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TRIP REPORT ON CONGRESSIONAL DELEGATION BENTSEN

(Visit to the Union of Soviet Socialist Republics, Tuesday, January 16, 1990 through Thursday, January 18, 1990)

Prepared by the Staff for the Use of the

COMMITTEE ON FINANCE
UNITED STATES SENATE

LLOYD BENTSEN, *Chairman*

MARCH 1990

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LETTER OF TRANSMITTAL

March 2, 1990.

Committee on Finance,
U.S. Senate,
Washington, DC.

To the Members of the Senate Committee on Finance:

In December 1989, I received an invitation to visit the Soviet Union from their Soviet Minister of Foreign Economic Relations, Konstantin Katushev. You may remember that Minister Katushev visited with the Senate Finance Committee when he was in the United States in the fall of 1989. It was a pleasure to return his visit between January 16-18, 1990. The following report sets out the substantive matters that were taken up during the visit. As we proceed this year toward consideration of a possible U.S.-Soviet trade agreement, I hope this report will be helpful to you.

Sincerely,

LLOYD BENTSEN,
Chairman.

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TRIP REPORT ON CONGRESSIONAL DELEGATION BENTSEN

I. INTRODUCTION

On December 5, 1989, a White House press release from the Malta Summit announced that the United States had offered to enter into negotiation of a trade agreement with the Soviet Union. A few days later, the Soviet Minister of Foreign Economic Relations, Konstantin Katushev, sent the following letter to Senator Lloyd Bentsen, Chairman of the Senate Committee on Finance:

> DEAR SENATOR:
>
> With my great pleasure I recall our meeting in the U.S. Senate during the eleventh session of the Joint U.S.-U.S.S.R. Commercial Commission in November 1989. The conversation gave us an opportunity to better understand the positions of each side concerning the development of Soviet-American trade. We hope that taking into account the implus [sic] given to the bilateral relations during the Malta Summit it will be possible to overcome by mutual efforts the impediments existing in the way of our bilateral trade and economic relations. Evidentially [sic] the U.S. Congress could play a key role in this process.
>
> Hereby I have a pleasure to confirm the invitation for you to visit the Soviet Union beginning January 16, 1990. I believe the meetings in Moscow will help you to get a better understanding of the changes going on in the political and socio-economic spheres in our country as well as to continue our discussions on the improvement of the conditions of the Soviet-American trade.
>
> Sincerely,
>
> KONSTANTIN F. KATUSHEV,
> *Minister of Foreign Economic Relations of the U.S.S.R.*

Between January 16–18, 1990, Senator Bentsen, who is an official advisor on trade policy and trade negotiations pursuant to section 1632 of the Omnibus Trade and Competitive Act of 1988, travelled to Moscow, Union of the Soviet Socialist Republics, to discuss trade between the two countries.

Travelling with Senator Bentsen were Jeffrey M. Lang, Chief International Trade Counsel of the Committee, and Air Force Major Steve Goldfein. Mrs. Bentsen also accompanied the Senator for protocol purposes. Her commercial travel was paid for by Senator Bentsen.

II. BACKGROUND ON THE TRIP

A. U.S. Laws Relating to Trade with Communist Countries

This visit occurred against a backdrop of laws of the United States relating specifically to opening trade relations with Communist countries. These laws are as follows:

(1) *Tariff treatment of Soviet products.*—The main purpose of a trade agreement between the United States and the Soviet Union would be to give the Soviet Union "most-favored-nation" (MFN) treatment.

Under current U.S. law, two principal rates of customs duties are in effect, "column 1" and "column 2." Column 1 rates of duty, which are the rates referred to as MFN treatment, are almost entirely the ones Presidents have proclaimed under 55 years of delegations from the Congress to reduce U.S. customs duties in reciprocal trade negotiations. They were, at the time of this trip, much lower than column 2 rates.

In 1951, the United States revoked MFN for the Soviet Union, and rates of duty on Soviet products reverted to the rates enacted in the Smoot Hawley Tariff Act of 1930. These are the column 2 rates, which today continue to apply to the "non-market economy" (NME) countries that have not qualified for MFN treatment under the Trade Act of 1974, including the Soviet Union.

(2) *Conditions and entry into force of a general trade agreement with the Soviet Union.*—Under the Trade Act of 1974, the President can only proclaim MFN treatment for NME countries if these countries satisfy the Jackson-Vanik amendment, or the President temporarily waives the amendment. In either of those events, the President can proclaim MFN rates of duty for the Soviets if and only if the NME country enters into a trade agreement with the United States, the terms of which are prescribed by U.S. law. In other words, until the Jackson-Vanik amendment is satisfied or waived, the President cannot enter into a trade agreement; and the trade agreement is a prerequisite to MFN for NME countries such as the Soviet Union. (In deciding to give an NME country MFN, the President must also find that to do so will promote more open world trade and is "in the national interest.")

(a) *Congressional approval.*—Under Title IV of the Trade Act of 1974, new trade agreements with NME countries can take effect only if "approved by the Congress by the adoption of a" resolution of approval within 60 days after the agreement is submitted to the Congress (the resolution is considered under special expedited legislative procedures).

(b) *The Jackson-Vanik amendment.*—The Jackson-Vanik amendment, section 402 of the Trade Act of 1974, bars MFN treatment for a country that either denies its citizens the right to emigrate or imposes more than a nominal tax on emigration. If the President determines that an NME country that does not receive MFN should receive it, then he first has to find and certify to Congress that the country is not violating these two proscriptions, or at least that he should waive Jackson-Vanik. There are two statutory bases of a waiver, which are that the waiver will "substantially promote" the objective of free emigration and that the President has received assurances that "emigration practices of that country will lead substantially" to free emigration. The first time the President makes a waiver, it lasts for 18 months; thereafter, it must be renewed annually or the country in question loses MFN.

Poland and Yugoslavia received MFN treatment outside this procedure before 1974 (President Carter revoked the treatment for Poland in 1980 under emergency powers, but it was restored by President Reagan). After the enactment of the 1974 Trade Act, Hungary and China achieved MFN treatment by qualifying under the Jackson-Vanik standard for waivers and still have MFN treatment (in the fall of 1989, Hungary was found to comply fully with Jackson-Vanik, and received MFN without being subject to annual reviews; China was still on a year-to-year waiver basis at the time of this trip); Romania got the treatment and then lost it (in 1988).

(c) *The role of Congress in Jackson-Vanik waivers.*—Under the 1974 Act, Congress has a role in either a decision to certify compliance with Jackson-Vanik or a decision to waive it. Under the 1974 Act, if the President waives the requirements of Jackson-Vanik, but within 90 days either house of Congress adopts a resolution of disapproval of his decision by a simple majority of those present and voting, then MFN is revoked (or is not instituted, as the case may be). The President must report a decision to find a country in compliance with Jackson-Vanik. The President also has the power under the law to revoke MFN, once granted, on his own authority at any time.

Jackson-Vanik also prevents a country participating in U.S. programs granting credits or credit guarantees or investment guarantees. The Stevenson amendment sets a $300 million ceiling on U.S. backed credits to the Soviet Union over a four-year period. Although the Stevenson amendment is not a part of the Jackson-Vanik amendment, it was interpreted by the Ford Administration and later by Soviet officials as being tied to the Jackson-Vanik amendment.

(d) *Recent emigration experience.*—Prominent among people who want to leave the Soviet Union are Jews. It is estimated there are perhaps two to three million Jews in the Soviet Union. About 50,000 were expected to relocate to the United States in 1989, and about 150,000 are expected to apply for refugee or other statuses that would allow them to emigrate in 1990. The Congressional Research Service estimates that 275,000 have left the Soviet Union since 1968; 400,000 more have "shown an interest" in leaving, according to the U.S. Council on Soviet Jewry and the Israeli Embassy.

Other groups who have evidenced interest in leaving the Soviet Union are descendants of German immigrants to Russia (1.9 million in the last census); Soviet Armenians (4.2 million); and Pentecostal Christians (perhaps 200,000). Probably about 70,000 Soviet citizens sought to emigrate to the United States in 1989 (final figures were not available at the time of this trip). Most have been Soviet Jews and Armenians, but many Pentecostals and members of other religious and minority groups also have applied.

(During this visit, Senator Bentsen delivered to the appropriate Soviet officials a letter signed by Congressman Gary Ackerman and many other members of the U.S. Congress urging Soviet President

Mikhail Gorbachev to remove any impediments to the emigration of the Raiz family, who have been denied permission to emigrate for the past 17 years, a particularly egregious case.)

(3) *U.S. law of Soviet membership in the GATT.*—Under section 1106 of the 1988 Trade Act, before any major foreign country accedes to the GATT, the President must determine whether state trading enterprises "account for a significant share of" that country's trade or burden or restrict U.S. trade. If so, then the law provides that the President shall reserve the right of the United States to withhold extension of the application of the GATT between the United States and such major foreign country, and the GATT can only apply if the country, essentially, agrees to abide by Article XVII of the GATT, that is:

(i) agree that the state trading enterprises will make purchases which are not for the use of the foreign government and make sales in international trade in accordance with commercial considerations (including price, quality, availability, marketability and transportation), and

(ii) afford United States business firms adequate opportunity, in accordance with customary practice, to compete for participation in such purchases or sales.

In the alternative, the President may submit a bill to approve the extension of the GATT to such a country. Such a bill has to be treated under special expedited procedures.

(a) *The Soviet request to join the GATT.*—In August 1988, the Soviet Union submitted a formal, written request to GATT Secretary-General Arthur Dunkel to participate in the Uruguay Round of multilateral trade negotiations as observers. The U.S. Government formally opposed this request. This position has been reaffirmed since then. Soviet diplomats and government officials have continued to raise the issue informally in a variety of international fora and the Soviet Union has indicated that by 1991, it plans to apply for full accession as a market economy. Clearly, the Soviet Government has assigned a high priority to obtaining GATT membership.

B. Soviet Regulation of International Trade

Shortly after the 1917 Revolution, the Soviet Government proclaimed:

> All foreign trade is nationalized. Trade transactions for the purchase or sale of any product [of the extracting and processing industry, of agriculture, etc.] with foreign state or individual trading enterprises abroad shall be carried out in the name of the Russian Republic by specially authorized agencies. Apart from these agencies, all trade transactions with foreign countries for import or export are prohibited.

To the extent the Soviet Government controls trade, obtaining MFN from the Soviet Union would not be as major a concession as the United States granting MFN because opportunities to export to the Soviet Union would still depend on internal, government controlled plans and actions above and beyond customs formalities. However, at the time of this trip, there was a debate in the Soviet

Union about whether and to what extent to liberalize the Soviet economy, which could reduce these government controls on trade and possibly increase market access.

On November 19, 1989, Mr. Leonid Abalkin, the deputy prime minister in charge of economic reform, speaking with Mr. Gorbachev's blessing, devastatingly criticized the reform effort up to then, and proposed for the first time a coherent effort that would include denationalization of all property; an all-out drive to create a market system including at its heart a financial market; and creating a labor market. Mr. Abalkin said,

> We have become convinced on the basis of our own experience that there is no worthy alternative to the market mechanism as the method of coordinating the activities and interests of economic subjects. It is also the most democratic form of regulating economic activity.

The competing point of view seemed to have been presented in December 1989 by Soviet Prime Minister Ryzhkov. This plan stresses central planning over the next five-year plan in traditional fashion. Mr. Ryzhkov's plan was approved by the Congress of People's Deputies on December 19, 1989 by a vote of 1532 to 419.

(1) *U.S.-USSR trade.*—Trade between the United States and the Soviet Union is relatively small, but growing. Two-way merchandise trade grew from $1.9 billion to $3.4 billion between 1987 and 1988. U.S. imports from the Soviet Union increased to $586 million, while U.S. exports expanded to $2.8 billion. As a result, the U.S. surplus in trade with the Soviet Union doubled from 1987 to 1988, from $1.1 billion to $2.2 billion.

This trend has continued in 1989. Two-way merchandise trade grew from $3.4 billion to $4.9 billion between 1988 and 1989. U.S. imports from the Soviet Union increased to $703 million, while U.S. exports expanded to $4.3 billion. Accordingly, the U.S. surplus in trade with the Soviet Union increased to $3.6 billion.

Corn, wheat, soybean oil cake and meal, and soybeans accounted for 74 percent of the value of all U.S. shipments to the Soviet Union during 1988. Manufactured fertilizers accounted for another eight percent of U.S. shipments. Base metals and chemical products accounted for 44 percent of U.S. imports from the Soviet Union; fuel oils and petroleum products accounted for another one-third of U.S. imports.

That the Soviets have very little trade with the United States is not really indicative; compared to the United States, the Soviets have very little trade with any country. In 1988, total U.S. trade with the world (i.e., imports plus exports) was about $763 billion. By comparison, the total value of Soviet hard-currency trade in 1988 with the developed West is estimated to have been $51.1 billion. Total U.S. trade expanded in 1989 by more than that figure.

Most Soviet trade occurs with Soviet bloc countries on a planned basis. The Council for Mutual Economic Assistance (COMECON) consists of East Germany, Poland, Czechoslovakia, Hungary, Romania, Bulgaria, Mongolia, and Vietnam. Its members form one-tenth of the world's population, but intra-COMECON trade in 1985 was roughly one-third the size of intra-EC trade. At the time of this trip, it was not clear what the then-recent changes in Eastern Europe would mean for COMECON.

(2) *Countertrade.*—Much of Soviet trade with non-communist countries is, in various forms, barter or "countertrade." (Countertrade is a loose term meaning all forms of reciprocal international contractual commitments in which the contract provides not only for the purchase and sale of an import into the Soviet Union, but a requirement to purchase an export from the Soviet Union.)

The Soviet Union is the world's largest countertrader, according to a 1985 report of the U.S. International Trade Commission (ITC). Soviet countertrade demands were then highest for chemicals and consumer goods and lowest for iron, steel, electronics, foodstuff in short supply, and machinery considered vital for economic development. If a Western exporter is compensated in Soviet raw materials such as natural gas, which can easily be sold on the world market, countertrade requirements run well over 100 percent. Buy-back arrangements have also been used to finance large capital projects, particularly in the chemical and gas sectors. Since 1983, approximately 45 large industrial projects have been commissioned on this basis, according to the ITC.

(3) *Is the Soviet Union an export threat to the United States?*—It is often suggested that the denial of MFN benefits has almost no effect on Soviet exports to the United States. The theory is that since U.S. tariff discrimination against the Communist countries is not a flat-rate surcharge on their exports, but varies according to the product, with the lowest rates applying to raw materials and primary produce, traditional Soviet export concentration in basic products would mean the short-term impact of MFN status would be of more symbolic than immediate economic significance.

In fact, comparing MFN rates with column 2 rates shows that the greatest differences seem to be in U.S. industries that are historically sensitive to imports, such as textiles (6.4 percent vs. 28.7 percent), ores and metal scrap (3.4 percent vs. 18.8 percent), paper and paperboard (2.6 percent vs. 27.6 percent), handbags and apparel (19.6 percent vs. 47.4 percent), and iron and steel (4.8 percent vs. 15 percent). In about ten percent of cases, the MFN rate is the same as the column 2 rate, usually zero; in 43 percent of the line items, the difference is 20 to 40 percentage points *ad valorem.* (These rates may understate the differential between MFN and column 2 because they are based on trade-weighted averages for broad product categories; specific products with very high column 2 rates would have very little trade and thus a small weighting.)

C. The European Community Trade Agreement

Exploratory talks for a new EC-USSR trade agreement began in March 1988. In December 1989, 21 months later, the European Community concluded a trade agreement with the Soviet Union. The term of agreement is ten years.

The EC agreement grants the Soviet Union MFN, but as a practical matter, this benefit is more circumscribed than it would be under current law because currently, individual members (countries) of the European Community maintain quotas on Soviet (and other East Bloc countries') exports to those EC countries. Under the EC agreement with the Soviet Union, a number of quotas are dropped as of January 1, 1990, but the bulk of the quotas remain in force, and, according to the agreement, "The Community undertakes to abolish by 31 December 1995 at the latest the remaining specific quantitative restrictions [quotas] with the exception of those concerning a limited number of products which might be deemed sensitive at that time." By its terms, moreover, the agreement does not apply to textiles and apparel or to coal or steel.

III. SUMMARY OF THE VISITS

A. Wednesday, January 17, 1990

(1) *Breakfast meeting with U.S. Ambassador Matlock.*—On January 17, Senator Bentsen breakfasted with the U.S. Ambassador to the Soviet Union, Jack Matlock, who briefed him on the current political and economic situation in the Soviet Union.

(2) *Meeting with Mr. Katushev.*—Following breakfast with Ambassador Matlock, Senator Bentsen met for nearly two hours with Soviet Foreign Economic Relations Minister Konstantin Katushev. Mr. Katushev was accompanied by Deputy Minister Yuriy Chumakov and various other ministry staffers. After a discussion of the Senator's schedule in the Soviet Union, Mr. Katushev gave a presentation on the domestic situation in the Soviet Union and on U.S.-USSR economic relations.

(a) *Situation in the Caucasus.*—Mr. Katushev noted that ethnic tensions in the Caucasus had taken a sharp turn for the worse recently. As a result, Supreme Soviet Council of the Union Chairman Yevginiy Primakov and Party Economic Secretary Nikolay Slyun'kov had been sent to Azerbaydzhan and Armenia, respectively. Mr. Katushev remarked that Soviet leaders had known there were nationality problems in the country, but these neighboring people had previously lived peacefully under Soviet rule; extremist elements had exploited the situation. Many people seemed to have the impression they could take actions against the State and against other people with impunity. The situation had been aggravated to such an extent that people are dying. The country has been forced to declare a state of emergency and send in troops of the Interior Ministry and the Army. The Government hopes, Mr. Katushev said, that this will create a climate in which a political settlement of differences will again become possible.

(b) *"Economic romanticism" in the Baltics.*—Difficulty for "perestroika" (economic restructuring) has arisen with the transition of certain regions to regional economic accountability, self-financing and autonomy; Mr. Katushev called the problem "economic romanticism." People who have developed this economic romanticism have gone from wanting greater independence and control over local affairs to aspiring for separation from the Soviet economy as a whole and even the disintegration of the Soviet Union. In Lithuania, Mr. Gorbachev had talked about "professional schemes" being developed to settle issues which ignored reality. The fact is, Mr. Katushev maintained, that Lithuania and other Baltic republics consume more than they produce, and the balance of their needs is met by other Soviet republics. While it was true that in the final analysis the Lithuanians must choose their own future, they need to take into account their dependence on the Soviet Union as they make their decision.

(c) *Revamping foreign economic ties.*—Mr. Katushev noted that, after "sharp debate," the Second Congress of People's Deputies had approved measures to raise economic efficiency, improve the supply of goods on the internal market, and stabilize the monetary situation. On the basis of its decisions, the country was now working to solve its "economic crisis." Foreign economic ties should also play an important role in solving that crisis.

(d) *The economic relationship with the United States.*—The Soviet Union, Mr. Katushev said, wants to take advantage of U.S. experience and technology. Following the Malta Summit and the Joint Commercial Commission meeting last year, the two countries should try to improve the legal environment for their economic relationship. He said that a Soviet interagency group, chaired by the Foreign Ministry and which includes Mr. Katushev's own Ministry, the Finance Ministry, GOSPLAN, the State Bank, the Justice Ministry, and other organizations, has been set up to coordinate the realization of the trade agreement, a mutual investment protection agreement, and a revised convention on double taxation. In the near future, appropriate representatives would also be discussing matters with committees and commissions of the Supreme Soviet which will be involved. The Ministry of Foreign Economic Relations will play the lead role in trade agreement negotiations; the Finance Ministry will take the lead on the investment protection and tax treaty negotiations. He said the Soviets are anxious to organize the work in the best possible way.

(e) *Trade and economic issues.*—On the trade agreement, Mr. Katushev said that all these agreements should create a better environment for the U.S.-USSR economic relationship. He said that the Soviet side would start the negotiation from the 1972 trade agreement, negotiated in the Nixon Administration, but he recognized that changes would have to be made because of changed circumstances. The Soviets look for both sides to receive MFN on a stable, long-term basis.

Mr. Katushev said he believes that the barriers which stood in the way of MFN on the Soviet side in the past would soon be removed. The new emigration/travel bill, which had had its first hearing, was to be approved at the Supreme Soviet session beginning February 14, 1990. That bill "corresponds to international norms and practices," and it gives "priority" to international agreements. Mr. Katushev urged a repeal of the Jackson-Vanik amendment.

Mr. Katushev noted that the Soviet Union currently has nine bilateral investment protection agreements and is negotiating another eight. The Soviets believe these agreements give certainty and stability to foreign economic ties and investment. He said his Government would seek the repeal of the Stevenson amendment. They want to use U.S. technology and experience, and want U.S. proposals to be competitive with those coming from other countries whose governments support exports with credits and guarantees, he said. Revision of the agreement on double taxation to deal with joint ventures would also contribute to development of bilateral economic relations. The Soviets also look for relaxation, consistent with U.S. national security concerns, of export controls in connection with the improvement of bilateral political relations, arms control achievements, and the expansion of trust between the two countries.

(f) *Senator Bentsen's reply.*—In reply to Mr. Katushev, Senator Bentsen remarked that in the 1960's and 1970's, the United States and the Soviet Union had been engaged in an arms race in opposition to each other. Now the two countries are more and more in agreement; they both look forward to arms reductions. Competition among all nations in the coming decade will be economic. The U.S. objective is to raise living standards of all people by facilitating an expansion of trade.

Senator Bentsen urged that the Soviets maximize foreign investment to help their economy by passing the most favorable foreign investment laws possible. Businessmen look for a favorable investment climate, the ability to repatriate profits and to avoid double taxation when they make decisions on investing Only private investment can make a difference economically for the Soviet Union. He also observed that what the United States can offer with MFN—access to the world's largest consumer market—is worth much more to the Soviets than what had been achieved recently with the European Community. Senator Bentsen noted his own efforts to remove restrictions on the sale of oil and gas equipment to the Soviet Union and his opposition to the gas pipeline embargo.

Regarding a trade agreement, Senator Bentsen stressed the importance of early and thorough consultation with the Congress and with the Senate Finance Committee, which will play the lead review role in the Senate. His trip to the Soviet Union now was being made to better understand what the two sides are working towards and to help avoid an impasse at a later date. Senator Bentsen recalled that President Nixon failed to consult fully with Congress when negotiating the aborted 1972 trade agreement; the result was failure. Similarly, lack of consultations on the free trade agreement with Canada between 1986 and 1988 had blocked progress until better consultation was achieved.

On the other hand, Secretary Baker, U.S. Trade Representative Hills, and Secretary Mosbacher all have provided reassurances regarding their intention to consult closely with the Congress on this trade agreement. Senator Bentsen observed that although "difficult," it may be possible to approve the trade agreement by the time of the June summit, and reminded Mr. Katushev that passage of the Soviet emigration/travel bill is essential for progress on the trade agreement. Senator Bentsen also said that while the Soviet Union and Mr. Gorbachev currently enjoy an aura of goodwill in the United States, there are concrete trade issues between the two countries that must be addressed—including protection of intellectual property rights, worries about selling below cost from an NME country, and other issues.

Senator Bentsen said that it would be very difficult to repeal Jackson-Vanik, but suggested instead that the Soviets think about working with the United States for a waiver— perhaps not for only one year, but for two or three. This would require a change in the law but might satisfy Soviet concerns.

(g) *Mr. Katushev's response.*—Mr. Katushev replied that he found Senator Bentsen's remarks beneficial, and he particularly understood the Senator's points about the need for Congress to be consulted. He hoped the Senator would also discuss the need for rapid work and consultations with Supreme Soviet Council of Nationalities Chairman Nishanov and accompanying members of the Committees on International Affairs, Legislation, and the Plan and Budget. He suggested that both sides undertake informally to exchange ideas and even draft language with legislators in parallel with the formal negotiations on the trade agreement.

(3) *Luncheon.*—Senator Bentsen was the honored guest at a lunch at which the other guests were Abel Aganbegyan, Head of the Economic Branch of the Soviet Academy of Sciences; Yuriy Chumakov, the Deputy Minister for Foreign Economic Relations (who was to head the Soviet team that would negotiate the trade agreement); Eduard Gostev, the Deputy Chairman of the Board of Vnshekonombank; Vladilav Malkeevich, the Chairman of the Soviet Chamber of Commerce; Boris Milner, the Director of the Academy of Sciences Institute of Economics; and Vyacheslav Senchagov, the Chairman of GOSKOMTSEN.

During the luncheon, there was an extended discussion of issues related to the trade agreement, including the possibilities for the future of perestroika, the state of economic and physical infrastructure of the Soviet Union and the possibility of free trade zones within the Soviet Union, as well as a more general discussion of political developments in the Soviet Union, particularly the then-emergent events in the Trans-Caucasus region.

(4) *Meeting with Mr. Shevardnadze.*—In the afternoon, Senator Bentsen, along with Senators Pell, Gore, and Wirth, met with Soviet Foreign Minister Eduard Shevardnadze for a 90 minute discussion on Soviet domestic and foreign policy and U.S. interests.

In the course of the meeting, which covered such subjects as the environment and German reunification, Senator Bentsen said he was in the Soviet Union to look into how both countries could find ways to benefit from increased trade. He noted that Soviet emigration/travel bill would need to be enacted early enough that the Senate could consider the trade bill, which required Congressional approval.

Mr. Shevardnadze replied that he thought the outlook for large scale commercial and economic cooperation is good. At the Malta Summit, President Bush spoke about it. This is mutually beneficial. The time of the two countries not having normal cooperation should end. The political cooperation is far ahead of economic and trade cooperation. He said the Soviet Government is interested in such cooperation and U.S. interest should be no less. The potential Soviet market is large.

Mr. Shevardnadze said that many people in the United States are cautious. They say let's see what happens to perestroika. He said, "I assure you that we will see perestroika to its conclusion. These are hard times for us, with some dramatic events. The most difficult revolution is a peaceful one. But things are developing, moving forward. There is no turning back. The new Soviet state will be a good partner for all states. Cooperation must be mutually beneficial and equal."

As concerns the emigration/travel bill, Mr. Shevardnadze said it will be enacted, not because of trade agreements, but because the Soviet Union needs it for internal purposes. It also reflects, he said, our democratic processes. It has been adopted at the first reading. Some additional work is being done in the Committee. We in the Foreign Ministry had an active part in drafting the bill and think it is a good bill, consistent with the highest standards of the world community. It is consistent with the Helsinki Agreement. He said he did not think the Supreme Soviet will spoil it. In a year from now, this subject will not be on our agenda.

B. THURSDAY, JANUARY 18, 1990

(1) *Breakfast meeting with the U.S. business community.*—On January 18, Senator Bentsen breakfasted with members of the U.S. business community in the Soviet Union. Represented at the breakfast were the Chase Manhattan Bank, Dresser Industries, McDermott Industries, Pan American Airlines, E.I. Dupont de Nemours, and Honeywell Corporation. The discussion centered on the realities and difficulties of doing business in the Soviet Union.

(2) *Meeting with members of the Supreme Soviet.*—Following the breakfast, Senator Bentsen met with Mr. Nishanov, the Chairman of the Supreme Soviet Council of Nationalities, and several of his colleagues. The members of the Supreme Soviet set out an ambitious agenda of the upcoming session of the Supreme Soviet, including enactment of a law on property, a law on banking, and a law on intellectual property enforcement. Mr. Nishanov expressed his opinion that the emigration/travel bill would be enacted in the upcoming session of the Supreme Soviet.

(3) *Luncheon with Soviet and American journalists.*—Senator Bentsen lunched with Soviet and American journalists, including Vladimir Brodetsky of *Moscow News;* Stanislav Kondrashov of *Izvestiya;* Galina Sidorova of *Novoye Vremya;* and Vladimir Baidashin of *TASS.* The American journalists represented were Peter Gumbel of *The Wall Street Journal;* Bill Keller of the *New York Times;* John Kohan of "Time" magazine and Rose Grady of "Business Week" magazine. During the lunch, there was a general discussion of the issues raised in the visit so far and of the role of the press in the Soviet Union.

(4) *Meeting with Mr. Khomento.*—Later in the day, Senator Bentsen met with GOSPLAN Deputy Minister Khomento, who described how the planning process works in the Soviet Union.

The plan for foreign economic purchases is in two subgroups. The first subgroup is with Socialist countries, where payments are effected by rubles and plans are integrated. The second subgroup is ties with the rest of the world, where payments are in hard currency. Here GOSPLAN determines volume and allocates resources to balance imports and exports. But this plan does not choose between countries. It merely gives resources to the Ministry of Foreign Economic Relations, which buys whatever they think the country needs.

According to the new rules of perestroika, trade is to be carried out by the republics and by enterprises when they use their output above and beyond the plan. In this sort of trade, they buy products unrelated to plan targets.

Five Soviet republics have switched to full cost accounting. Five years ago, GOSPLAN planned 80 percent of the output of products in this country. Today it is 15 to 20 percent.

Mr. Khomento said that everyone in the Soviet Union understands the market is fairer than planning.

Currently ten percent of trade is by firms for their own account, but about 60 percent of foreign economic ties are with Socialist countries, which is subject to central planning. Beginning in 1991, the Soviets will introduce a common Federal hard currency tax. All hard currency earnings after paying the tax bill will belong to the enterprises. This is a way of giving Soviet firms freedom to use a portion of their hard currency earnings in the open market.

Mr. Khomento commented on private businesses in the Soviet Union, which are called "cooperatives." He said it is difficult to regulate trade by cooperatives. For example, a cooperative managed to sell a submarine abroad, and another cooperative tried to sell 12 brand new tanks with all armament to France.

(5) *Final meeting with Minister Katushev.*—Finally, at the end of the day of January 18, Senator Bentsen met again with his host, Minister of Foreign Economic Relations Katushev. Mr. Katushev said, "We are groping for solutions in a big country with inertia. Perestroika is really a restructuring of our mentality. Inertia of old habits still brings us to errors. For example, to curb drunkenness, we cut down grape vines. Now we find consumers (not drunkards) want wine. We have people with energy, but they don't know how to make a successful economy."

IV. CONCLUSIONS

For the last 40 years, since the United States revoked MFN for the Soviet Union in 1951, U.S. foreign policy has been dominated by the political and military fact of the Cold War. As the economic power of Europe and Japan was restored, and the economies of the developing world became established, the importance of economic considerations increased in U.S. foreign policy, as evidenced by the enactment of the Omnibus Trade and Competitiveness Act of 1988. But beginning in 1989, the economic element of U.S. foreign policy really came into its own because of changes in the Soviet Union and the nations within the Soviet orbit.

It was clear during the visit that perestroika has not yet accomplished substantial reform of the centrally planned Soviet economy, but that a major effort was underway in this regard. However, the outcome of this effort was far from certain, and regional and ethnic unrest was a significant problem for the Soviet Government. Therefore, whether the Soviet Union would eventually become a market economy was uncertain.

Under these circumstances, we should encourage the move toward a free market, but it is unlikely that the Soviet Union would be in a position in the short term to extend the benefits of free trade in the non-Communist sense to the rest of the world. Therefore, a trade agreement with the Soviets would have to take account of current circumstances, rather than assume a market system that might never be.

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