity Control List (CCL) could not list the commodities in term of their published specifications (so everyone looking at the specifications could identify the controlled commodities) and the exportability status in term of the type of end-user and end-uses (we have worked out a simple method for this);

(g) the technical experts of the various sections of the industry are the most qualified to prepare the draft of the related CCLs in term of the end-use and end-user categories within the guidelines of the Export Administration and to submit them to the OEA for approval, hence after approval every exporter or purchaser would know, without delay and uncertainty, what commodity could be exported for a specific end-use;

(h) it should entice many end-users in the communist countries to submit to a voluntary system of periodic end-use verification if those taking part in this voluntary system would be classified into more advantageous end-user categories according to their type of work, etc. and, therefore, would be able to purchase commodities with higher technical complexity from the United States than those not in the system, and the classification and periodic verification could be done by the commercial staff of the U.S. Embassies which would also bring the Embassy staff in frequent and direct contact with the end-users without placing a heavy burden of excessive work on them.

This improvement in our export control system would, very likely, cause a large increase in our export, would decrease the blackmarket activities, which is a major problem for our national security, and would enhance our foreign policy by producing a closer relationship with the foreign end-users. On the other hand, this system would require less paper shuffling in Washington, which could be the reason for the paper shufflers' opposition to this improvement (the need for the present excessive paper shuffling has been created by the paper shufflers themselves), and would cause a loss of income for those having financial interest in the blackmarket operation, hence they might already be lobbying against such an improvement in both the United States and in the communist countries.

I sincerely hope that the content of this letter and its enclosure will convince you and your Senate Finance Committee members that there is a need for amending the U.S.-Hungarian trade agreement as recommended herein.

Sincerely,

IMRE KERENYI, *President.*

Enclosure.

DEPARTMENT OF THE TREASURY,  
 ASSISTANT SECRETARY,  
 Washington, D.C., April 17, 1978.

Hon. H. JOHN HEINZ III,  
 U.S. Senate,  
 Washington, D.C.

DEAR SENATOR HEINZ: Thank you for your communication dated April 4, with which you forwarded a letter from Mr. Imre Kerenyi advocating that the extension by the United States of most-favored-nation treatment to Hungary be conditioned on a requirement that each Hungarian government-owned importing company afford on request an opportunity for any U.S. company to bid; if the U.S. company's bid were rejected, the Hungarian company could be required to provide the reason. Mr. Kerenyi also proposed various changes in the export-licensing procedures of the Department of Commerce, including the introduction of a special type of multi-transaction U.S. export license.

We share Mr. Kerenyi's desire to ensure nondiscriminatory treatment for U.S. firms doing business with Hungary. However, we believe that the trade agreement negotiated by the United States meets this need, making unnecessary the additional requirement which Mr. Kerenyi proposes.

The trade agreement as it now stands contains provisions designed to secure nondiscriminatory treatment for American firms. Article I of the agreement provides for nondiscriminatory trade, stipulating that the United States and Hungary shall apply between themselves the applicable provisions of the General Agreement on Tariffs and Trade (GATT), to the extent that it is consistent with the U.S.-Hungarian trade agreement. The GATT contains requirements for nondiscriminatory treatment on the part of state-trading enterprises in dealing with private traders, including requirements that purchases or sales be made solely in accordance with commercial considerations, and that such traders be afforded adequate opportunity, in accordance with customary business practice, to compete for participation in such purchases or sales.

These provisions of the GATT are re-enforced in the U.S.-Hungarian trade agreement, which states that enterprises of each country may initiate and maintain contact with present and potential buyers, users, and suppliers, and that contracts will generally be concluded on the basis of commercial considerations on terms customary in international commercial practice.

The U.S.-Hungarian trade agreement also stipulates that the two governments will provide their good offices to assist in the solution of business facilitation problems. For this purpose, appropriate organizations within each government will be designated, to which enterprises of the other party will have ready access in order to present business facilitation problems, in case where all normal channels have been exhausted. Also, of course, if an American businessman feels that he is being discriminated against, he can appeal to U.S. Government officials in the United States of, in Hungary, to the American Embassy.

We do not support Mr. Kerenyi's proposal that each Hungarian government-owned importing company be required on request to afford an opportunity for any U.S. company to bid for supplying all the importing company's needs in specific fields, and to give reasons if the bid is rejected. We would not be willing to accept an arrangement which would impose a similar requirement on U.S. companies. On the other hand, were we to insist on a unilateral requirement with respect to Hungarian enterprises, this could be considered discrimination against Hungary in comparison with other countries to which we extend most-favored-nation treatment without imposing such a requirement.

The United States is working with other members of the GATT, including Hungary, in the multilateral trade negotiations to draw up a new international government procurement code, which would meet the basic objectives of Mr. Kerenyi on a multilateral basis. We believe that it is better to pursue these objectives on a multilateral basis rather than on a country-by-country basis.

We have been advised by the Department of Commerce that they perceive problems with Mr. Kerenyi's proposal for a special type of multi-transaction export license. The small segment of the total U.S. industrial output requiring individual approval by the Department of Commerce for export to Communist destinations is composed largely of high-technology commodities having both strategic and peaceful uses. Mr. Kerenyi's proposal, while commendable in its intent, would require a very elaborate control mechanism over a very small range of commodities and is of questionable value in assuring, to the extent practicable, that such dual-use goods proposed for export to Hungary are intended for a peaceful use by a peaceful end-user. The list of multilateral and unilateral commodities under Commerce's control

is currently under review. Undoubtedly, certain commodities at the lower end of the strategic spectrum will eventually be removed from control. In addition, the Department of Commerce is considering means of publishing information that will assist potential exporters in assessing the likelihood of their being able to obtain validated licenses for Communist countries. The Department of Commerce believes that these two steps should alleviate the export control problems addressed in the enclosure to Mr. Kerenyi's letter.

I hope that this information will be helpful. If you believe that I can be of further assistance, please let me know.

Sincerely,

GENE E. GODLEY,  
*Assistant Secretary (Legislative Affairs).*

NATIONAL FOREIGN TRADE COUNCIL, INC.,  
*New York, N.Y., May 1, 1978.*

Hon. RUSSELL B. LONG,  
*Chairman, Committee on Finance,  
U.S. Senate, Washington, D.C.*

DEAR MR. CHAIRMAN: The National Foreign Trade Council welcomes the conclusion of an Agreement on Trade Relations between the United States of America and the Hungarian People's Republic. It regards the signature of such Agreement on March 17, 1978, as a significant step toward normalization of commercial relations between the two countries.

With this Agreement U.S. companies can look for increased trade opportunities as their products exported to Hungary will no longer be subject to the discriminatory tariffs that have long impeded American participation in that market. Such lower tariffs will permit U.S. firms to compete on equal terms with other Western nations' firms.

The Council, therefore, urges approval by concurrent resolution of the Congress of the extension of non-discriminatory (MFN) treatment to the products of the Hungarian People's Republic, in accordance with Section 405 (c) and the procedures set forth in Section 151 of the Trade Act of 1974.

As you know, the membership of the National Foreign Trade Council, which was founded in 1914, comprises a broad cross section of U.S. companies engaged in all major fields of international trade and investment including manufacturers, exporters, importers, bankers, insurance underwriters and companies engaged in sea and air transportation.

It is respectfully requested that this statement of position on behalf of the National Foreign Trade Council be included in the record of the Hearings on S. Con. Res. 76 which are scheduled May 9.

Sincerely yours,

ROBERT M. NORRIS, *President.*

AMERICAN FEDERATION OF LABOR AND  
CONGRESS OF INDUSTRIAL ORGANIZATIONS  
*Washington, D.C., May 16, 1978.*

Hon. ABRAHAM RIBICOFF,  
*Chairman, Subcommittee on International Trade, Committee on Finance, U.S.  
Senate, Washington, D.C.*

DEAR CHAIRMAN RIBICOFF: The AFL-CIO urges the Congress to reject the Hungarian Trade Agreement, S. Con. Res. 76. Hungary, as other Communist countries, does not have an internal or external free market for the purchase and sale of goods. Thus, trade with Hungary is controlled by the Government of Hungary, and is not "free trade." Prices of goods exported to the United States are not free market prices, but are established to meet the goals of a state economy.

Certain U.S. industries have been particularly sensitive to Hungarian exports in the past. These include canned hams, lamps, glass, rubber tires and shoe industries. Many of these industries are already reeling from imports. Additional imports of these products from Hungary would further decimate these industries.

As the following table illustrates, some principal U.S. exports to Hungary are the raw materials or manufacturing equipment from which U.S. imports are now increasing. For example, we export hides and import shoes, glass-making machinery to import glass, etc.



SELECTED U.S. EXPORTS TO HUNGARY—1974 TO 1977<sup>1</sup>

	1974	1975	1976	1977
Parts and accessories for wheel tractors .....	\$608,225	\$2,359,008	\$5,421,880	\$5,711,92
Cattle hides, whole .....	4,213,105	1,432,368	3,485,552	4,349,314
Glass, unworked, in balls, et cetera .....	694,675	663,135	1,331,596	1,490,284
Parts and attachments for agricultural machines .....		334,101	621,368	
Glass-working machines and parts .....			19,900	2,346,827

<sup>1</sup>Data for some individual years not reported in "ITC Annual Reports on Trade between the U.S. and the Nonmarket Economy Countries."

Source: U.S. ITC Report to the Congress and the East-West Foreign Trade Board on Trade Between the U.S. and the Nonmarket Economy Countries—1972 through 1977.

Also, we are concerned that citizens of Hungary are still being denied human rights.

The United States has advocated full implementation by all parties of the human rights provisions of Basket III of the Helsinki Final Act. Basically, these rights include: freer movement of peoples, ideas and information; family unification; freer international travel; greater access to printed, broadcast, and filmed information; improved working conditions for journalists; and increased cultural and educational changes.

The AFL-CIO was shocked and chagrined that the Soviet Union blocked all references to human rights in the final communique issued at the Belgrade Conference. Ambassador Arthur Goldberg observed that if Belgrade had accomplished nothing else, it had exposed the denial of human rights, specifically the denial of freedom of emigration, in the Soviet Union and bloc nations including Hungary.

The 1977 AFL-CIO Convention adopted the following as part of the resolution on international trade: "Trade with Communist countries should be regulated more effectively through improved administration of Title IV of the Trade Act and by additional legislation that recognized the economic and political fact of life that private commercial interests cannot negotiate as effectively with closed and managed economies as governmental negotiators can."

But U.S. workers are not now being protected from additional disruptive imports from Communist countries. Recently, the International Trade Commission refused to protect workers under the Title IV market disruption provisions of the Trade Act in a case involving work gloves imported from Communist China. Although 1,500 American jobs have been lost in work gloves, for example, the ITC could find no reason to prevent further disruption of the U.S. market.

Injury has already occurred in imports from Hungary that specifically affect glassworkers and electrical workers. Increased imports of electrical products, such as lamps, have caused concern about both dumping and other injury to the U.S. producers. Additional information about this industry will be presented by our affiliates. Lamps are produced by American workers in cities and towns as far apart as Newark, New Jersey, Salem, Massachusetts, Cleveland, Ohio, Memphis, Tennessee, and Andover-Warren, Ohio. Towns already hard hit by other imports, such as Youngstown, Ohio and St. Louis, Missouri also have lamp production.

The top twenty imports from Hungary in 1977 show a range of potential injury to these and other workers. Sharp rises in U.S. imports of meat products, machinery, rubber products and pharmaceutical goods have occurred in the past few years.

Changes can occur very rapidly. In 1976, for example, the U.S. imported \$295,000 in women's shoes from Hungary. By 1977 the imports rose five-fold to \$1,685,000. There were virtually no imports of tires and tubes from Hungary in 1975, but in 1977, \$1.5 million worth was imported. It is this type of potential upsurge which can cost jobs and production in America virtually overnight.

In addition to these facts, it is clear that the extension of most-favored-nation treatment to Romania has not brought freedom to minorities in that country. There is no reason to expect that granting most-favored-nation treatment to Hungary will have any different result.

For both human rights and economic reasons, therefore, we urge the Senate to reject S. Con. Res. 76, the treaty granting most-favored-nation treatment to Hungary.

Sincerely,

ANDREW J. BIEMILLER,  
Director, Department of Legislation.

## TOP 20 IMPORTS FROM HUNGARY IN 1977, CHANGES IN IMPORTS 1972-77 \*

Description	1972	1973	1974	1975	1976	1977
Canned hams, shoulders, over 3 lbs.....	\$4,771,687	\$5,137,021	\$7,324,460	\$12,793,227	\$16,510,695	\$18,102,675
Parts of agricultural tractors.....				2,535,978	6,698,749	4,022,610
Other lamps, including households.....	709,378	2,103,734	1,791,598	1,984,162	3,476,294	3,618,829
Opium alkaloids.....						2,496,866
Pork bacon, boned, cooked, and canned.....			55,620	491,640	3,093,483	1,910,789
Paprika, ground or unground.....		97,436	484,007	57,824	578,350	1,066,418
Women's leather footwear, valued over \$2.50 per pair.....					54,525	870,192
Alkaloids and compounds, synthetic.....	1,227,840	58,585	328,691	613,319	679,142	820,064
Automobile tires, new.....				21,890	800,444	815,348
Women's leather footwear, cement soles, valued over \$2.50 per pair.....					241,224	814,468
Natural drugs, advanced.....					1,624,224	804,298
Pneumatic truck and bus tires, new.....					1,066,248	716,902
New agricultural tractors.....					267,660	440,814
3-way lamps, 150 W and under <sup>1</sup> .....				2,231,627	333,475	427,332
Glassware, valued at 30 cents to \$1 each.....	188,711	292,695	438,361	598,676	505,620	422,649
Articles, of unspun fibrous vegetable materials.....			22,076	143,436	134,141	384,730
Ordinary glass 16-18.5 oz per ft <sup>2</sup> not over 40 unit-ed inches.....	352,792	597,111	697,742	663,293	380,122	380,931
Cigarette leaf, not stemmed, not over 8.5 in.....					13,718	380,538
Wine, over 14 pct alcohol, valued over \$4 per gal, containers not over 1 gal.....	364,664	394,047	477,263	174,752	375,598	341,463
Inflatable articles.....		115,788	223,938	272,886	451,162	318,547
Total U.S. imports from Hungary.....		15,967,554	74,063,430	34,966,080	47,559,002	46,800,088

<sup>1</sup> Prior to Jan. 1, 1976, this item was in a more comprehensive classification under the now deleted No. 686.9000.

<sup>2</sup> Data for some individual years not reported in ITC Annual Reports on Trade between the U.S. and the Nonmarket Economy Countries.

Source: U.S. International Trade Commission Report to the Congress and the East-West Foreign Trade Board on Trade Between the United States and the Nonmarket Economy Countries 1972-77.

## STATEMENT OF THE LAMP SECTION OF THE NATIONAL ELECTRICAL MANUFACTURERS ASSOCIATION

The National Electrical manufacturers Association, on behalf of a majority of the members of its Lamp Section, presents this statement in reference to the Agreement on Trade Relations between the United States of America and the People's Republic of Hungary. The Lamp Section is broadly representative of the electric lamp manufacturing industry in the United States. A list of the members of the Lamp Section is attached hereto. The General Electric Company, while not necessarily disagreeing with the views expressed herein, has not joined in the filing of this statement.

As we believe the record will indicate, the National Electrical Manufacturers Association has traditionally supported U.S. policy directed toward establishing free and fair competition in the international trade of electrical goods. In the overall, we are confident that the objectives of the Agreement on Trade Relations between the United States and Hungary are sound and have been arrived at after very careful consideration.

There is, however, one aspect of the subject Agreement which is of serious concern to many of the members of the U.S. lamp industry as represented in NEMA. Specifically, this concerns the granting of Most Favored Nation status to Hungary as it relates to the very substantial reduction in duties on lamps, particularly those of the household incandescent type imported from that Country to the United States. Under Most Favored Nation status, the existing tariff on these lamps would be reduced from 20 percent to 4 percent.

These lamp industry concerns are heightened by the fact that even under the present duty structure applicable to imports of these lamps from Hungary, imports of the household type have increased dramatically over the past few years as indicated below:

Year	Units in millions	Average value per lamp for duty purposes (cents)
1972.....	10.2	5.5
1973.....	30.7	5.5
1974.....	26.2	5.8
1975.....	33.5	6.7
1976.....	57.3	6.1
1977.....	53.1	7.5

We submit that under the stimulus of a reduction in duty from 20 to 4 percent, the volume of these imports can logically be expected to increase even more dramatically.

Further, as can be noted from the above data, the average value per lamp declared for duty purposes on these Hungarian imports is only 7½ cents in 1977—a figure which we understand to be far below the cost of manufacture for comparable U.S. manufactured products even using the highly sophisticated technology available to American industry. While it is recognized that it is beyond the purview of hearings on the subject of ratification of the subject Agreement, we have been informed that there is evidence that the value per lamp at which these lamps from Hungary are entering and being sold in the United States is far below the prices at which they are being offered for sale in Hungary and other European countries.

We feel that it is obvious that a growth in imports of incandescent lamps from Hungary, particularly at prices indicated by the declared values per lamp, can only have a serious impact on the U.S. lamp industry and the resultant loss of employment to American workers in that industry as well as further curtailment of plant expansion and its resultant capital expenditures. In fact, one U.S. manufacturer has estimated that imports of 50,000,000 lamps per year deprives workers in the U.S. lamp industry of over 200 jobs.

It is not the objective of this statement to oppose ratification of the Trade Agreement between the United States and the Hungarian People's Republic. It is simply to urge as strongly as possible that in the ratification process some means be found to deal with the negative effects on the United States lamp manufacturing industry and the workers in that industry, particularly in the face of what already appears to be unfair competition from these products imported from that country.

It is our understanding that the ratification process does not provide for the development of amendments to the Agreement as signed by the representatives of the United States and the Hungarian People's Republic. However, in view of the deep concerns expressed by members of the lamp manufacturing industry in the United States, it is respectfully recommended that before signifying its approval of this Agreement that the Congress request the Office of the President's Special Trade Representative to conduct appropriate discussions with representatives of the Hungarian People's Republic directed toward a solution to these expressed concerns.

We recognize that the Agreement as written attempts to provide for Market Disruption Safeguards. However, we believe that in view of the rapid growth and unrealistic value per lamp for import purposes shown in the foregoing, it is highly prudent to take action at this stage to protect U.S. interests, rather than to incur further injury by the delays inherent in seeking relief through the application of the safeguard procedures contained in the Agreement.

#### MEMBER COMPANIES—LAMP SECTION

Canrad Hanovia, Inc., 100 Chestnut Street, Newark, N.J. 07105.

Chicago Miniature Lamp Works, 4433 N. Ravenswood, Chicago, Ill. 60640.

Duro-Test Corp., 2321 Kennedy Blvd., North Bergen, N.J. 07047.  
 General Electric Co., Nela Park, Cleveland, Ohio 44112.  
 GTE Sylvania, Inc., 100 Endicott Street, Danvers, Mass. 01923.  
 North American Philips Lighting Corp., Bank Street, Hightstown, N.J. 08520.  
 Solar Electric Division, Dutch Boy, Inc., P.O. Box 988, Warren, Pa. 16365.  
 Wagner Electric Corp., Lighting Division, 100 Misty Lane, Parsippany, N.J. 07054.  
 Westinghouse Electric Corp., 1 Westinghouse Plaza, Bloomfield, N.J. 07003.

#### STATEMENT OF THE NATIONAL FOREIGN TRADE COUNCIL, INC.

The National Foreign Trade Council, whose membership comprises a broad cross section of U.S. companies with highly diversified interests engaged in all aspects of the conduct of international trade and investment, is pleased to herewith submit for incorporation in the record its written testimony with respect to proposals to amend the provisions of Section 911 of the Internal Revenue Code.

Our documentation reemphasizes our concerns about the negative economic impact of changes which would fail to keep employees of U.S. companies stationed abroad on a parity or "whole" basis with their counterpart employees in the United States.

We commend your committee for its apparent recognition that there are clear economic impacts and considerations which must be fully taken into account, analyzed and appraised in terms of the current and future competitive capability of U.S. business in the foreign marketplace, and to preserve for overseas employees parity in their income tax treatment with that afforded to counterpart employees in the United States.

We strongly endorse the Senate Finance Committee proposal to extend to January 1, 1979 the application of any fully developed changes to Section 911 of the Internal Revenue code.

We reemphasize in highlight form the economic aspects of this matter as follows:

The cost to individuals or their employers for overseas duty under the Tax Reform Act of 1976 will lead to a decrease in varying degrees or even eliminate use of their services and experience, which is necessary for efficient operation of U.S. business abroad.

The United States is the only industrialized country which subjects its citizens who are resident in foreign countries to international income taxation. Thus, the added tax burden resulting from the Tax Reform Act of 1976 further impairs the competitive position of U.S. business in foreign markets.

Ultimately, the added costs will have a severe adverse effect on U.S. exports, the U.S. balance of payments, and U.S. employment both directly and indirectly.

American companies operating outside the U.S. maintain a compensation policy for their American employees in order to both attract qualified employees for foreign service and to maintain an equitable relationship between employees in the United States and U.S. employees assigned overseas, thereby preventing any employee from gaining an economic benefit or suffering an economic hardship overseas.

American companies, by reason of the differing requirements of their particular operations, provide differing benefits in both amount and type. Varying conditions in different countries abroad, such as hardship conditions, local laws and social customs will also necessitate different reimbursement policies designed merely to keep the employee whole.

In the light of the foregoing, we comment upon the proposed Senate Finance Committee amendments to H.R. 9251 as follows:

There is much to commend the approach offered by the Senate Finance Committee proposed amendment, but before dealing with these provisions we recommend strongly that Section 911 of the Internal Revenue Code provide for an election for the taxpayer either to exclude "off the top" and amount from income subject to U.S. tax or to deduct from his income subject to U.S. tax various excess expenses incurred over those experienced by his counterpart in the United States. As this committee knows, before the Tax Reform Act of 1976 the exclusion allowable to the taxpayer was \$20,000 per year and \$25,000 after three years for such employees who qualify as a bona fide overseas resident. In the Tax Reform Act of 1976 the exclusion was reduced to \$15,000. We urge very strongly that the amount of such exclusion be thoroughly reconsidered since in fact the \$20,000 exclusion was provided for in 1963 and we do not think anyone would disagree that since that time we have been under steady inflationary pressures. Thus, the amount of that exclusion has been seriously eroded. Accordingly, we find it difficult to reconcile the arbitrary reduction from \$20,000 to \$15,000.

With respect to our recommendation that an election be given to the taxpayer to deduct various excess expenses, we favor the approach in the Senate Finance Committee amendment to the House bill. With respect to housing allowances, we support a deduction for housing expenses for reasonable accommodations to the extent that it is in excess of a typical housing expense for a domestic counterpart. We believe that this should be very carefully studied so as to result in an allowance for excess housing expense which would be fair to the taxpayer, which would keep him whole and which would avoid any criticism of granting the taxpayer a windfall.

With regard to a deduction for education allowance for children, we also support the approach being taken under the Senate Finance Committee amendment. In so doing, it must be recognized that in many instances an education allowance must go beyond the cost of local schooling since adequate local schooling is not always available. In addition to the school expense allowance, provision should be made for reasonable transportation expenses, including a reasonable number of visits by the child to be reunited with the parents.

We support the approach taken toward a deduction for cost-of-living expense as provided for in the Senate Finance Committee amendment.

It should be clear under Section 911 that moving expenses include travel to and from the overseas location, particularly living expenses for sixty days following arrival at a foreign post to allow location of permanent housing accommodations and delivery of household shipment be allowed.

We advocate that Section 911 of the Internal Revenue Code provide a deduction for certain travel expenses, including one roundtrip to the United States per year for home leave; transportation for "R & R" leave from hardship posts; emergency leave for medical care for expatriate and family where reasonable standards of medical care are not available locally, and emergency evacuation in the event of imminent danger to life or serious illness, or injury or death of an immediate family member.

In summary, our main thrust is not to impair our current posture in the world marketplace and our future competitive capability in the conduct of international trade and investment. In this we must continue to utilize the technical and management skills of U.S. employees overseas and if we are to succeed in this objective, we must keep them whole and maintain their parity status with counterpart employees in the United States. In no way do we advocate that the provisions under Section 911 of the Internal Revenue Code provide windfalls for U.S. employees serving overseas.

We wish to assure this committee of our desire to cooperate in whatever way we can in the task of developing and finalizing changes in Section 911 of the Internal Revenue code. We would respectfully ask also that we be given the opportunity to further document our position as it may be deemed appropriate.

STATEMENT OF JACOB BIRNBAUM, NATIONAL DIRECTOR, CENTER FOR RUSSIAN AND  
EAST EUROPEAN JEWRY

MOST FAVORED NATION (MFN) TRADING STATUS FOR HUNGARY

Mr. Chairman and Members of the Committee. We wish to record our full support for the waiver of section 402 of the 1974 Trade Act in relation to Hungary. We note with satisfaction the contents of the letters exchanged between Hungarian Foreign Minister Puja and American Ambassador Kaiser (March 15, 1978). We welcome the emphasis on the "full implementation of the Helsinki Final Act" and "concerning cases of emigration" the undertaking "to act in accordance with the letter and spirit" of the Act and to "deal with them promptly, constructively and with good will."

Rarely do the fine words of diplomats match the reality but our experience of Hungarian performance gives promise of doing so, in terms of the relatively greater personal freedom enjoyed by Hungarian citizens, the absence of marked cultural, economic and social strains among minorities and the lack of strong undercurrents towards emigration among intellectuals, Jews and factory workers. By contrast, our experience of Romania is not encouraging; our mails and phones are burdened with the complaints of relatives and friends of Romanian citizens desiring to emigrate. We do not hear from Hungarian citizens.

A word about emigration to Israel. Unlike the majority of the Romanian Jewish community, Hungarian Jews seem largely satisfied at present to remain under the comparatively liberal communist regime. It should be added that in the past Hungarian Jews have been noted for their patriotic attachment to Hungary. Nevertheless, we have reason to believe that there are some impediments in the way of those

who do wish to migrate to Israel. The principle of section 402 certainly covers Israel as well as the United States to whom Administration and Congress tend very understandably to devote their major attention.

We look forward to the development of ever closer relations of all kinds—cultural, economic and particularly tourist—between the peoples of the United States and of Hungary and indeed of all East Europe, including Romania.