

**TRADE WITH THE SOVIET UNION
AND THE BALTICS**

HEARINGS

BEFORE THE

**COMMITTEE ON FINANCE
UNITED STATES SENATE**

ONE HUNDRED SECOND CONGRESS

FIRST SESSION

—————
SEPTEMBER 11 AND 12, 1991
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TRADE WITH THE SOVIET UNION AND THE BALTICS

WEDNESDAY, SEPTEMBER 11, 1991

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 10:02 a.m., in room SD-215, Dirksen Senate Office Building, Hon. Lloyd Bentsen (chairman of the committee) presiding.

Also present: Senators, Moynihan, Caucus, Bradley, Rockefeller, Daschle, Packwood, Roth, Durenberger, Symms, and Grassley.

[The press release announcing the hearing follows:]

[Press Release No. H-37, Sept. 6, 1991]

SENATOR BENTSEN CALLS HEARINGS ON TRADE WITH SOVIET UNION, BALTICS;
CHAIRMAN WANTS TO EXAMINE IMPLICATIONS OF CHANGES IN U.S.S.R.

WASHINGTON, DC—Senator Lloyd Bentsen, Chairman of the Senate Finance Committee, Friday announced hearings next week on the President's trade agreement proposing Most Favored Nation trade status for the Soviet Union.

The hearings will be at *10 a.m. Wednesday, September 11 and 11 a.m. Thursday, September 12* in Room SD-215 of the Dirksen Senate Office Building.

"In early August, the President submitted to Congress a trade agreement aimed at normalizing our trade relations with the Soviet Union. But the Soviet Union has changed dramatically since then," said Bentsen (D., Texas).

"As a first step, we need to understand how that trade agreement fits into changing circumstances in the Soviet Union and, more important, how we should structure our economic relations with a transformed Soviet Union, the Baltic nations and the individual republics," Bentsen said.

"At these hearings the Finance Committee will be hearing from the Administration, Soviet experts, representatives of the republics and leaders in the U.S. business community. We'll be looking at the full range of issues affecting our commercial relations with the Soviet Union and the Baltics—in an effort to begin laying the foundation for a mutually beneficial economic relationship between the U.S. and these nations," Bentsen said.

The U.S.-Soviet trade agreement, negotiated in June 1990 and submitted to Congress by the President on August 2, 1991, provides for reciprocal Most Favored Nation tariff treatment and strong and effective protection of intellectual property. It also contains provisions aimed at making it easier for U.S. companies to do business in the Soviet Union. Congress has 90 session days to consider the agreement.

OPENING STATEMENT OF HON. LLOYD BENTSEN, A U.S. SENATOR FROM TEXAS, CHAIRMAN, SENATE FINANCE COMMITTEE

The CHAIRMAN: If you will cease conversation the hearing will get underway.

On August 2, 1991, just before Congress recessed the President sent up a trade agreement that he had negotiated with the Soviet Union back in June 1990. That agreement was intended as a step

forward toward normalizing our economic relations with the Soviet Union—or so we thought.

The world has dramatically changed since August 2, 1991. We have before us a trade agreement that was negotiated with the Union of Soviet Socialist Republics. That entity just does not exist anymore. The President's proclamation would have extended MFN to the Baltic republics under the umbrella of that trade agreement. But the Soviet Union has now recognized the independence of Estonia, Latvia, and Lithuania, just as we have done.

Frankly, I do not know what that trade agreement means today. But it sure means something different than it did on August 2. I am certain of one thing though: We can no longer afford the luxury of simply sitting back and watching CNN to catch up with the latest developments. We have too much at stake.

We need to sort out our political and economic relationship with each Soviet republic and newly independent Baltic state. We need to determine what is in our best interest and then devise a strategy to achieve that. Trade is just one component, but it is a terribly important one for us and for the Soviets.

First, we need to put some flesh on the bones of Baltic independence. The time has come to accord MFN treatment to Estonia, Latvia and Lithuania. We first granted MFN to those countries back in 1920 and then we took it away in 1951, suspended it at the height of the Cold War when we suspended trade privileges for the Soviet Union.

We need to figure out how to best restore MFN to these countries and then do it as quickly as possible. I see no need to wait while we sort out our relations with the individual Soviet republics or with the new Union of Sovereign States. I am prepared to work with the administration to normalize our trade relations with the Baltics as quickly as possible.

Second, this trade agreement needs some high level attention from this administration. The administration has told me they want Congress to approve this agreement, and to do it quickly. Well that is all well and good, but frankly with all due respect to our administration witnesses here today, we were hard pressed to find any high level officials in the administration willing to come here today to tell us what their policy is towards the republics and the Baltic states, and that is disappointing.

I find it particularly disturbing in light of the strong, high level attention that this administration has directed toward securing MFN for China. Surely we owe more support to the Muscovites who stared down the tanks in Red Square than to the army that squared off against the students in Tiananmen Square.

This trade agreement is critical because it also raises one central question that America must very quickly confront. How should we structure our economic relations with the Soviet Union to enhance global stability and further U.S. economic interests?

In the days since the coup much of our attention has focused and will continue to focus on the question of whether financial assistance should be given to the Soviet Union and, if so, on what terms. There has been a lot of talk about a Marshall Plan for the Soviet Union. But we ought to remember that the Marshall Plan was suc-

cessful because it helped jump start the private sector; and that you really have not had in the Soviet Union.

When I was over there last year one of the first pieces of legislation that the Chairman of the Chamber of Deputies said they were going to consider was legislation to determine what private property is. When I talked to the Chairman of the Estate Planning Committee and asked why the Soviets backed off from cooperatives, he said it was because they were beginning to make a profit.

The mind set is totally different. They have much further to go than did Western Europe. But the Marshall Plan was successful because it had the private sector actively involved in increasing trade amongst our countries. In the end, that was the real engine behind Europe's recovery. The same could be true for the Soviet Union.

Sure we ought to have a debate over foreign aid. But in the longer run the Soviet Union will transform itself only if it opens up its economy to a free-market system. If they will do that, then both sides can end up as a winner. They need capital. They need market know-how. And there is no country in the world more capable in those areas than this one.

The benefits can be tremendous in terms of global security, reduced military spending and increased U.S. exports—and increased Soviet exports to us, too, because they will certainly need the hard currency. But we need to get that trade strategy in place. We cannot afford to hang back and wait for the situation to sort itself out. Other countries are moving and we need to move as well.

If we do not get a trade strategy in place, one that will benefit the American people as much as it will benefit the Soviet republics and the Baltic states, we will come in second or worse; and we have had some bitter experiences in that regard. We must work for the future of this country, and for Soviets and Baltic citizens alike; so that they in turn will have the freedom to purchase American machinery and American services and range the standard of living in both countries.

We are up against some stiff competition and we had better be up to the challenge. I do not want to see a bustling, modernized Kiev in the year 2010 where the Ukrainian citizens are driving BMW's and talking on Samsung cellular phones without any American companies in sight.

I yield to my distinguished friend from New York, Senator Moynihan, for any comments he wants to make.

Senator MOYNIHAN. Well, that is a glum thought, Mr. Chairman. But they will be drinking Pepsi Cola. Does that make any difference? [Laughter.]

The CHAIRMAN. And maybe a few McDonalds hamburgers.

Senator MOYNIHAN. And McDonalds hamburgers.

OPENING STATEMENT OF HON. DANIEL PATRICK MOYNIHAN, A U.S. SENATOR FROM NEW YORK

Senator MOYNIHAN. Chairman, and Ambassador Katz, and Secretaries, I do have a few remarks and I do not think anybody will pay any heed to them, and I am not even sure anybody will understand them. There is a Texas saying, as I understand it, about someone who is a day late and a dollar short. I guess my question

is: What do we learn from the fact that this agreement comes to us 14 months after it was signed by President Bush and Mr. Gorbachev. That seems to tell a great deal about the problems of our government.

Whatever those problems are they could care less what we think about them. But the simple fact is that it is with the utmost reluctance that the executive branch comes forward and says well maybe we might have normal relations with this place or semi-normal or relations no worse than we had in 1951 when we last had MFN.

I think it is largely the fact that the administration, this government, not this particular set of people, had no idea that what has happened was going to happen. And having no notice that it could happen, having very great difficulty thinking that it has.

I mean, what, it was 18 months ago that the Press Secretary in the White House referred to Mr. Gorbachev as a "drugstore cowboy." That was a friendly remark. Others thought he was a "plant" by the KGB to pretend to be doing things.

If you go back long enough you find that most of what has happened in the Soviet Union in the past 5 years and in the past 5 weeks was foreseen, was written at some level of analysis. If you read Karl Kautsky in the New Leader in the 1930's he would say something like this was going to happen.

For what it is worth, and it is always painful, in 1979 Newsweek had a forum on what will happen in the 1980's. I wrote that in the 1980's the Soviet Union would break up and this would be a pretty dicey moment because who will get those 25,000 or whatever warheads, and the tactical ones in particular. As the youth would say, nobody could access that file. It was not that anybody in the intelligence community or the State Department said you are wrong, they could not hear you say it.

Didn't everybody understand that the Soviet Union was massing its forces in Nicaragua and we would have to have a heroic stand at Harlingen, TX. We were to hold them off at the pass at Harlingen, TX.

You know, when an idea dies in Madrid it takes two generations for the word to get to Managua. [Laughter.]

But it never got to us. It is still somehow not here. Maybe from Managua it will reach Washington.

But there is a reluctance to see that there is a new world out there, an inability to foresee it, and the reluctance to accept it is huge. And it does not make any difference what we say. And I hardly am here to badger Ambassador Katz, but it makes no difference. We will do whatever you think is doable, but you are here 14 months late.

Somebody downtown ought to explain, nobody will.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Senator Grassley, any comments you would care to make?

**OPENING STATEMENT OF HON. CHARLES E. GRASSLEY, A U.S.
SENATOR FROM IOWA**

Senator GRASSLEY. Just a short comment, but most importantly to make an explanation of why I will not be able to be here very long this morning, even though I have a big interest in this. That is because it will be my turn to question Judge Clarence Thomas this morning, so I will have to go very shortly.

But I want to thank you on convening these hearings on confirming MFN to the Soviet Union or I suppose we still are questioning whatever political arrangement evolves among the Soviet republics, but I assume we will be doing similarly to the separate parts that we do to the whole.

I support the President's decision to grant MFN because it will not only help the economies of the Soviet republics but will also benefit the United States. Without a doubt increase trade in my estimation is the best approach to assisting the Soviets.

But a commentary, Mr. Chairman, if you would let me, on news reports this morning that disturbed me that indicate some new thought in the administration about advancing direct assistance to the Soviets which we said we would do previously under condition of reforms being in place. But now doing them before, granting this sort of aid before the reforms are in place.

I think direct assistance at this time would be just like pouring the money down a black hole, particularly if we do not take the opportunity to use it as leverage to get the Soviets to decrease their military expenditures, to turn their nuclear missiles away from the West, and particularly because as a priority basis of our decision-making, we have to make sure because of the shortage of our own taxpayer's dollars that whether they are spent in America or overseas they are wisely invested.

I am not sure at this point direct taxpayer aid to the Soviet Union is going to be well invested. So I think this is all going to meet resistance here in the Congress. At least I hope so. And I hope the administration, or I should say I hope the news reports of what the administration is considering doing are not true. It is just moving too fast.

We need to expand trade and not direct aid and that is why this hearing is in the right course of action. But any other steps at this particular moment should be well thought out.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Senator Symms?

**OPENING STATEMENT OF HON. STEVE SYMMS, A U.S. SENATOR
FROM IDAHO**

Senator SYMMS. Thank you, Mr. Chairman. I will be very brief. I, too, want to thank you for the opportunity to have these hearings and hear what the administration and others have to say.

I won't say to the witnesses I am going to try to stay, but I do have a hearing upstairs that I have to attend for part of the morning. So I will be going back and forth.

I guess one of the questions I would like to hear addressed is, who did we sign the agreement with. I know the resolution lists the

Union of Soviet Socialist Republics. But I think Senator Moynihan's question is something we have to address, does it really exist anymore.

The peoples of the East Block have a long, difficult road ahead. I do not think any of us disagree with that. And except for emergency aid, I guess the question that I have is, is there really anything else we can do other than expand trade and investment to those people who have control of the assets.

In other words, it seems to me like we need to be dealing with the people who control the assets, the private owners so to speak, of the new emerging republics who owns the assets, and that is who we need to deal with. And if they are not going to have private ownership, we certainly should not be putting American tax dollars in the country.

Now on a related point, does this agreement extend to the republics that decided or will decide to break away? I know we have dealt with the Baltic states in the agreement, but what about the Ukraine or Azarbaijan or the other nine republics. Does this agreement extend to the Ukraine? If not, do we have some plans in the works to come up with separate agreements with those republics and could we establish a provisional MFN status with the Ukraine until an agreement could be worked out?

These are all questions that I am certainly interested in. I am sure the committee is also. I thank all of you for being here. I again thank the Chairman for holding the hearings and look forward to this discussion. I think it is something we do need to discuss.

The CHAIRMAN. Senator Rockefeller?

OPENING STATEMENT OF HON. JOHN D. ROCKEFELLER IV, A U.S. SENATOR FROM WEST VIRGINIA

Senator ROCKEFELLER. Thank you, Mr. Chairman. Just one comment and then I will submit a statement for the record. One of the things I am going to be interested in here is our long-term potential for new markets. As the world becomes more interdependent, I think a Nation's ability to sustain a wholly domestic industry with its own national standard of performance is vanishing.

Our ability to generate markets internationally is the key to our long-term economic survival, and I think failure to gain a foothold in a national market is going to be fatal as consumers gravitate towards the larger producer and the more commonly accepted standards. This is key to not just the republics we are discussing but to our own country and our own economic self-interest.

I thank the Chairman.

The CHAIRMAN. Thank you.

[The prepared statement of Senator Rockefeller appears in the appendix.]

The CHAIRMAN. Senator Bradley?

OPENING STATEMENT OF HON. BILL BRADLEY, A U.S. SENATOR FROM NEW JERSEY

Senator BRADLEY. Thank you very much, Mr. Chairman. I welcome the testimony from members of the administration.

This is the first time really that the Finance Committee has had a chance to consider the trade agreement and economic relations generally between the United States and what was formerly the Soviet Union. I think that it is interesting that we are considering a trade agreement with a State that in essence no longer exists.

The agreement was with the Union of Soviet Socialist Republics. It no longer exists. This might present some problems in and of itself. During August, power transferred from Communists to Democrats, from advocates of a centralized economy to advocates of a free market and most obviously from the old centralized state to the republics.

It seems to me that one of the first things that we have to recognize is that the old centralized state really no longer exists. Something else is emerging as yet undefined. I think we would make a serious error if all of our efforts were aimed at bolstering up an illusion for the purpose of guaranteeing that our European partners get full payment on the loans that are owed them that our bankers were prudent enough not to make.

So I also hope since an element of this will be most-favored-nation status that we are very clear about the need to accord most-favored-nation status to Estonia, Latvia and Lithuania.

As the Chairman knows, and I have talked to him about this, I had introduced a bill to do that in July and now as independent countries I think that they should clearly be exempt from Section IV of the Trade Act of 1974. That should be, I think, self-evident.

I would make just one last point. As we think about how to assist whatever the entity is, and I believe that we should make a firm commitment to do that—

Senator MOYNIHAN. Entities are.

Senator BRADLEY. Pardon?

Senator MOYNIHAN. Entities are.

Senator BRADLEY. Into what?

Senator MOYNIHAN. Whatever the entities are.

Senator BRADLEY. Oh, whatever the entities are, right. [Laughter.]

I stand corrected. Is or are. [Laughter.]

Far be it for us to decide. But whatever the entities are, that it is far better to do that through existing international institutions than it is for us to engage in a kind of ad hocism in the economic policy.

The IMF, the World Bank, the European Bank of Reconstruction and Development exists specifically for these purposes and there can be no reason why any republic, individually or collectively, republic or republics, should not be able to apply for full membership in the IMF, World Bank, the European Bank of Reconstruction and Development. There are certain things that are necessary for that to be a reality. You have to have a constitutional order. You have to begin to have a tax banking system. You have to have some sense of who is in control of fiscal and monetary policy.

But there is no reason why that is not the superior approach to us engaging in a kind of effort to thrust export/import bank credits and grain credits into what, absent a credible reform program, will be an increasingly bad credit risk.

This is not a question in my mind as to whether or not we should help the Soviet Union. We should help the Soviet Union. But we should do it through existing international institutions and not through a kind of ad hocism. I would hope that the administration recognizes that it is a serious error to try to prop up what no longer exists and that the real power rests with the republics or association of republics.

I look forward to hearing the testimony.

The CHAIRMAN. Thank you very much, Senator.

We are pleased to have Ambassador Katz and Secretary Duestenberg, and Secretary Kamman.

Mr. Ambassador, if you would proceed.

STATEMENT OF HON. JULIUS L. KATZ, DEPUTY U.S. TRADE REPRESENTATIVE

Ambassador KATZ. Thank you, Mr. Chairman and members of the committee. I am pleased to testify on the U.S.-U.S.S.R. Trade Agreement. I have a full statement for the record, Mr. Chairman.

The CHAIRMAN. We will take that for the record.

Ambassador KATZ. I would like to summarize it.

Let me say that I am tempted to respond to a number of the comments that have been made by the members of the committee and I will refrain from doing so at this time and respond to questions.

The CHAIRMAN. We would be delighted, Mr. Ambassador. We would be delighted.

Ambassador KATZ. But I would like to respond to one particular point, and that is the point that Senator Moynihan made. We do pay attention to what you say, Senator, and other members of the committee. We have a very, particularly my agency, has a very close relationship with this committee and what you say and believe is important to us. I want to say that at the outset.

This agreement is the instrument by which the United States and the Soviet Union will reciprocally extend most-favored-nation treatment and gain important assurances for our traders and businessmen. Once approved by the Congress, and implemented by the President, this agreement will place U.S. traders on the same basis and put them in the same position as their competitors from other nations who already receive some of these benefits.

The agreement was negotiated in the first months of 1990 and was signed on June 1, 1990. The negotiations were conducted against the background of the beginnings of economic reform and with the expectation that the U.S.S.R. would be moving toward the adoption of market mechanisms.

We, therefore, pressed our Soviet counterparts very hard for provisions which were novel from the Soviet viewpoint, from the Soviet experience, but would be meaningful if and when the Soviet economy adopted decentralized economic decision making.

Clearly, we did not and could not have foreseen the speed and extent of the changes we have seen recently. But I believe that the provisions of this agreement fit very well the rapid evolution of the Soviet economy. The agreement fits and it continues to be suitable.

It contains all of the elements required by Title IV of the Trade and Tariff Act of 1974. But it goes beyond those requirements and secures important protections for U.S. businesses in the areas of intellectual property rights, business facilitation and services and tourist trade.

The agreement's benefits are greater, we believe, than its specific terms. The process of negotiating the agreement and our continuing discussions as it is implemented have played and will play an important role in assisting the Soviet Union in its transformation to a market economy.

For example, throughout the negotiations we stressed the need to decentralize economic decisions by placing the right to buy and sell directly in the hands of enterprises and consumers, rights for U.S. businesses that are commonplace in the West and are essential to a market economy.

Although the agreement is not yet in force the Soviet Union has already implemented a number of its provisions. In our discussions we have made clear that these rights and others like them are important to the development of competition and a free market.

This agreement comes before the committee at a time of great change in the Soviet Union. Responsibilities of the central and republic governments are being shaped as we speak. It is important to put into place now a set of obligations to govern our trade relations which can also serve as a road map for the central and republic governments on the requirements for ensuring a free and open trading system as a part of their development of a market economy.

In my statement I describe some of the key elements of the agreement, with emphasis on the benefits that will accrue to the United States by virtue of the entry into force of this agreement.

The first article of the agreement provides for most-favored-nation treatment. Though tariffs have not in the past been a barrier to exports to the Soviet Union because of their command economy, most-favored-nation treatment on Soviet tariffs will be especially important in the future as they move toward a market economy and develop a meaningful tariff structure.

In addition to tariff treatment U.S. exporters are guaranteed nondiscriminatory treatment with respect to the application of quantitative restrictions, the granting of licenses, and the allocation of hard currency needed to pay for imports. In order to ensure that U.S. exports are able to take advantage of these guarantees the agreement also contains obligations to provide improved market access and increased commercial opportunities, including through the progressive increase of national treatment for U.S. products and services in the Soviet Union.

The agreement also provides improved business conditions for U.S. companies, including an expedited accreditation procedure for U.S. companies and access to office space and living accommodations. Firms will also be permitted to hire directly Soviet citizens directly.

The agreement also stipulates the right of U.S. nationals and firms to engage in service agents and to engage authorized Soviet organizations as distributors. And as the Soviet Union decentralizes its economy, these rights will become increasingly important.

The agreement requires timely publication of laws and regulations affecting commercial activity and access to financial reports and other information helpful in selecting trade partners. The agreement provides for national treatment in access to domestic courts and administrative bodies and also endorses the use of international third party arbitration for the settlement of commercial disputes.

One of the major advances in our trade relations with the Soviet Union stems from the intellectual property negotiations that took place in the context of the Trade Agreement.

Just a note at this point, Mr. Chairman. At our first session when we presented a draft to the Soviet delegation, my counterpart on the Soviet delegation said, "This is not like any trade agreement we have ever seen. Two-thirds of it have to do with intellectual property." We said, "That is the modern world. If you are going to have a relationship with the rest of the world, if you are going to have investment, you must have provisions for protection of intellectual property."

At the conclusion of the negotiations, after the agreement was signed, he said to me, "You know, this is the best agreement we have ever negotiated." So I think we did have an impact on their thinking.

Given the time schedule for the negotiations and the complexity of the issue the necessity for the inclusion for private property, some topics in the area of intellectual property were not resolved in the agreement, and we established a working group which has already met on several occasions to pursue these issues.

As the result of a grant of most-favored-nation tariff treatment we can reasonably anticipate an increase in imports from the Soviet Union, but we do not expect that increase to be large, at least at the outset, because the column two duties we apply to raw materials, that currently make up the bulk of Soviet exports, are already fairly low.

Should there be an import surge that causes market disruption, the agreement does contain safeguard provisions, including the right to unilaterally impose remedial measures as required by Title IV of the Trade Act.

Mr. Chairman, as you can see, this agreement is comprehensive. It directly addresses specific current needs of the U.S. business community and sets the stage for the development of future beneficial relations. I urge the committee to approve this agreement expeditiously so we can begin to receive its substantial benefits as soon as possible. I would be pleased to answer any questions members of the committee may have.

Thank you, Mr. Chairman.

[The prepared statement of Ambassador Katz appears in the appendix.]

The CHAIRMAN. I think we will go on with the other witnesses and then ask questions.

Secretary Duesterberg, if you would go ahead.

STATEMENT OF HON. THOMAS DUESTERBERG, ASSISTANT SECRETARY FOR INTERNATIONAL ECONOMIC POLICY, U.S. DEPARTMENT OF COMMERCE

Secretary DUESTERBERG. Thank you very much, Mr. Chairman; and thank you for this opportunity to testify on behalf of the Department of Commerce on the trade agreement. I have a statement that I would ask be entered into the record.

The CHAIRMAN. That will be done.

Secretary DUESTERBERG. I will just summarize very briefly. My remarks hopefully will be directed towards the economic impact of the agreement.

Ambassador Katz summarized the agreement and the beneficial impact of the agreement. Let me just make two remarks at the outset before going into a few details.

One, we see this as part of the ongoing dialogue with the Soviet Union on the direction of economic reform. Ambassador Katz made remarks about the beneficial impact of the dialogue itself. We need now, as the Soviet Union has finally made the decision to move in the direction of establishing a market economy, to continue to engage them in this direction. We need to help them build institutions that will be the fundamental underpinning of a market economy.

We feel the obligations that are characterized in this agreement are one step in that overall process and we think it is important to get this agreement operationalized so as to keep that progress going.

Second, there are certain benefits that accrue to the American business community as a result of this agreement. I will detail a few of those. As you remarked, Mr. Chairman, we do not want to be left behind in the very, very competitive world of doing business with the Soviet Union and we are one of the few nations left without MFN relations with the Soviet Union.

I think Ambassador Katz mentioned what the potential impact of this trade agreement would be. Let me just make a few remarks to elaborate on that theme. In the short run we do not see a large impact, either in terms of U.S. exports or in terms of U.S. imports.

There have been a number of studies, the GAO, the Department of Labor, and the International Trade Commission, which have estimated a minimal impact. Ambassador Katz mentioned the reason for that is that most imports from the Soviet Union now are in raw materials which have virtually no tariffs anyway.

The Department of Commerce has a study that we have undertaken and we concur with the previous findings and find that—and I emphasize this as in the short run—the likely increase in Soviet exports to the United States is somewhere in the order of \$100 million to an upper end of \$400 million. These increases are expected in the traditional areas of raw materials, but perhaps in some manufactured goods where the tariffs would come down.

In the longer run, I think it would be imprudent to estimate the overall impact because it depends more on the further changes in the Soviet Union, further moves towards a market economy.

Let me emphasize a few aspects of the trade agreement and the beneficial impacts on our ability to do business in the Soviet

Union. Entry into the trade agreement will provide a better commercial environment as well as symbolizing the support of both governments for bilateral trade.

The real benefits, beyond our ability to give confidence to our business community about the rules of the commercial game in the Soviet Union, are several. First, the agreement makes it much easier to establish sales and representation offices in the territory of the Soviet Union, it provides a limited, 60-day period for accreditation of U.S. companies.

The trade agreement also grants U.S. companies with sales offices the right to hire Soviet citizens directly and compensate them in mutually agreeable terms.

Other things we would emphasize is that there are provisions for access to office space and living accommodations on a nondiscriminatory basis, which is a reality of life in the Soviet Union, but at least we will hopefully see an improvement there.

There are also provisions covering the right to engage and serve as agents and access to official and commercial information. Again something that is in need of improvement.

Ambassador Katz mentioned the agreement would guarantee MFN tariff treatment. This is potentially important because in March of 1991 the Soviet legislature passed a new customs law which provides for a harmonized tariff schedule and which could present new barriers to U.S. exporters and put us at a disadvantage with some of our competitors.

Mr. Chairman, I know we will get into a longer discussion in the question and answer period. But we do see this as part of the overall effort to increase the prospects for U.S. business. We have a number of other elements of our program, including increasing the presence of our commercial officers in the Soviet Union, working on a government-to-government basis through things like our Joint Commercial Commission. We have a new working group with the Russian Republic which we hope will meet at the end of this month for the first time. And we have a number of technical exchange programs, including in the area of standards.

All of these we think are helpful to deepen our dialogue on the direction of economic reform and the building of institutions for a free-market economy in the Soviet Union.

The CHAIRMAN. Thank you very much.

[The prepared statement of Secretary Duesterberg appears in the appendix.]

The CHAIRMAN. Mr. Secretary.

STATEMENT OF CURTIS W. KAMMAN, DEPUTY ASSISTANT SECRETARY FOR THE SOVIET UNION AND EASTERN EUROPE, U.S. DEPARTMENT OF STATE

Mr. KAMMAN. Thank you, Mr. Chairman. I also have a prepared statement.

This agreement, as you pointed out, is the final step in a long process that would bring the Soviet Union to enjoy most-favored-nation treatment. The Department of State was very much involved in the process because under the law there are political conditions.

We support early approval of this agreement. The agreement itself, as Ambassador Katz has outlined, is a good one. We believe the Soviets have met the political conditions established in the law; and we believe also that normalization of our trade relationship can play a very important role in the reform process that is now going on in the Soviet Union in their transition to a market economy.

The agreement, as Senator Moynihan pointed out, was signed over a year ago. The administration did not send it up because we wanted to insist that the Soviet Union in its immigration practices should not only allow the free immigration of persons desiring to travel abroad, but also enshrine in law these procedures and the right of Soviet citizens to immigrate.

It took a rather long time to persuade the Soviets and to get through their parliamentary process. It was only about 1 year after the agreement was signed that that process was finally complete; and, therefore the administration submitted the agreement to the Congress as we had told the Soviets we would do, only after they had completed action on their immigration law.

I have prepared, in addition to my prepared statement, a set of statistics concerning Soviet immigration, which I would also like to submit for the record.

The CHAIRMAN. It will be accepted into the record.

[The figures appear in the appendix.]

Mr. KAMMAN. That indicates that last year there were 400,000, or I should say nearly 400,000, Soviet citizens who emigrated abroad permanently. The current rate in 1991 is running at about the same level.

Now as has been pointed out by a number of members of the committee, the Soviets are on the threshold of economic reform. It seems to me they need encouragement and they need engagement with the West if they are going to succeed. But there is quite admittedly political uncertainty in the Soviet Union and uncertainty in the West about where they are going, both economically and politically.

Nevertheless, it seems likely that the Union government, the Union of Sovereign States, will ratify this agreement. It seems likely also that most republics would find it in their interest to be bound by this agreement, whatever the final political structure may be in the Soviet Union or the Union of Sovereign States.

Therefore, I think the agreement is in our interest because it gives us both a legal basis and a political basis to insist on treatment of our exports and provides for a normalization of trade that is in our interest with whatever political structure emerges in the nation once called the Soviet Union.

Let me touch for a moment on the Baltic issue. When the agreement was sent up, de facto control over the borders, customs, territories of the Baltic countries was in the hands of the Soviet authorities. That is no longer true. The Baltic nations are free again. As some of you know, I was there last week and met with the three presidents of Latvia, Lithuania and Estonia.

For the three Baltic countries, therefore, it is no longer relevant what is in the U.S.-Soviet Trade Agreement. This is no longer rele-

want to the Baltic nations and we must find a basis to ensure normalization of our trade with them.

That is the administration's desire and intention. Secretary Baker will be visiting Latvia, Lithuania and Estonia on Saturday of this week. We anticipate that there will be a proposal very soon forthcoming as to how best to move forward with normalization of trade with the Baltic states. We want to work with the Congress to accomplish that purpose.

So let me conclude by saying that the State Department, along with the administration as a whole, recommends that the agreement be approved as soon as possible and that we should not delay. We should give a signal to the economic reformers in the Soviet Union that we want to cooperate and assist in their transition to a free-market economy.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Kamman appears in the appendix.]

The CHAIRMAN. Secretary Kamman, both you and Ambassador Katz have said that we should expedite this agreement—get it approved as quickly as possible. But it was June 1990 when President Gorbachev signed this agreement, binding the central government and the 15 republics. Now there are 12 remaining republics, and all but three of those have declared their independence from Moscow.

Mr. Katz, you were talking about how much of this agreement was devoted to high standards of intellectual property protection. If we rush through this and sign it, who is bound? What do you have left? Who do we look to insofar as being committed to this agreement? Either one of you.

Mr. KAMMAN. Perhaps I could take a shot at this. The central government, the Union government, in Moscow at this moment still has de facto control of the currency, the borders, the customs, all of that territory remaining after they granted recognition to the independence of the three Baltic states.

That may not continue to be the case, because they are working out a new structure and a new Union treaty. The declaration of independence by various republics may be a weigh station to devising a new economic union or it may be a move towards actual assertion of authority over economic matters, including foreign trade.

But we would expect that if the final outcome is that even if the government in Moscow, the Union government, does not control matters affected by this treaty, that the republics would find it in their interest to abide by the provisions of this treaty since thereby they would gain the benefits. If they did not choose to accept the provisions of the treaty—and I emphasize we think the provisions are good—then they would not get the benefits. There would be no obligation on the part of the United States to offer to those republic those benefits.

The CHAIRMAN. Would you anticipate that they would formalize the approval individually of this agreement?

Mr. KAMMAN. The current structure of the country is that there is still a Parliament which has been reconstituted. It happened last week. The upper house of that Parliament we believe would be the body expected to ratify this agreement and to place it in effect.

If there were a new constitution that removed some of the authority from the Union government that could implement the agreement, obviously then it would be incumbent on the republics to follow the agreement if they wish to have the benefits.

The CHAIRMAN. Well, I hope you are right.

Now, another question. President Bush apparently envisions the IMF and the World Bank playing a lead role in the economic recovery for the Soviet Union. I heard my friend Senator Bradley recommending that we use the world organizations that are already in place. I agree with that.

But let me understand. Do you envision that the resources of those institutions are sufficient to address this problem or do you anticipate the administration asking for further participation and contributions by the United States to those organizations as a result of this?

Ambassador KATZ. I am certainly not in a position to respond to that, Mr. Chairman.

The CHAIRMAN. Well, maybe you are not, Mr. Ambassador, in that capacity.

Mr. Duesterberg, how about you? Do you want to try that for size?

Secretary DUESTERBERG. Mr. Chairman, are you referring to technical assistance or are you referring to—

The CHAIRMAN. I am talking about money. [Laughter.]

I am talking about the Congress appropriating additional funds to those financial institutions to take care of the concerns that we have insofar as getting the Soviet economy moving.

Secretary DUESTERBERG. I am afraid I am not in a position to discuss that and I think it would be premature to judge that question at this point.

The CHAIRMAN. Secretary Kamman?

Mr. KAMMAN. I think what we have so far decided is that the Union should become an associate member, should gain associate status in the IMF, World Bank, the international financial bodies. At some point in the future the republics, if they assert their independence and if they meet the criteria for membership, could be considered for membership.

But at this stage the decisions on the amount of assistance that may be required I think would still be contingent on a lot of further study by the IMF and therefore it is premature to answer the question are we going to need to increase our own contributions to the IMF.

I do not think the administration knows the answer to this yet.

The CHAIRMAN. Well, let me ask you another question. We are very much concerned about a bad crop in the Soviet Union, about a transportation system that has broken down, about storage facilities that are inadequate, about possible riots this winter, and about strong people arising and reversing the progress toward democratization.

Do you anticipate that we will have substantial requests for humanitarian aid and that the administration will be supporting that?

Mr. KAMMAN. Yes, Mr. Chairman, I think there will be such requests and the President has indicated that we will be very sympa-

thetic to the requirements for humanitarian aid. The President has sent the Under Secretary of Agriculture, Dick Crowder, to the Soviet Union to look at the food distribution problem.

We are also interested in finding ways to assist in the energy sector, which is critical to getting through the winter and also to Soviet export earnings. But what we are really looking at here is, we hope, the ability to help the Soviets reorganize their system of distribution, of extraction of energy; the United States and other Western private sector might be able on a profit basis to take up a lot of the slack. There still will be, I think, humanitarian assistance required, however, and we certainly will be sympathetic to those needs.

The CHAIRMAN. I see my time has expired.

Senator Moynihan?

Senator MOYNIHAN. Briefly, Mr. Chairman, may I just say to Mr. Kamman in particular that there is a sense in which we have been through our present experience before. That was in 1917 when there were two Russian revolutions, not one. The first was a democratic revolution. In March the Czar abdicated and the provisional government came to power; and the allied governments, ourselves included, just constantly harassed those people: You have to do this. You have to do that. You have to stay in the war. You cannot do that. You have to acknowledge your debts.

They set Kernsky up for Lenin. And when they stormed the Winter Palace they did not overthrow the Czar, the Bolsheviks overthrew the provincial government. And for the next 70 years endured.

You just have a feeling of our doing the same harassing to the current successors, in some sense the same people. I see you are nodding that you know what I am talking about. You do not agree necessarily.

But may I ask, what is this consistent insistence that in order to have a most-favored-nation agreement with us you must move toward a free market or a market economy? We have not asked since Cordell Hull began this process; have we ever required that you be a market economy in order to have a trade agreement with us? [Laughter.]

Mr. KAMMAN. Maybe I could first of all comment on the 1917 analogy. That is a very instructive analogy which we are all thinking about these days. But I think you, yourself, put your finger on the difference between 1917 and now. That is the fact that Kerensky was persuaded either by his own people or by western allies to continue to participate in a very unpopular and economically draining war.

Senator MOYNIHAN. Yes.

Mr. KAMMAN. And that is not the case in 1991. But nevertheless we do have to try to find the right mechanism to get this government out of its economic difficulties or help them to find their own way.

Now it is certainly not a condition for most favored nation that they move to a free market economy. Rather, it is in our view the other way around. If we are able to grant most-favored-nation treatment they can expand their trade with the United States. This in itself will enhance their incentive and their ability to move to a

free market economy. It will also have the effect of bringing in American management skills, American investment, which we think will be good for their economic success. But we do not make the free market economy a condition for MFN.

We would like to see some movement to the free market before we are going to offer major American assistance, but it is not a condition for trade.

Senator MOYNIHAN. Well I think that is perfectly fair. But we did, you know, put on Kerensky conditions that in the end just set him up for the Bolsheviks and he spent the rest of his life wandering around Manhattan trying to explain what happened. [Laughter.]

On market economies, we had a very able young gentleman up here for confirmation to a position in the Treasury Department the other day and we just casually asked him what proportion of American exports are licensed by the Federal Government. He came back and gave us the answer, for 1989, 76 percent of American manufactured exports had to get an approval of a committee in the Department of Commerce. That is not my idea of a market economy but there you are. [Laughter.]

The last point to make is on most-favored-nation treatment, a term that indicates something special. Actually, it means you are treated like everybody else, trade under it takes place between consenting adults. Is that not right? [Laughter.]

Mr. KAMMAN. Yes.

Senator MOYNIHAN. And if you do not want to do it you do not have to do it. The government does not pay you to do it, it doesn't pay you not to do it. It is just you go out into the world market and you trade and take the risks of markets. Right? Isn't that right?

Ambassador KATZ. That is right, Senator.

But the situation here is that we were operating under the strictures of the law of the land, which is Title IV of the Trade Act.

Senator MOYNIHAN. The U.S. Government is not giving anything to anybody under this agreement.

Ambassador KATZ. You are absolutely right.

Senator MOYNIHAN. That is absolutely right you say, sir?

Ambassador KATZ. You are absolutely right. I have been searching for years for an alternative term to most-favored-nation treatment.

Senator MOYNIHAN. It is like everybody else treatment or something like that. [Laughter.]

Ambassador KATZ. Well, that is what it is. It is nondiscriminatory treatment. But maybe you have it right, it is like everybody else treatment.

Senator MOYNIHAN. Thank you very much, Mr. Ambassador, Mr. Secretaries.

The CHAIRMAN. Senator Packwood?

Senator PACKWOOD. I was intrigued with your immigration tables. One, I did not realize the German immigration was so extraordinarily large. Two, I see starting in 1987 a group is immigrating called Pontians. What are they?

Mr. KAMMAN. That is a term that is used by the Soviets as a generic term to refer to people of Greek origin, mostly living in the

southern part of the Soviet Union, the Crimea and so forth, who are being repatriated to ancestral homes in Greece.

Senator PACKWOOD. Being repatriated by the Russians or going voluntarily?

Mr. KAMMAN. They are leaving of their own volition, feeling I think in many cases that their economic prospects are better if they go to Greece.

Senator PACKWOOD. Let me ask you an unrelated, generic question. In most of the immigration, ethnic exchanges that have happened in this century, whether it was Greek, Turkish or Polish, German, or otherwise, has a great portion of this been resettlement rather than repatriation?

Mr. KAMMAN. I do not know if repatriation is the right word. I may have used it inadvisedly.

What is happening here is that the Soviet authorities over these recent years have acknowledged that people may immigrate abroad for reasons of family reunification and they have come to define that more and more broadly. So that if you have ties in a foreign country they generally have been prepared to allow immigration.

What you do not see in that set of figures is any substantial number of ethnic Russians because, by and large, with the exception of marriage cases, there are not very many Russians who have the ties abroad that would enable them to immigrate.

Now their new law would make it certainly feasible. It would give the right to every Russian to emigrate. But clearly immigration is something where the receiving country has a say. One reason the figures are concentrated in particular groups is that these are the people for whom a receiving country is willing to absorb large numbers of refugees or immigrants.

Senator PACKWOOD. I was not thinking of it so much in those terms. I was thinking of Greece and Turkey after World War II, or even Greece and Turkey in Cypress now, or even Poland and Germany when we moved the boundaries at the end of World War II. We simply resettled people.

We took them from their traditional homelands and moved them elsewhere, or the occupying power happened to do that. But it was regarded as legitimate by the civilized world or more or less approved by the civilized world.

Would that be a fair statement?

Mr. KAMMAN. I think in most of those cases it was a way of solving ethnic tensions. We may have to see a similar phenomenon in our time. For example, we have a major ethnic problem in Yugoslavia that may require this sort of thing.

But in the case of those leaving the Soviet Union I think it is mostly the desire to go to another homeland for which the person does have ethnic roots.

Senator PACKWOOD. Do you think there would be any possibility of using that formula for settlement in the Middle East?

Mr. KAMMAN. That is out of my domain and I would not speculate on that.

Senator PACKWOOD. The next question. You said, Secretary Kamman, go ahead and grant most-favored-nation status, it will extend to what is left of the Soviet Union and we will negotiate separate agreements with the Baltics; and then if some other re-

publics become independent or whatever the status may be in this new arrangement, they will either accept or not accept the condition of most favored nation. But if they would do certain things that would violate the agreed most-favored-nation status, we could withdraw it as far as they were concerned.

Was that the reason for going ahead now and as the republics became independent they could either sign on or sign off, but if they did not agree to whatever the agreements were, they would be out?

Mr. KAMMAN. I think that is a fair statement. In fact, our view is that with the exception of the three Baltic nations, the Soviet Union remains an entity, a legal entity, that we have diplomatic relations with, that we recognize and with which we are able to sign international agreements.

All of the efforts of the various republics to redefine the relationship within that union may lead to independence, genuine independence for some republics, a continued union with others. We cannot predict that and it is really up to the Soviets themselves.

Senator PACKWOOD. But in any event, there is no harm in going ahead with most-favored-nation status now. If some other republic becomes independent we could negotiate with them separately. But until that time comes, we negotiate with Soviets and see what happens with individual republics, depending on the status of the Soviet Union.

Mr. KAMMAN. There is no harm and I think there is benefit because the republics then will have a benchmark that will determine the basis of their trade with the United States.

Senator PACKWOOD. Are you sure you would not like a last chance to comment on resettlement in the Middle East?

Mr. KAMMAN. Thank you, no.

Senator PACKWOOD. All right. [Laughter.]

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Rockefeller?

Senator ROCKEFELLER. Thank you, Mr. Chairman.

The administration seems to have slightly altered its position with respect to considering some sort of help after market changes, economic changes, have been made. Now it appears to be more focussed on when the plans are laid. I do not know whether that is the case or not. I would like you to comment on that.

But there is no question a crisis is looming, Senator Moynihan wrote an article in Newsweek in which he said that it would be quite possible to see a decline to half the former level of production in the Soviet Union before the end of this year. Right now we are looking at all kinds of plans and mechanisms and trying to figure out how we are going to interrelate. But it is basically a fairly easy time for us because it is not winter. The food crunch has not come.

So we can sit here and debate about what we are likely to do and construct situations in ideal logic. But what we need to be really clear about is that there is not going to be an ideal logic, that the winter is going to come, that their production is going to, as the Senator says, be cut in half, and that we are going to have to either move or not move.

We are either going to be shaping events there or we are going to be reacting to events, if I can divide it into black and white like that.

Now I said in my opening statement the most important reason for all of this is not just peace in the world, but our own economic self-interest.

You can imagine what the Japanese might be doing if the Kurile Islands issue would be settled. You can imagine what the French and the Germans and other Europeans are going to be doing. They are going to be pro-active. They are going to be in there. They are going to have their businesses in there. The Germans are already incredibly pro-active in terms of their future economic self-interest.

So it comes to us. Yes, we have the IMF, we have Ex-Im, we have the World Bank, we have all kinds of things, ways we can help. My question to you is: How do you define, Mr. Ambassador, or any of the three of you, what is a prudent but pro-active American position with respect to charting an economic course in the Soviet Union, of which of course I include the treaty under the subject of discussion this morning? The difference between reacting and setting a course which makes a difference and positions this country to be able to take advantage of economic opportunities.

Ambassador KATZ. Well, Mr. Chairman, I would like to try the first part of that and invite Secretary Kamman to comment as well. I do not think it is wholly a matter of reacting. But I think it is also fair to say that there is a moving target. There were plans at the time of the economic summit in July. There was a plan laid out by the G-7. The Chairman of the G-7, Prime Minister Major, undertook to coordinate certain activities, the Chancellor of the Exchequer went to Moscow, plans were being laid, changes took place that we know about in August. The G-7 deputies reconvened. Prime Minister Major has been to Moscow. Secretary Baker is there now. Plans are being made.

But I do not think it is a matter of waiting and reacting. On a bilateral basis, Secretary Kamman referred to the mission of Under Secretary Crowder who is in the Soviet Union right now visiting a number of different areas in the country, assessing what their food requirements are going to be.

Secretary Madigan will shortly, I think within 2 or 3 weeks, lead a delegation there to look at how we can deal with distribution problems.

So these are matters that are receiving urgent attention. I do not think it is a matter of just putting it off and waiting to see what happens.

Senator ROCKEFELLER. If I could just ask within that question of technology transfer, COCOM, et cetera, there are some steps being taken. But on a net basis it is my impression that we are somewhat more strict towards the Soviets on some points than we are towards the Chinese in terms of technology transfer which is quite basic to all of this.

Ambassador KATZ. Well, I cannot comment with any specificity. But there have been substantial changes in the COCOM lists affecting the Soviet Union within the past year. I do not know how it relates to the China list, for example. But there have been substantial changes in removal of items from control.

Senator ROCKEFELLER. Was the Secretary going to respond to the second point?

Mr. KAMMAN. Well, you were asking about our plans for being proactive as winter approaches. We are very conscious of that. The President in addition to sending Secretary Krouder to the Soviet Union has announced that the United States will make available, I think it is \$350 million in agricultural credit guarantees earlier than had been anticipated. And, therefore, in time that shipments could take place at this point before the weather gets too cold.

So we are certainly trying to act with all urgency, but it is also a matter of finding out what the Soviet Union intends to do in terms of reorganizing its distribution system so that these things actually would reach the people who are going to need them this winter.

Senator ROCKEFELLER. Mr. Chairman, I would just end by expressing my concern that I think we still have to be cautious with respect to giving, unloading, sending and all of that. But a sense of what we really are about and what we really are going to do whether that is cautious or not cautious and very clear planning about that, it seems to me is important. We have come to the stage where looking at this academically is not going to be sufficient. That is my concern.

The CHAIRMAN. Senator Bradley?

Senator BRADLEY. Thank you very much, Mr. Chairman.

Ambassador Katz, you said that you thought that most-favored-nation status would increase our exports by what was the number?

Ambassador KATZ. Well I think it was, Secretary Duesterberg said, between \$100-\$200 million.

Senator BRADLEY. \$100-\$200 million?

Secretary DUESTERBERG. Let me correct that.

Senator BRADLEY. \$100 million and \$400 million, wasn't it?

Secretary DUESTERBERG. The figures I gave were the potential increase in imports into the United States of Soviet products.

Ambassador KATZ. I'm sorry. That is right.

Senator BRADLEY. What about exports to the Soviet Union?

Secretary DUESTERBERG. We have looked at this and we do not anticipate any measurable affect, solely because of the affects of the trade agreement. The reason for that is there is no tariff effect by and large.

Senator BRADLEY. So that the granting of most-favored-nation status will have a negligible effect upon the trade between the Soviet Union and the United States?

Secretary DUESTERBERG. Let me try to address that. Because I do not think there should be any misunderstanding.

In the short run it is hard to put your finger on a figure of an increase in exports. But we are, as all of you have pointed out, dealing with a very dynamic situation. We are in the process of trying to help the Soviet Union via this trade agreement, via other discussions, build the institutions of a free market economy.

We feel that in the long run, if that process is successful, there is enormous potential for not only American products but products around the world. We feel that American companies are poised to take advantage of that. What they are looking for is reassurance about the direction of reform and about the conditions they will have to deal with in the Soviet Union.

Senator BRADLEY. Right.

Secretary DUESTERBERG. So, the trade agreement is one step in setting those guidelines.

Senator BRADLEY. If you were comparing the importance between most-favored-nation status and reform in the Soviet Union I do not think you could even say they were remotely comparable.

The basic fact is that right now we have about \$3.5 billion of exports to the Soviet Union and about \$1.5 billion of imports from the Soviet Union. The Commerce Department says granting most-favored-nation status will increase those imports to the United States by about \$100-200 million. Just as a frame of reference, U.S. exports to Costa Rica are \$5.3 billion and imports are \$6.9 billion.

In a sense, we have a very small economic relationship with the Soviet Union. And most-favored-nation status is more a kind of political badge than it is going to have an economic effect, certainly by your own words in the short to mid term and in the long term. Well, in the long term everything could be better or worse.

Ambassador KATZ. Senator, that is absolutely right. I do not think we would disagree with that at all.

Senator BRADLEY. Good.

Now let me just clarify if I can, Mr. Kamman—

Ambassador KATZ. But could I just say that the political importance of it is very great.

Senator BRADLEY. It is a political—

Ambassador KATZ. It is a normal economic relationship that we are seeking.

Senator BRADLEY. No one disputes that.

Now, Mr. Kamman, you said the administration favored granting most-favored-nation status to the Baltics; is that correct?

Mr. KAMMAN. That is correct.

Senator BRADLEY. And since it was revoked in 1951 because we did not want trade to the Baltics to get through to Stalin, would you say that the best way of doing this would be a simple statement that says that the Baltic states shall not come under the provisions of Section IV of the 1974 Trade Act?

Mr. KAMMAN. In studying that issue the only legislative obstacle that we found was the specific provision of the 1974 Trade Act that requires us to go through the whole procedure, Jackson-Vanik and the like.

I am not in a position to say exactly what the administration favors as the best device to do it, because this is a bilateral issue now between us and the new governments—not so new, a year old—in Latvia, Lithuania and Estonia.

Secretary Baker is going to be there Saturday. He will be undoubtedly addressing this. I would like to defer any specific notion of the best way to do it until he has had a chance to talk to them. But I think it is something that we would not wish to have either linked intrinsically with the Soviet trade agreement, nor do we think it is necessary to wait for the Soviet trade agreement. I think the Chairman himself made that point at the outset.

Senator BRADLEY. Okay.

In terms of the intellectual property provisions, given the present development of the constitutional order in what was the Soviet Union, who enforces these?

Ambassador KATZ. At the moment it would be the Soviet Union, the government and institutions that administer the economy.

Senator BRADLEY. And in the Ukraine?

Ambassador KATZ. I think the same would be true at the moment. They would be bound by its provisions.

Senator BRADLEY. If in December Ukraine has the referendum and votes for independence, then what happens to the intellectual property provisions?

Ambassador KATZ. Obviously that is a new situation.

Senator BRADLEY. So then we have to make an agreement with Ukraine?

Ambassador KATZ. We might or might not. Senator, we do not normally have bilateral agreements with countries on either MFN or intellectual property.

When the countries of Africa successively became independent we did not execute trade agreements with them. We had a policy of unconditional most-favored-nation treatment. This situation changed in 1951 when, by law, we were directed to withdraw most-favored-nation treatment from the U.S.S.R. and countries controlled or dominated by the country or organization controlling the world Communist movement. That was the provision of the 1951 law.

In 1974 it was changed to introduce other political conditions. So we have a historical situation and we have a legal situation. As the situation develops we will deal with it.

At the moment we think the appropriate course of action is to proceed with the trade agreement that was signed with the government of the U.S.S.R. It becomes effective when confirmed by both governments and that is how we propose to proceed in the interim.

Senator BRADLEY. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Daschle?

Senator DASCHLE. Thank you, Mr. Chairman.

I share Senator Bradley's assessment of the impact of MFN. We all acknowledge that MFN is a framework and it lends credibility to a longer trade relationship with the Soviet Union. But I am more interested in how you view the relative value of MFN status in perhaps the next 24 months versus the value of a very comprehensive aid package, which may or may not include actual dollars.

Has any study been done regarding the impact of a consequential package of economic assistance versus that limited impact MFN will have over the next 24 months?

Ambassador KATZ. Senator, I do not believe it is an either/or proposition.

Senator DASCHLE. No, and I would not pretend that it is.

Ambassador KATZ. I think establishing a normal trade relationship is desirable for all of the obvious reasons that we have stated. Developing an aid package, that is a much larger question and debatable in some terms. I mean, are we talking about a large U.S. package or operating through international institutions as Senator Bradley has proposed?

Obviously, we are not going to carry this burden alone.

Senator DASCHLE. But that is not explicit either, is it, Ambassador Katz?

Ambassador KATZ. No, it is not, Senator. And that is what is being urgently examined and assessed at this time.

Senator DASCHLE. If I were to guess, you are not going to find a vote in opposition to MFN in the committee or perhaps even on the floor.

What we ought to focus on with the same degree of attention is how the United States will deal with the issue that Senator Rockefeller raised, and that is the calamity that could occur this winter, and the very serious political consequences of that calamity.

I hope the administration is already considering this question. You said that Assistant Secretary Crowder and Secretary Madigan are collecting information over there. But food assistance is just one element of an aid package.

To what degree do you anticipate the need for Congress to authorize additional aid? To what degree do you think you already have that authority? What degree do you think we have the capacity to provide assistance in forms other than cash assistance as we look to the coming months?

Secretary DUESTERBERG. Could I make just one comment? I think Mr. Kamman has addressed the question of humanitarian aid. But let me try to, I think, correct this perception about an upcoming calamity in the Soviet Union.

Senator Moynihan has written I guess that there could be a possible decline of as much as 50 percent in the GNP of the Soviet Union. I have not seen any estimates that go quite that high. There is clearly a very deep problem in the Soviet Union. Their GNP declined by something on the order of 5 percent last year. The estimates I have seen indicate something on the order of maybe an additional 10 percent this year.

That is a very, very serious problem. It could be exacerbated by the political disintegration of the union. But the reports I have been seeing coming out of Moscow recently and from the republics are reassuring in the sense that there is a recognition that without paying attention to the economic problems, without avoiding the problems of economic disintegration, the Soviet people would be facing a difficult problem.

In other words, I think they have recognized the break up poses economic problems to them. I think that recognition is leading them to consider plans such as Shatalin's plan for some sort of a common market. So I do not think we should overexaggerate the near-term problem. We were going to address, as Mr. Kamman indicated near-term humanitarian assistance. But let's not overexaggerate the problem.

Senator DASCHLE. No one wants to exaggerate the problem, but no one wants to underestimate it either, given the consequences.

I see the yellow light is on. I only urge you to do one thing. That is, I hope that somebody in the administration is trying to assess our capacity to provide assistance. I am sure they are, but I do not see it and I do not hear the problem discussed enough to give me confidence. We have an appreciation for the needs in the Soviet Union and an understanding of how to meet those needs.

I certainly hope that in the next few weeks that in addition to MFN consideration we look in a comprehensive way at what other

aid is needed. It seems to me that that is what we ought to be talking about.

The CHAIRMAN. Thank you.
Senator Durenberger?

Senator DURENBERGER. Mr. Chairman, thank you.

Gentlemen, I have a question which has been brought to my attention by my Minnesota constituents and which relates to the questions you were asked earlier about computers. I want to share with you the fact that many Minnesotans who have contacted me, who have been trying to do business in the Eastern Bloc complain about the fact that they cannot get over the hurdles for bringing systems into some countries because there is a computer attached to the system which in some way prevents the system from passing muster.

I am not talking about Cray and supercomputers. That is a whole other problem. I am talking about the simple things that people need to run a banking system in Hungary or some place like that; I hope that you will devote some attention to this situation.

I also have a different question that I hope to explore in greater depth tomorrow, which arose when I spent some time in another part of the so-called Third World in August. If you look at the figures on the business we are doing with the Soviet Union, our best business is agriculture. It is also our best potential business.

Since the end of the Tokyo Round in 1979, we seemed to have thumbed our nose at agriculture as an export business. There has been a substantial shift in suppliers of agricultural products, particularly for grain and oil seeds, from the United States to the European economic community.

As I have been struggling with the messages that I hear from the Vice President and from Carla Hills and from the Chairman of this committee in South America, it seems to me that there is great potential if we think about trade with Soviet, East Block and Third World countries and about GATT and the Uruguay Round. But we also have to reconcile that with a national policy called the "Acreage Reduction Programs" in this country, which is broadcast across the world and says that in order to sustain incomes to farmers in America we will discourage production.

That is a signal, at least in Europe that is interpreted as meaning we are not a major player. Obviously, we do play in the game, but our long term sense of direction is not to put all of the product potential we can in the international marketplace.

Consequently, I am wondering out loud if just in the next few weeks—I know Dick Krouder is in Eastern Europe now and I know Ed Madigan is going over—we ought to be addressing this issue of potential. We have to deal with the issue of set asides beginning at the end of September. I wonder if there is some possibility that changing the domestic agriculture policy would not send an important signal to the European economic community about the future of U.S. export policy.

All of that can be premised on the need for all of us to respond to the needs in the Soviet Union. I understand, for example, the current Soviet needs for grain and oil seeds from everyone is probably 15 million ton.

Ambassador KATZ. Fifty?

Senator DURENBERGER. Fifteen.

Ambassador KATZ. No. It is probably more on the order of 40 million tons.

Senator DURENBERGER. Well, it is fairly large.

Ambassador KATZ. We have only made 40 million and 50 million.

Senator DURENBERGER. But isn't the point that we have only made a commitment of what 6 to 8 million tons of that?

Ambassador KATZ. Oh, no. No. No. We will probably—The Soviets are committed to buy at least nine from us, but they are more likely to buy in excess of 20 if there were some way to finance it.

Senator DURENBERGER. Perhaps you can tell us a little bit about the thinking that is going on.

Ambassador KATZ. Yes, Senator. I think the question you put is a fair one, although as all things there are some complexities.

I know there is a view in the land that we ought to unleash production from all restraints. I have had some people from some producer organizations call me complaining about that. So there are two sides to that story.

Secretary Madigan has already made one decision on wheat to cut the ARP, the Acreage Reduction Program. He does have to make decisions on the other programs and I am sure he will take these factors into consideration.

Senator DURENBERGER. Well, I am just wondering the degree to which the Trade Representative's Office is discussing with the Agriculture Department the potential impact on the EEC of a decision that does move in the direction of increased production. Have you thought about that? Have you discussed it?

Ambassador KATZ. Yes, sir.

Senator DURENBERGER. Despite what some of the commodity groups may be seeing.

Ambassador KATZ. Yes, sir.

Senator DURENBERGER. What is your advice currently on that?

Ambassador KATZ. Well, we have discussed it.

Senator DURENBERGER. All right.

Thank you.

Mr. KAMMAN. Could I answer the Senator's comment about computers in U.S. exports, especially when the computer is part of a larger system or a larger exported item?

I think that your constituents will find things quite a bit easier after the changes that were made in May in the COCOM list of items that are not normally licensed for the Soviet Union. That list has now been streamlined and the number of computers that cannot be licensed is considerably fewer. The more run of the mill computers I think you will find are now much easier to get licenses to export.

Secretary DUESTERBERG. Mr. Chairman, could I just enter into the record the statistics on exports of computers over the last 3 years?

The CHAIRMAN. Yes, of course.

Secretary DUESTERBERG. In 1988, 1.5 million; 1989, 14.5 million; 1990, 72 million; and the first 6 months of this year an additional increase of 36 percent. So I think this corroborates.

The CHAIRMAN. The export of computers?

Secretary DUESTERBERG. Automated data processing machinery and equipment, computers and associated products.

The CHAIRMAN. That is total exports?

Secretary DUESTERBERG. Total exports to the Soviet Union from the United States.

The CHAIRMAN. That is what I wanted to know. All right. Fine. Thank you.

Senator Roth?

Senator ROTH. Thank you, Mr. Chairman.

Gentlemen, in addition to the United States-Soviet Trade Agreement I wonder what other steps we are taking to assist U.S. business in seeking out potential economic opportunities.

For example, what foreign commercial service representation do we have both to the Soviet Union as well as to the various republics? I am also interested in what steps we are taking in helping them to create the legal frame work for a market economy. Is this something we are sending experts on or are we playing any role whatsoever?

Secretary DUESTERBERG. I will take a first stab at that. In terms of foreign service officers we do have an American commercial center in Moscow staffed by Americans and a number of Soviets. We have received authorization from the State Department to open commercial offices in Kiev and St. Petersburg. We hope to serve the other republics as the amount of the business warrants.

In terms of legal assistance I think Ambassador Katz indicated and we have tried to argue here, we see the negotiation of not only the trade agreement, but the investment agreement as methods of pointing out to the Soviet Union what we think are the steps they need to take to set up the legal framework.

There has also been an ongoing series of exchanges between American lawyers and Soviet lawyers talking about the legal framework of a market economy. This has been led by the General Counsel of the Commerce Department and it includes corporate general counsels from some of the major American corporations. I believe they have met in the Soviet Union once or twice and in the United States at least once.

Ambassador KATZ. Senator, I would add to that. I do not know the details of this, but I am aware that the Department of Justice has also been involved with the Soviets in helping them in evolving a legal system. I just do not have the details of that.

Senator ROTH. Let me ask you this. There are apparently, from what you gentlemen are saying, a number of initiatives. But who takes overall responsibility for the initiatives in this area, Bob Strauss?

Ambassador KATZ. I should let the State Department speak to it because they have been coordinating this. I know that Bob Zoellick, in his role as Counselor, has played a coordinating role with respect to all government activities and they are extensive. The number of agencies that are involved is very substantial.

Mr. KAMMAN. Yes, Senator. I would just like to add that there is a coordination mechanism for technical assistance, technical cooperation with the Soviet Union. Under Secretary Zoellick in the State Department, and counterparts in Treasury and I believe CEA

are involved in that. And as required, other departments are asked to contribute, including Justice, Labor and several others.

So that there is a mechanism for deciding who is best qualified to do what and what the Soviets might best benefit from. That is basically coordinated by the State Department.

Senator ROTH. Let me go back to part of my question. Are we actively seeking out opportunities, economic opportunities, for our American business? Is that a high priority and if so how?

Secretary DUESTERBERG. Senator, let me comment further on that. We have been for a number of years, and we have been intensifying our efforts. To give you one example, under our Joint Commercial Commission, which has been in operation for a number of years under the chairmanship of the Secretary of Commerce and the Minister of Foreign Trade, we have a number of working groups that meet periodically with both the public and private sector participation. These are in the areas of oil and gas equipment, construction equipment, medical equipment, and food processing equipment as well. These are areas that we have targeted.

There have been a number of meetings between those groups on both sides. In the medical equipment area we feel there has been some success because our exports to the Soviet Union have tripled. But those sorts of efforts are underway and will be intensified now that the Soviet Union has made the firm decision to move to a market economy.

Senator ROTH. Are we following through at the republic level?

Secretary DUESTERBERG. Yes, sir; we are. We have set up now a working group with the Russian republic and we have tentatively scheduled the first meeting of our group for the end of this month with the Russian republic. As the situation warrants in the Ukraine and others, we will work with them as well.

Senator ROTH. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Senator Baucus?

Senator BAUCUS. Thank you, Mr. Chairman. Ambassador Katz, I would like to ask you a subject that I do not think has been discussed here this morning, namely the standards that the United States is going to apply to the Soviet Union, such that it is, in order to determine the degree to which we are going to sponsor and encourage their membership to the GATT.

That is the basic tenor of the GATT obviously is free market economies. You know, we have the countervailing duty, anti-dumping, et cetera. It is a basic fundamental tenant, assumption of the GATT. For the United States Russia is head long, either encourages or sponsors in some degree helps push Soviet membership, what are the standards that the United States will first ask of the Soviet Union? What conditions will the United States first insist upon as to what free market kinds of changes to move away from an essentially controlled economy before the United States moves any further in allowing or encouraging Soviet membership in the GATT?

Ambassador KATZ. Senator, we have not been encouraging Soviet membership in GATT. We did support their observer status, making the particular point that this was a learning experience for the Soviet Union to enable them to understand what the require-

ments of the GATT were as they were proceeding with economic reform in the direction of a market economy.

We have made clear that the question of membership would be based on the extent to which they could meet normal obligations of the GATT, which they could undertake freely the obligations of the GATT.

They have not themselves pursued the question of membership. They have viewed this as an opportunity to learn. They do have people there. They are interested. They are nonobtrusive, but they are certainly there.

Senator BAUCUS. How far along is the Soviet say to China with the PRC?

Ambassador KATZ. Well, they are not as far along as China, I would say, but things are changing very rapidly. When they presented their application for observership they made it very clear that they saw membership quite a ways down the road.

The Chinese have been pushing very hard for membership and we do not think they are eligible at this point either. There was a time when the Chinese had embarked on an economic reform program which offered promise that they could meet the obligations of the GATT. That was interrupted, not only by the events at Tiananmen Square, but by the reversal of their economic reform program. So that has not prospered at all.

Senator BAUCUS. I agree with you. I just encourage the administration to use these opportunities. That is, these countries would like to be members of the GATT and get some status, et cetera. But to use that as leverage to insist upon very significant market opening conditions before we do in fact agree to these countries inclusion in the GATT.

Ambassador KATZ. Senator, I recall that when discussing this with Soviet representatives prior to their actual achieving observership status, they said they wanted to use it as leverage in their own economic reform program.

Senator BAUCUS. Thank you.

I have no further questions, Mr. Chairman. Thank you.

The CHAIRMAN. Well I am sure there are other questions the members would like to ask but I will ask that those be deferred and given to you in writing if you will answer them that way.

Gentlemen, thank you very much.

Ambassador KATZ. Thank you, Mr. Chairman.

Mr. KAMMAN. Thank you, Mr. Chairman.

The CHAIRMAN. Secretary Kamman, would you come up here a minute?

Our next panel is Dr. Marshall Goldman who is the associate director of Russian Research Center of Harvard University; and Mr. Robert Hormats who is vice chairman of Goldman Sachs International.

Doctor Goldman, we are certainly pleased to have you here with your background and experience in this field.

Robert Hormats, I do not know whether to call you Mr. Secretary, Mr. Ambassador or Vice Chairman, but we are glad to have you back.

Mr. HORMATS. It is good to be back, sir. Thank you.

The CHAIRMAN. Dr. Goldman, if you would proceed.

STATEMENT OF DR. MARSHALL GOLDMAN, ASSOCIATE DIRECTOR, RUSSIAN RESEARCH CENTER, HARVARD UNIVERSITY, CAMBRIDGE, MA, AND PROFESSOR OF ECONOMICS, WELLESLEY COLLEGE, WELLESLEY, MA

Dr. GOLDMAN. Thank you very much. I have a longer statement that I have submitted for the record.

In preparing my statement I thought it would be best for me to describe what I see as taking place, rather than to address the specific issues.

I have called my presentation the coup that succeeded. Everybody else thinks the coup has failed. I think the coup in 3 days achieved what perestroika has been unable to do in 6 years. Much of the testimony that we have just heard, I think, in some sense is obsolete as some of the Senators indicated.

The U.S.S.R. as far as I am concerned at least has been effectively destroyed. The hardliners have also been discredited and some of them are in jail awaiting harsh sentences. Nobody refers to the Soviet Union anymore, the U.S.S.R. It is the Union of Sovereign States. I think probably U.F.F.R. instead of U.S.S.R. or U.S.S. would be better, the Union of Fewer and Fewer Republics. [Laughter.]

There is nobody really in charge now of the military as far as we can tell or the economy or the general overall outlook. They have created these artificial entities, but those entities really lack power and I want to talk about that in more detail.

The power now is really in the republics. The new structure that was created was designed to deal with the political realities and that is that there is a Gorbachev, but it is the republics that have the power. But in doing that this political entity does not really look at the economic necessities.

Gregory Yavlensky a man who was in this country but 2 months ago asking for money on Thursday in Moscow at a meeting I attended said please do not give us any money. It is a complete reversal from where they were before. He said, we do not know if we are going to end up with one currency or 35.

What is the economic problem? The economic problem, as far as I see it, is that there is a supply side depression. That is not the kind we are used to seeing, which I classify as demand-side depression. It is partly a result of switching from the central plan to the market. What was an advantage in the plan system turns out to be a significant disadvantage when you begin to move to the market. There is a lack of wholesaling which guarantees then you are going to have trouble as you try to move goods between markets and the consumer.

There is also the existence of monopolies which in the old system they were very proud of because it meant there would be no duplication. But in the new system it means that if one factory closes down its customers are unable to obtain supplies. There is no other producer and there is no wholesaling operation they can turn to.

As a consequence, we have a situation where the GNP is down not by 5 percent, but by the first half of the year by 10 to 15 percent and indeed the drop may not reach 50 percent, but I would be surprised if it was less than 25 percent. Inflation is up by my esti-

mate 300 percent. When I was in Moscow last week I heard people talking about 1,000 percent. That is hyperinflation.

The harvest is down. The harvest will be down by 25 percent. Last year when the harvest was up there was still shortages of food in the shops and the situation is going to be much worse because the distribution system is in chaos.

On top of it all there is nobody collecting revenue for the center. The republics are collecting almost all the revenue and so you are going to have a budget deficit at the center that will be financed by printing money. As a minimum the budget deficit will be 25 percent, 30 percent of the GNP. It makes our deficit really look manageable.

In this process you have economic disintegration. Everybody is beginning to protect themselves. People ask the Baltic republics how can you go ahead and declare your independence; and their answer is, how can we go ahead and stay as part of the union because that is going to be worse.

In the meantime the different republics are erecting customs barriers among the different republics along with their neighbors. It is a beggar their neighbor policy. Not to keep goods out, but to keep goods in. The Ukrainians restrict the export of grain from the Ukraine to the other republics.

In the process of issuing their own currencies the Ukrainians have already issued coupons and the Baltics, who are now independent countries are in any case moving away from the ruble. It is like a bad divorce. I should not say that in Washington but that is the way it is. [Laughter.]

In this kind of situation where you are determined not only to make up for lost time but to make sure that your former partner suffers, that is going to compound the problem of the disintegration in the depression that is taking place.

How will the center finance the army? There is no tax base. They are going to print money. Printing money means that you are going to have a worse inflation. For some this will be okay because this will give a sense of ownership. And, indeed, there will be taxation with representation, so there will be less emphasis on the army, less emphasis on space. And maybe the competition between the republics will be good because they will seek to attract foreign investment.

And with time things may improve. There may be a payments union. There may be other effects. What are the implications of this for the United States? We need to focus on the republics. I must confess, I did not hear that today. Aid is going to be hard and there is going to be a need for emergency aid this winter. If there is not, then we do not have to do anything. But we should start to worry about it now and we should set up a situation where we can administer the aid, deliver the aid, as was done in the 1930's, not turn it over to what used to be the Soviet distribution system.

We should set up conditions of conditionality. If they do not produce a plan to organize the distribution of aid, and do not deliver it well, and it does not get to the right people, if it is used for patronage, then we should stop it. It is as simple as that.

In the long run there should be private investment. It seems to me that it is criminal that we did not give most-favored-nation

status earlier. It does not matter whether the Soviets pass a set of fancy laws. It matters how they behave and they were behaving in the way we wanted them to beforehand.

And most important of all it seems to me we also have to recognize that there should be trade. The West Europeans are not doing that right now. They are saying they are going to give the money but they will not accept East European imports and we have to be prepared to accept them as well.

Let me conclude. The economic situation, I think, is very bleak. I do not think we appreciate in this country how bleak it is. There is a need for self-help, that is true. But we are also going to have to come along. I do not think the administration recognizes that Gorbachev is not the man that he was before and that the Soviet Union is not the country that it was before.

Why do we continue to worry about military expenditures when the Soviet Union is no longer a threat. Where are we going to get the money from to help? Well, it seems to me we really have to look at our defense expenditures. What in the world are we spending \$300 billion for in the military? There was a need for that before, but there is not a need now. If you ask yourself, what do we need those bases in the Philippines for, thank God there was a volcano and thank God there is a Philippine Senate.

This is a unique time. The problem is enormous but so are the opportunities. The opportunities because this is a chance for economic reform to take place in what used to be the Soviet Union in a way that it would never have been before and because of the disintegration of the military situation a chance for us to help.

The CHAIRMAN. Dr. Goldman, I want to hear some more out of you. [Laughter.]

[The prepared statement of Dr. Goldman appears in the appendix.]

The CHAIRMAN. Bob Hormats, we are delighted to have you.

STATEMENT OF ROBERT HORMATS, VICE CHAIRMAN, GOLDMAN SACHS INTERNATIONAL, NEW YORK, NY

Mr. HORMATS. Thank you, Mr. Chairman. Economic power in the Soviet today is in the hand of the republics. Virtually anything we do has to be predicated on that fundamental assumption.

The second assumption is that the republics are engaged, to various degrees, in trade wars with one another. Customs barriers have been enacted to hold goods in. In some cases, republics are moving to create their own currencies. Republics are now moving towards some measure of economic artarchy in a system which for 70 years has been bound together by a string of monopolies set up by GOS plan and the Communist party to try to keep the country together and to try to prevent competition.

So you have a system that is very monopolistic—single factory monopolies—trying in a way to pull itself apart.

I think that Congress should pass this trade agreement because it supports U.S. commercial interests, but it also gives us an opportunity to send a positive signal to the reformers and it gives us a vehicle to encourage harmonious economic relations among the

newly sovereign republics, whatever political course they choose to take. This is the important thing.

You have in the European Community sovereign countries which understand they have to work together economically, otherwise they will be committing economic suicide. This really is the case in the former Soviet Union today. If they do not work together economically in some harmonious fashion they will be committing economic suicide.

Now what can we do? Essentially the Soviet Union and we need to at least develop a dialogue in a few important areas. One, they need to as quickly as they can demonopolize the system. Without this price controls are going to lead to huge price increases; 600-700 percent inflation is possible in the very near term.

Second, we ought to ensure that they engage in free trade, that they not impose barriers vis-a-vis one another. This is extremely important.

Senator Bradley has written about the importance of the republics working together. We ought to take advantage of a dialogue with the Soviets to underscore the point in a very strong fashion.

Third, it is very important that we help the Soviets develop an orderly monetary system. I can understand why they all want separate currencies because the ruble is nearly worthless. On the other hand, if they impose separate currencies with exchange controls and with unlimited credit, or very expansive credit to their own enterprises, that will be a mess too.

Again, the European Community has been moving toward the notion of a currency zone or a single currency unit within the European community. The Soviets, if they do not want to have a whole set of 12 currencies or 15 currencies ought to find some way of harmonizing and coordinating their monetary policy, either through a single currency for the entire area or if they choose separate currencies do that in an orderly way. The other alternative is to have a Russian currency which is credible and others could lock themselves in like the Europeans do with the deutsche mark, but that will only work if the Russian republic pursues a sound fiscal and monetary policy; that is unclear at this point.

On the question of convertibility, they just cannot call a currency convertible and have it be worth anything. It is only worth what people want to buy with it—that is to the extent it can buy goods and services. That means that the economy that creates the currency has to be able to produce things people want. A lot of people think convertibility is the answer, but it is not an answer unless there is a strong economy to back it up.

On the question of relief, food relief, the Soviets are going to need it. It is going to have to be done not ad hoc but in a multilateral sense, through some multilateral arrangement.

We have precedents. After World War I, in fact, former President Hoover who worked on this. After World War II we had the UNRA, United Nations Relief and Rehabilitation Administration. It was multilateral and it focused on the need. It had people on-site in the country.

If we just give food aid to the Soviet mechanism today it will be wasted. There is no mechanism to deal with it. You need to find some orderly process for providing assistance. They are going to

need a lot of grain and emergency assistance. But unless there is an orderly arrangement for channeling it to those who need it there is going to be a problem.

We have some precedents here. We ought to be using the World Bank, the U.N. and the Red Cross and other groups. It could be under the overall auspices of the Group of Seven, but as I have spelled out here, there needs to be an administrative structure which is multilateral which determines the exact needs and determines how to get the food to where it is needed, rather than just give it to the Soviet Union, which is a nonentity anyway. And the republics simply do not have the institutional arrangements to deal with that at this point.

One last point relates to Eastern Europe. It is very important that we not neglect Eastern Europe in this process. Because the Eastern Europeans, and I have talked to a number of them in the last few days, feel that money is going to start going to the Soviet Union to their disadvantage.

In fact, they are already concerned that some of our food aid has meant that they, for instance the Polish, cannot sell food to the Soviet Union because our food credits in effect make it easier for the Soviets to buy our food than Polish food.

One particular thing that can be developed is the notion of the West providing financing for Eastern Europe to provide some measure of assistance to the Soviet Union, that is to say emergency food or medical assistance. The advantage is that the Eastern Europeans get the hard currency and the Soviets get the necessary goods, food stuffs, and medical goods.

One way of doing this is for the Japanese who are actually in the process of figuring out how they can help the Soviets or at least the Russian republic seem to be moving somewhat on the four islands. Perhaps the Japanese or the Europeans might provide some emergency help to Eastern Europe to sell goods to the U.S.S.R. That could be one component of a broader multilateral plan.

Let's not forget Eastern Europe. They are the ones who have actually done the reforms, not simply talked about them. It would be a very poor signal to the reformers in the Soviet Union if we now neglected the reformist countries of Eastern Europe.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Hormats appears in the appendix.]

The CHAIRMAN. Mr. Hormats, there has been some talk about the ruble being a clearinghouse currency but there is no convertibility to it. I do not quite see how that contributes much to the process.

Mr. HORMATS. Among the republics for instance?

The CHAIRMAN. Yes.

Mr. HORMATS. Yes. That, for the moment, is a flight of academic fancy. At the moment the people that propose it think it is a good idea and it may be in the medium term to help them. But the Russian and other republics will have to do a lot before that will work, because there are such imbalances.

The CHAIRMAN. Do you think they are going to be reduced to a barter system this winter?

Mr. HORMATS. Pardon me?

The CHAIRMAN. Do you think in the short term the Soviets will rely on a barter system in effect?

Mr. HORMATS. Yes, I think it will be. Marshall's point is right. If the ruble is not worth anything then if you have food you are not going to sell it. If you are in the Ukraine and you have food you are not going to sell to another republic for rubles; you will want oil or some real item. So unless they restore credibility to the ruble or to other currencies that are issued by the republics, then they are going to be condemned to barter.

The other alternative is to have some intermediary currency, for example, settle in dollars. The Russian republic says it might sell oil for dollars. Well if you are Kergesia and you do not have a lot of dollars that in effect becomes a trade barrier.

The CHAIRMAN. Dr. Goldman, if you are setting the order of priorities for providing some assistance, where would you start? Would you aid the central government first or would you aid the individual republics or would you look first at Baltic republics? What would be the order of priority where you would try to help?

Dr. GOLDMAN. It is going to be very difficult to make a decision. I would begin, I must say, first with the Russian republic because Yeltsin is the one who is calling the shots. It was very interesting before the testimony began I was having a conversation with the Deputy Secretary of State and he said that the Baltic peoples are very enthusiastic, optimistic in part because they have worked out a series of economic arrangements with Yeltsin. Because you are not going to get anything done unless you have got that done first.

Indeed there are a series of bilateral arrangements and barter arrangements with each of the republics that have been agreed upon. You should query him again about this—but he said they have worked out the arrangements for continuing the operation of the railroads for example.

Because what you do have, of course, is a railroad that overlaps and is part of each one of these new countries now. There has to be some coordination. He says they have arranged that because they have to. I think you have to begin that way.

But I would not turn my back on the center if the center is indeed going to come together. I would continue to maintain contact and negotiate with them. But in terms of the relief, in terms of even MFN or whatever it would be, I would simply have at this point 15, maybe 35 sets of documents that I go over with and negotiate wherever it is necessary. I think that is just one of the things we have to recognize. I do not think the administration does that.

The CHAIRMAN. I have read some of your statements, Bob, about opening up our markets, Europe's markets to Eastern Europe and to the Soviets, of course. And yet we see the EC last week turning against that kind of market opening, with France probably leading that charge.

Dr. GOLDMAN. Yes.

The CHAIRMAN. This is the same kind of problem we have run into in our negotiations in the GATT. What do you think we can do to try to get them to open up to Eastern Europe's agriculture?

You were talking about Poland a minute ago not being able to sell to Europe because of our concessionary sales to the Soviets.

Mr. HORMATS. I have to tell you, I think the European Community performance has been extremely disappointing on this question of Eastern European trade. Other EC ministers also were shocked by the fact that France stopped the process on beef and lamb imports. A lot of other things had been dealt with and they stopped them on that.

They will have to go back to the table. If the Eastern Europeans cannot export more, especially to the European community, then the prospects for reform are really dealt a very severe blow. It also underscores the importance of the Uruguay round, which has, as you know, Mr. Chairman, a lot of emphasis on agriculture. Unless we can open up global markets the big losers are the Eastern Europeans since agriculture is one of the things they can start selling right away.

It is a troublesome thing. I think it is important enough to the reform program that if we do not provide greater openness to markets, then a lot of the assistance we provide is not going to be very useful; and investors all are going to be very reluctant to invest in countries when they know that those countries cannot export those goods to the rest of the world.

Dr. GOLDMAN. Mr. Chairman, if I may add something about that. I agree with everything Bob said. But I do not want to exclude American responsibility for this problem either to some extent. We have authorized these new agricultural credits but they have to be picked up by commercial banks and our commercial banks will not do it, even though they are guaranteed, I think, something like 98 percent of the return, partly because the economic situation is so chaotic no bank wants to have any additional defaults on their books.

Even the Japanese have difficulty. They have authorized \$100 million or so of credits and they cannot find a way of getting those credits through because the country is in such chaos, so even though the governments come through there is no guarantee that the help will actually be delivered.

I am told by some people in the grain industry that they have received phone calls from people in Washington, whatever that means, asking them to prepare contingency plans. So that if it becomes necessary they can begin to move. I hope that is the case because I think when it comes time to move we may have to move quickly.

The Germans discovered that some of the emergency aid they prepared for last winter is just now being delivered.

The CHAIRMAN. Do you mean that they do not want to go through the process?

Dr. GOLDMAN. That is right. So that American banks are not picking up this option and so the credits that have been authorized are not being utilized.

Mr. HORMATS. Also they only guarantee 4½ percent of the interest. So if the interest is 8 percent, then they are exposed to the other 3½ percent.

The CHAIRMAN. Yes.

Mr. HORMATS. One way of doing this, I have touched on in the testimony, is that part of this deal is the Soviets start paying the lend lease money that they agreed to pay in the last agreement,

but it was curtailed when the agreement was declared null and void.

To get that money out of the Soviets now is going to be very difficult. One thought I had was to put that money—they cannot do it right away because they are not paying right away—but put that money in an escrow fund to back up that marginal 2 percent, or the marginal 3½ percent on the interest, as sort of a back-up fund.

The Soviets would still owe it to us but for a period of time it could be put into a fund, an escrow fund, to back up the guarantees to start to move the food. But unfortunately Marshall is right. In the near term that money will not be there. In the near term there is probably going to have to be a reconsideration as to whether or not the government will guarantee the entire amount because otherwise the banks will not participate in the credits.

The CHAIRMAN. The interest deficiency plus principal.

Mr. HORMATS. Yes. If the going interest rate is 9 percent and they only get 4½ percent guaranteed then they also have a big problem in writing the unpaid portion down in their books.

The CHAIRMAN. Sure.

Senator Bradley?

Senator BRADLEY. Thank you, Mr. Chairman.

This problem of who do you attempt to aid the center or the republics, is a fundamental problem. You both essentially have come down that you should aid the republics, mainly the Russian republic. Is that right?

Dr. GOLDMAN. Well, namely the Russian republic because that is the one you have to deal with. But I hope I did not leave the impression that therefore you turn your back on the others.

How do you decide for example what to do say if the Ukrainians declare their independence? How do you respond? It seems to me you respond first of all by taking the clue from what is left of what used to be the Soviet Union, just as they did with the Baltics.

In other cases I think the way to do it is to establish a criteria for each new state, just as you have established a criteria for the Soviet Union. Are they moving democratically? Are they talking about some aspect of market reform? If they are, then go ahead and provide aid.

If you ask me specifically right now I would say not to Azarbaijan, but I would say yes to the Ukraine if the Ukraine came to us. But I would certainly begin with Russia. But you have to look at the other republics, what used to be the republics as well.

Senator BRADLEY. Aren't there some basic things that have to be decided like if you have an association of republics and there is still a central government, whose laws take precedent? I mean that is clearly a question that has to be answered if you are going to make any investment. Who has the power to tax at what level? Who controls monetary policy?

I must say, in terms of economics, it would probably make more sense to keep everybody together in one form or another. In terms of politics, I think some of them are headed towards independence regardless of the economic problems. And therefore the question is, how can we decide at this stage that what we are going to do is prop up the center?

Dr. GOLDMAN. Well, I am not sure I would accept the idea that it makes sense economically to stay together. Initially my reaction was they should stay together. The more I look at it, the more I see what has happened, the more I see the political realities of the situation. I say it may actually make more sense if they break up, simply because this will give incentive to the different republics to think of what they have to do to gain Western support and investment.

Taxation with representation should make a difference to them.

Senator BRADLEY. The Chairman asked a question earlier when we had a discussion about the IMF. He asked the administration how much additional contributions to the IMF would it take. Their response was it is a little too early.

But isn't an answer however much additional contributions it would take to the IMF it would be less than what you would have to do if you were trying to do it alone.

Dr. GOLDMAN. Sure.

Senator BRADLEY. Or in conjunction with one or two other countries.

Dr. GOLDMAN. Absolutely.

Mr. HORMATS. Yes.

Senator BRADLEY. Understanding that dynamic is a very important thing because other people have said that we are going to do both. Where you get your biggest impact, the biggest bang for a taxpayer dollar is through the international institutions; is that not correct?

Mr. HORMATS. True.

Senator BRADLEY. Why is that?

Mr. HORMATS. It is true in part because there is a multiplier effect. For every dollar we put into the Fund or the Bank, others put in essentially \$8, \$9. We are only a small portion of the pot in the fund and the bank. Therefore, we get the money from the Japanese, and the Germans, and the French and a lot of other countries. So there is a multiplier effect.

Second, the Fund and Bank have instruments for monitoring compliance and they have staff which we do not have. For us to get deeply involved in Soviet economic policy by having people in the various republics of the Soviet Union monitoring their performance and monitoring the use of the money (a) is expensive, (b) we do not have the people to do it, even if we wanted to pay the money.

Senator BRADLEY. And essentially advising them as well, right?

Mr. HORMATS. Advising them, yes. They have a wealth of expertise that has advised other countries on sectoral problems in the case of the World Bank and done quite well.

May I make just one other point on the question we were debating on the republics versus the center. I think assistance should be focused, if we are talking about food assistance, for instance in the immediate sense, on the republics, some need it more than others, some can use it more than others, and some have reformed more than others.

But I think it is very important—Marshall and I may differ a little on this—I take his political point, but I think unless they work together economically, they are going to have an awfully difficult time making it because they are so interdependent. For them

to rupture their economic relations with one another for political reasons and have their own highly protected currencies with currency controls and export controls, which I am afraid it is drifting into now, then the food problem will be compounded dramatically. They will not be able to ship food from food surplus to food deficit countries; and the assistance we provide will not be used particularly well.

So I think we ought to focus on the republics but encourage them to work in a rational and harmonious way on trade relations, on currency issues. That requires some measure of central authority, even if that central authority is delegated by the republics to the center, as it will be.

Senator BRADLEY. Thank you.

Dr. GOLDMAN. I think I would agree. But I think that the political reality is such that while we can say that to them it will make little difference. They may understand that intellectually, but nationalism is not a rational process.

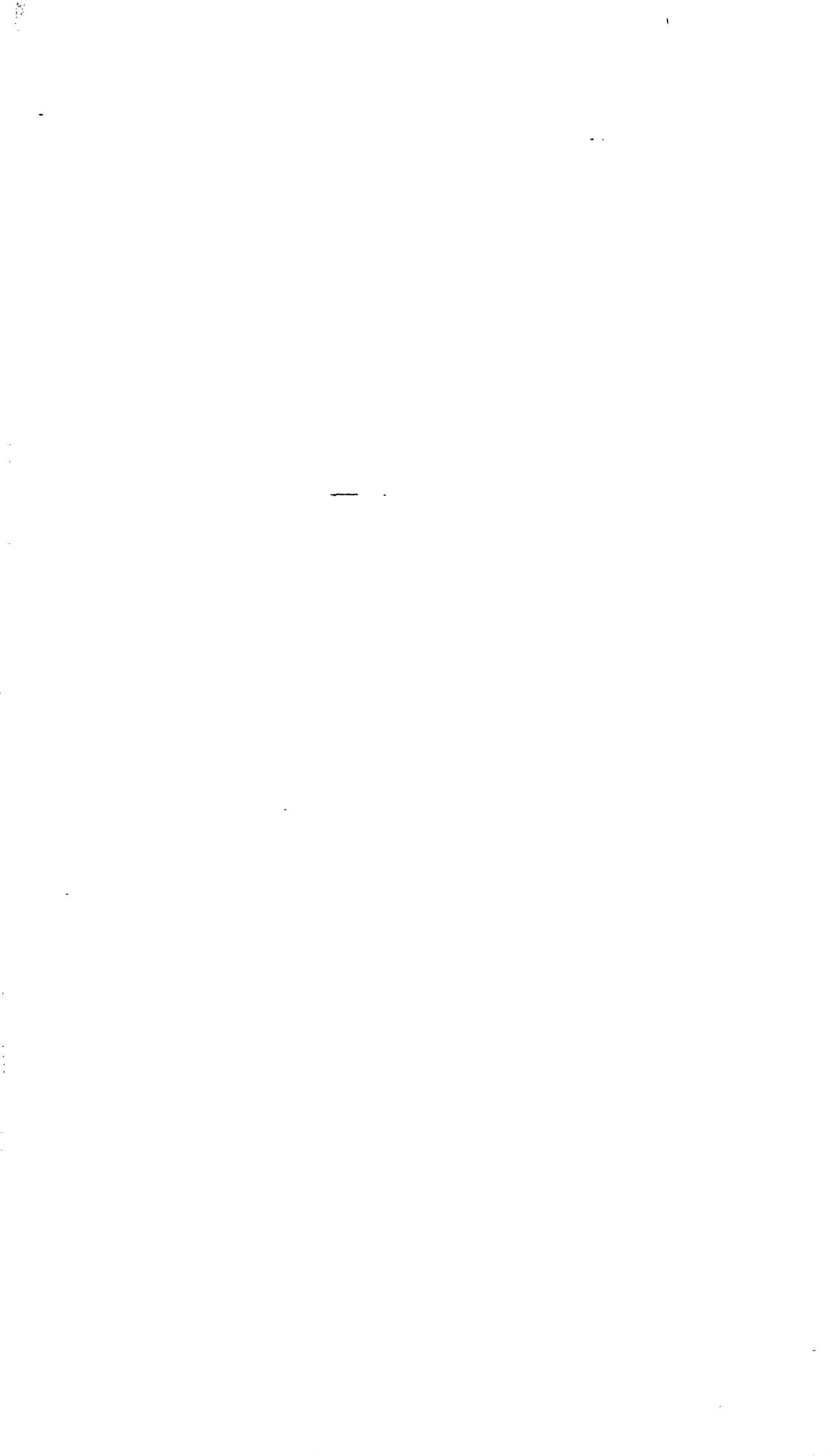
Mr. HORMATS. I accept that.

The CHAIRMAN. That is true.

Thank you very much.

Mr. HORMATS. Thank you. It is good to be here.

[Whereupon, the hearing recessed at 12:12 p.m.]



TRADE WITH THE SOVIET UNION AND THE BALTICS

THURSDAY, SEPTEMBER 12, 1991

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 11:06 a.m., in room SD-215, Dirksen Senate Office Building, Hon. Lloyd Bentsen (chairman of the committee) presiding.

Also present: Senators Baucus, Bradley, Riegle, Chafee and Symms.

OPENING STATEMENT OF HON. LLOYD BENTSEN, A U.S. SENATOR FROM TEXAS, CHAIRMAN, SENATE FINANCE COMMITTEE

The CHAIRMAN. This hearing will come to order. Yesterday we began our examination of the trade treaty that the President had sent to us on August 2. That was before the coup attempt riveted our attention, and before the Union of Soviet Socialist Republics disintegrated.

In fact, one of our witnesses yesterday said it should no longer be called the U.S.S.R., but it ought to be called the U.F.F.R., the Union of Fewer and Fewer Republics. [Laughter.]

I called these hearings because I want to get a sense of what our economic policy is now toward the Soviet Union and the newly independent Baltic states and because I want to get a sense of what our policy should be. That includes our trade policy as one of the very most important components.

I must say that after listening carefully to the administration witnesses yesterday, I am still not sure what the policy is. I am not convinced the administration is moving fast enough to keep up with the changes. I continue to believe that we need to come up with a strategy to deal with the situation as it exists now and not wait until the dust settles in Moscow.

I have taken the unusual step today of inviting several foreign officials to testify before this committee. I have done so because these are very unusual times. The events we have watched unfold in the past 2 weeks, since that trade agreement was sent to the Congress, are of historic proportions.

The Congress needs to understand and the American people need to understand what is happening in the Soviet Union and what those changes mean for American business and for the American economy.

We are honored today to have Ambassador Oudovenko, the Permanent Representative of the Ukraine to the United Nations. He is going to offer the Ukrainian perspective on these spectacular events. We will hear from representatives of Latvia and Lithuania what independence will mean for them and for us.

Today is an historic day for the Baltic republics. At this moment in the U.N. Security Council they are considering requests from Estonia, Latvia, and Lithuania for membership in the United Nations.

We will be hearing from a distinguished panel of chief executive officers, all Soviet experts in their own right with a long track record of doing business in that country who understand some of the real fundamental concerns and the problems. They have experienced most of them.

I want to learn what the U.S. Government ought to be doing to try to support those kinds of endeavors. It seems to me that one of the best things we can do is get the private sector seriously involved in the future economy of those republics and of the Soviet Union.

I want to make sure we give our industries whatever opportunities there may be to do business with the republics or with the central authority or whomsoever is going to be calling the shots.

Finally, our review of this trade agreement would not be complete if we did not look at the emigration issue in some detail. I was an original co-sponsor of the so-called Jackson-Vanik amendment. That was aimed at making significant improvements in the emigration policies of the Soviet Union. It seems to me that is one piece of legislation that has had some influence. The Soviets have come a long way since 1974.

The situation in the republics and in the Baltics continues to evolve. I do not expect anyone to have all the answers in this group, but I sure want to be sure we ask the right questions.

Now, Mr. Ambassador, Mr. Oudovenko, if you would proceed.

**STATEMENT OF HIS EXCELLENCY GUENNADI I. OUDOVENKO,
DEPUTY MINISTER FOR FOREIGN AFFAIRS OF THE UKRAINE
AND PERMANENT REPRESENTATIVE OF THE UKRAINE TO THE
UNITED NATIONS, NEW YORK, NY**

Deputy MINISTER OUDOVENKO. Thank you very much, Mr. Chairman. Mr. Chairman, ladies and gentlemen, first of all I would like to thank you, Mr. Chairman, for inviting me to speak before you this morning. As a permanent representative of Ukraine to the United Nations, it is indeed a great honor for me to have this opportunity to address, which for my country is a historic first event.

To the best of my knowledge no other governmental representative of Ukraine, all of the Ukraine and so formal Ukraine and socialist republic has previously addressed any congressional committee of the U.S. Government.

The significance of my testimony here today is further amplified in that Ukraine has on August 24 of this taken the culminating step towards exercising its sovereign right by declaring its independence. This declaration was based upon established principles of self-determination, which principles are guaranteed by various

international governance and prodigals to which your country and mine are signatories.

To begin with, I would answer the question why Ukraine matters. Firstly, because of its territory, which is one of the largest in Europe. Its population 52 million. Its economic potential reach agriculture, diversified industry, high education level. Ukraine, as it is said by the American periodical Ukrainian Business Digest, is the seventh largest economy now open for business.

Strategically located in Europe Ukraine borders with Poland, Czechoslovakia, Hungary, Rumania, Beralusia, Modova and Russia. Not surprisingly, all strategic pipelines for oil, gas, and electricity trunk lines into Eastern Europe and Western Europe pass through Ukraine and are partially fed by Ukraine. The excessive economic reform in the Eastern European countries is to some extent dependent on close economic ties with Ukraine and we have made this one of our priorities.

Second, Ukraine is strongly committed to a democratic process. Our Parliament and government are now democratically elected. The recent adoption of the Act of Independence will be subject to national referendum approval on the 1st of December this year.

Ukraine solemnly proclaimed its intention to become in the future a neutral state without any military blocks affiliation and holding to the three non-nuclear principles. This I would like to emphasis. Not to accept, not to produce or acquire nuclear weapons. Ukraine is prepared to transfere strategic nuclear weapons from its territory and supports the concept of becoming a nuclear free zone.

In the international relations Ukraine is the subject to international law once we establish direct relations with other states, conclude treaties with them, exchange diplomatic council and trade missions and take part in the work of the international organizations.

Ukraine is committed to defend individual human rights, human rights in general and minority rights in particular. There have been no ethnic conflicts in Ukraine and the government and democratic movement has from the beginning stood united in the name of all residents of Ukraine, including its Russian, Jewish, Polish and other minorities.

We do not want Holocaust to get repeated. The 50th anniversary of Babiy Yar tragedy is widely observed these days in Ukraine as a warning to all mankind not to forget the victims of Naziism and racism.

Ukraine is committed to economic reform based on transfer to market economy, privatization, foreign investment, and banking. Ukraine is committed to a peaceful transition based on friendly relations with its neighbors. Treaties with the Russian republic, other republics, are intended to create the responsible transition from central control to republic control as regards defense and existing trade ties.

We are fully aware of the fact that the achievement of stated goals and commitments will require the mobilization of the whole potential and enterprise of our own people and their sources. But we also understand that the assistance from the United States and

other developed countries will speed up the pace of these reforms, will ease the pain of inevitable sacrifices and hardships.

What kind of assistance does Ukraine need? Ukraine's main needs for assistance could be grouped in the following categories. Food supplies. The acuteness of the food situation in Ukraine can be illustrated by quoting our Prime Minister Mr. Vitold Fokin who said recently that out of needed 17 million tons of grain the government of Ukraine only procured only 6.5 million tons.

Food processing and storage.

Environmental clean up, including the problem of elimination of the consequences of Chornobyl Accident. Perhaps the problem of Chornobyl should be addressed separately because of its grievances. Cloud from the Chornobyl explosion is casting shade on every segment of life in Ukraine, endangering the most precious we have—our children and the very genes of Ukraine.

Banking infrastructure.

The revitalizing "rust belt" type industries and redirecting them and their workers into more productive endeavors.

The CHAIRMAN. Go ahead.

Ambassador OUDOYENKO. All of the above can be addressed by a combination of technical assistance programs from the United States and other developed countries. Foreign private investment into relevant sectors where profit opportunities are promising. Better mechanisms in Ukraine and certainly in other republics to direct and administer foreign assistance, to attract foreign investors and to nurture local private enterprise.

The basic issue which this committee requested that I address is whether the potential Western aid should be given directly to the republics which comprised the former Soviet Union or whether it should be given to the present existing center authorities.

This question has obviously been precipitated by recent monumental historical events. As the former Soviet Union lurches forward in its drive towards democratization and the creation of the free market economy the need for Western aid and assistance in this effort goes without saying.

However, many are asking, how should this aid be administered so it will be effective and not throwing assets into a bottomless pit. To whom do we give this aid? How will it be accounted for?

Probably I could justify our position in a few following words: Because this reflects the new political structure. Declaring their sovereignty and intentions to pursue their own economic policies, republics at different levels of development and degrees of psychological receptivity to the traumas of transition to market economy structures. Aid through the center would only serve to prolong the life of the same inefficient centralized bureaucracies which all the republics have fought so hard and so long to dismantle or even would help to create a new one.

Because the republics are more intimately aware of their particular needs.

The type of aid that is most needed requires very localized application.

Giving aid directly to republics does not require huge missions in every republic. I think that the republic representatives will agree

to meet and coordinate their particular needs. You will want to encourage republics to do their homework.

As to Ukraine we did our homework and handed it to President Bush during his visit to Kiev in the form of proposals for development of trade and direct economic cooperation between Ukraine and United States of America.

I would like to finish by saying that in Ukraine there are recently historic developments. I would like now to welcome here my colleagues from Latvia and Lithuania. Ukraine recognized their independence before, for instance, European Economic Community countries recognized.

I would like to, again, to conclude, Mr. Chairman, that I am indeed very happy to be here today. Your time is very limited therefore I cut down my statement by half.

We count on the support. Thank you very much.

The CHAIRMAN. We will take your entire statement into the record, Mr. Ambassador. We try to keep the time short so that we can ask some questions during that time. And we have other witnesses, of course, who will testify.

[The prepared statement of Ambassador Oudovenko appears in the appendix.]

The CHAIRMAN. Next we have Ms. Diana Vidutis who is the Chief of Staff of the Legation of Lithuania. We are very pleased to have you.

STATEMENT OF DIANA VIDUTIS, CHIEF OF STAFF, LEGATION OF LITHUANIA, WASHINGTON, DC

Ms. VIDUTIS. Mr. Chairman, esteemed members of the Senate Finance Committee, it is a great honor for me to come before you today. I am Diane Vidutis, an American national, Chief of Staff at the Lithuanian Embassy.

Regrettably, Ambassador Stasys Lozoraitis, who had hoped to testify today on Lithuania's behalf, was suddenly called by the President of the Security Council of the United Nations to take part in a meeting today during which they will vote on Lithuania's admission to the United Nations. We understand Lithuania will be admitted into the United Nations very shortly.

The very fact that a Baltic Ambassador could not appear at a congressional hearing because he had been called to the United Nations on pressing business is testimony to the steadfast support of the U.S. Congress throughout these past 51 years of Soviet occupation.

I hope that this support will continue as Lithuania rebuilds its economy and reenters the world marketplace. In the 1920's and 1930's, during its years of independence, Lithuania was a flourishing market economy with close ties to the West, as evidenced by this book of statistical abstracts from 1923 with a Ford advertisement on its cover. It was a multifaceted, varied, self-sufficient economy with significant import and export traffic.

Lithuania would like to regain and enhance the stature it enjoyed in the world economy prior to Soviet occupation. Most favored nation status will encourage our investors and nascent entrepreneurs to explore the American market, and I hope that America

will also look to Lithuania and the other Baltic States as a gateway to Russia and Europe. Allow me to assure you that we are totally open to free trade with our neighbors to the East as well as our neighbors to the West.

The Government of Lithuania is moving rapidly to establish the trade, banking and tax laws that will facilitate Lithuania's reintegration into the world economy. These include a convertible currency, laws on privatization of property, laws on repatriation of profits for foreign investors, and price reform.

Secretary of State Baker will be in Lithuania tomorrow where we understand he will be discussing economic issues and possible trade agreements with our government. The Ambassador, Mr. Lozoraitis, will be happy to provide the committee with an extensive written statement giving an overview of the economic situation in Lithuania following this visit.

In conclusion, I would like to reiterate Lithuania's appreciation for your unswerving dedication to the issue of Baltic independence for the past 51 years. Most favored nation status not only impacts our countries' economic relationship but also opens doors to enhance communication between our peoples. I assure you that we look forward to an active and mutually productive relationship with the United States.

Thank you.

The CHAIRMAN. Thank you.

[The prepared statement of Ms. Vidutis appears in the appendix.]

The CHAIRMAN. Mr. Kalnins is the Public Affairs Liaison Officer for the Legation of Latvia. We are pleased to have you.

**STATEMENT OF OJARS KALNINS, PUBLIC AFFAIRS LIAISON,
LEGATION OF LATVIA, WASHINGTON, DC**

Mr. KALNINS. Thank you, Mr. Chairman. I would like to take this opportunity to thank the committee on behalf of the independent republic of Latvia for this opportunity to speak; and also to thank the U.S. Government and the American people for your support for these last 50 years. It is very good to be back. And perhaps if I could thank Mr. Oudovenko for his support. We look forward to joining him in the United Nations.

If I were to characterize the economic goals of the Latvian Government I would focus on three points. We are seeking to stabilize and normalize our internal economy. Our government is working on programs at the moment, policies which we hope to have in place in the next 2 months, which would provide some guidance to the United States and to the West in terms of what kinds of assistance, what kinds of programs could be useful.

Second, we seek to reintegrate ourselves back into the world economy. We were a part of that economy 50 years ago. A lot has changed since then. So we do need some assistance to reintroduce ourselves. But here again, legislation and policies are being developed by the Latvian Government to support a good climate for Western business interests in Latvia. Many of these businesses have already begun to come to Latvia to set up operations.

Third, we are seeking to restructure our relationship with the former U.S.S.R. It is a fact of life that we have been linked with

the U.S.S.R. for 50 years. There are many ties and as far as we are concerned we are going to have to work with this and reshape these ties. We already begun to establish bilateral treaties with the various republics as early as a year ago and this will continue. Regardless of what the structure of the government in Moscow and the other republics are, we are ready to work with them to cooperate together.

We would like to emphasize that for us independence does not mean isolation. We understand the realities of the present world and we want to work with them, with the regional realities that face us.

We also understand that Latvia's economic picture will brighten if the entire region can improve and reform and restructure itself. So in that sense we welcome Western and U.S. support, not only for the Baltic states, but for Moscow, for the various republics throughout the region because we feel that it is in our interests that everyone in this area be able to prosper and survive.

But we also feel that Latvia and the Baltic states do deserve special attention if for one reason only. Because of our former ties or our ties with the former Soviet republics we feel we can play a very special role in assisting these republics and assisting Moscow in their reform programs. The sooner that Latvia can normalize and stabilize its economy the sooner we can be a part of the programs to help our neighboring republics.

I would add that Latvia's ultimate goal, which I think is probably obvious to everyone and one we feel we can reach, is not only economic prosperity, but to reintegrate ourselves with the world economy. We do not seek handouts or welfare. We do not want to replace dependency on Moscow with dependency on Washington, DC.

What we want to do is pull ourselves up by our boot straps. In the short run what we need from the West is a few boot straps. But more importantly what we are looking for is training, technical assistance and the kind of guidance which will allow us to manufacture those boot straps and make it available to everyone else in this region.

Thank you very much.

The CHAIRMAN. Thank you.

[The prepared statement of Mr. Kalnins appears in the appendix.]

The CHAIRMAN. Mr. Ambassador, Mr. Oudovenko, you talked about having a separate trade agreement with the United States. That may take some time to negotiate as we are looking at the different republics.

Now the President and Mr. Gorbachev worked out an agreement in 1990. The President sent that agreement to us on August 2. The next panel is going to have some of the most experienced and distinguished businessmen in this country who stuck their necks out before in trade with the Soviet Union. Since it will take time to get other trade agreements in place, would you expect to honor the agreement that Mr. Gorbachev and the United States have made if that agreement is approved by the Congress?

I am talking about the interim period, because you are trying to move on this and you are trying to get these American business

people to invest in the Ukraine. They have to know what the rules are.

Deputy Minister OUDOVENKO. Mr. Chairman, it is definitely sure we are committed to all our international obligations, to all our bilateral obligations, and already being separated from the Soviet Union Ukraine certainly will be committed to obligations and to these treaties which were concluded by the Soviet Union if they satisfy national interest and aspirations of Ukraine.

But for the time being we declare that we are committed, strongly committed, to our international obligations and commitments, be it in politics, be it in the military field, and be it in economics. Definitely Ukraine now is eager to establish direct relations with countries. We believe that this will serve the better interest of our people.

We understand problems for the United States. We understand that today you are not ready to conclude an agreement, but we are asking for such an agreement. We made concrete, specific proposals. We gave them to the administration and we hope that a time will come. Nothing can be done overnight. But in principal we are very strongly advocating direct relations of Ukraine with other countries, with Soviet republics in the former Soviet Union.

We do not want to isolate ourselves. Just one example, Mr. Chairman. Ukraine is a monopolist of the production of locomotives in the Soviet Union—96 percent of locomotives are produced in Ukraine.

The CHAIRMAN. Yes, I saw that. Doesn't that require—

Deputy Minister OUDOVENKO. But we received various spare parts from 800 enterprises located in various parts of the Soviet Union. Therefore, we cannot isolate ourselves.

The CHAIRMAN. So it means that you have to have an interchange with those other Soviet republics. You have to have some economic exchanges there.

Deputy Minister OUDOVENKO. Sure. The priority is given to continue our very close economic operation with other republics. Ukraine Prime Minister Fokin, his first action was to make very quickly agreements with all republics of the Soviet Union bilateral agreement. We did it last year and we are going to continue this.

This is a new situation. Now we should recognize that instead of one centralized country there are 15 republics and 3 already became fully independent.

The CHAIRMAN. Let me ask, Ms. Vidutis, I understand that Lithuania has made some economic reforms after you declared your independence from the Soviet Union last year. But I have seen some conflicting reports. Some say progress has been made and others say that Lithuania is at ground zero.

Can you tell us what kind of reforms have been put in place? I look at your republic and see the largest population of the three Baltic states.

Ms. VIDUTIS. Of the three, yes. It does have the largest population.

The CHAIRMAN. And you have the smallest number of joint ventures with United States business I am also told.

Ms. VIDUTIS. I am afraid that that is true. Lithuania is primarily an agricultural economy and has been for many years. Most of its agricultural production can be marketed only to the Soviet Union.

For instance, it is known by, when it was part of the Soviet Union, the Soviets used to refer to Lithuania as the WI of the Soviet Union for its tremendous dairy production. Being so close to Chornobyl there is no way that Lithuania would be able to market its dairy products to the West.

It is a very important gateway for—however, it has a very viable port in Clapeda. It has very developed light industries. I cannot explain why American businesses have not set up a significant number of enterprises there. All I can say is that Lithuania is very open to Western investment and we at the Lithuanian—now we are—Embassy, are going to do everything we possibly can to attract Western businesses there.

One example, for instance, that I know of, was that Johnson Wax in Racine, WI had wanted to open up a plant in Vinyas. This is when they got suggestions from the ministry of the chemical industry in Moscow, suggested where they could open up a plant and the best place they found was in Lithuania.

As soon as Lithuania declared independence they left and they are now opening up in Kiev. They were afraid that Lithuania would isolate itself from the Soviet market. So that a large American company, they were afraid to take the risk of limiting themselves to a market of 3.7 million people.

What we would like to emphasize to American companies, and we very much want to attract investment, because we believe this is going to be a boom era for the Baltic. The currency is going to be convertible much more quickly, the tax laws are going to made more favorably very quickly for foreign investment.

What we would like to say is that we intend to market to the entire rest of the Soviet Union, to Russia, to Ukraine. I believe that this has been a misinterpretation perhaps on the part of American businesses. Now that they can enter Lithuania without any sort of—with just a basic visa that we issue, we think that we are going to be attracting far more investment.

The CHAIRMAN. Thank you. I see my time has expired. Senator Symms?

Senator SYMMS. Thank you, Mr. Chairman.

I guess I would like to direct one question to each of the three of you. That is, what efforts and what kind of a time schedule do you anticipate for the privatization of the land in these countries and of the capital assets? What is your planning in the reforms to see that there will be actual private ownership that American entrepreneurs can deal with and some assurance that there is a recognition of the respect for private property and so forth?

Ms. VIDUTIS. I cannot be committed to this answer. But I anticipate it will happen very shortly, that the laws will be established, I would say, within the next year.

Because what Lithuania is doing is not initiating private property for the first time but restoring the notion of private property that it enjoyed during its years of independence.

Senator SYMMS. Let me just specifically say, who owns the dairy today in Lithuania? You talk about it as a dairy production area.

Who owns the dairies? Who owns the cows? And who owns the fields and so forth and the assets to manage the dairies?

Ms. VIDUTIS. I would have to defer a response on that question specifically. I am sorry. I cannot give you an exact answer. I can find out for you. It is not in the hands of private individuals. I can basically say that.

Deputy Minister OUDOVENKO. It is difficult for me also to answer this question in terms of timing. I can only say in terms of our intentions we are doing everything possible in order to expedite the implementation of our transition to a market economy, privatization of some industries, privatization of agriculture.

Therefore, we are doing everything and the Parliament adopted a number of very important legislations in Ukraine in order to not only demonstrate our desire, our intentions towards the expediency of implementation of economic reform. But in order to supplement our political goals by laws we would like to attract capital investment, we would like to privatize industry. Even today we are ready to denationalize certain big enterprises, et cetera, et cetera.

Therefore, we really would like to attract—Ukraine is a very rich country. We hope that with American business we will be quick enough to go our own market. Very often when I make my public addresses I compare Americans with Western European business people and I say to American businessmen you might be too late to Ukraine.

Senator SYMMS. What other business interests in the West are investing? Are they Japanese, French, German, what, British?

Deputy Minister OUDOVENKO. Well, first of all, certainly Germany is the country which is very active in dealing business with us. This is the first-place country now. We hope that South Korea will also come to our market. And the French, the British, but Germany is very active.

Senator SYMMS. Okay. Thank you.

Mr. Kalnins?

Mr. KALNINS. Yes.

Well, Latvia's Government has already passed privatization and land reform laws and the process is already underway. One of the problems we have is that the request for private land already exceed the land available. We are hoping that this process will be completed by 1996 when all available land will be turned over to those farmers who were seeking to work the land.

It is anticipated that by that time 75 percent of all farm property in Latvia will be in private hands. This process is also underway in small businesses and in industry.

Also in banking a new Latvian Bank Board has been formed and one of their initial comments was that they will be encouraging commercial bank start-ups in Latvia as well. So it is a process that has begun. I think it is fully supported by the people.

In the case of the farmers one of the shortcomings we have is we lack farm equipment, the tools that these people need to start working on the land.

Senator SYMMS. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Bradley?

Senator BRADLEY. Thank you very much, Mr. Chairman.

Ms. Vidutis and Mr. Kalnins, we are considering a trade agreement between the United States and the Soviet Union, negotiated over a year ago. Do you believe that you are covered by this agreement?

Mr. KALNINS. No, we did not feel we were a part of it originally and we definitely would not be a part of it now. Our governments are looking forward to renegotiating trade agreements from the past.

Senator BRADLEY. Okay.

Ms. Vidutis?

Ms. VIDUTIS. I agree with Mr. Kalnins. The economic benefits to Lithuania of being included in an agreement with the Soviet Union are minimal compared to the damage to the concept of independence that such an inclusion would imply.

Senator BRADLEY. That is very helpful. Because a part of this is the granting of most-favored-nation status to the Soviet Union. If you as independent sovereign nations believe that you are not covered by an agreement with your former occupier, then clearly I think we need to extend most-favored-nation status to you as sovereign states.

Ms. VIDUTIS. Definitely.

Senator BRADLEY. Would you agree?

Ms. VIDUTIS. Most definitely.

Senator BRADLEY. Otherwise you do not have it?

Ms. VIDUTIS. Exactly.

Mr. KALNINS. Exactly.

Senator BRADLEY. Otherwise, your former occupier would have most-favored-nation status and you would not?

Ms. VIDUTIS. That's a situation—

Mr. KALNINS. In our case it is just a matter of renewing most-favored-nation status which we had when we were independent prior to World War II.

Senator BRADLEY. You lost most-favored-nation status in 1951, right? Largely because the United States chose properly to state that trade in the time of Stalin's occupation with you and most-favored-nation status would be a direct benefit to Stalin, that was the basic argument.

Mr. KALNINS. Yes.

Ms. VIDUTIS. I believe it was also almost a voluntary—it was move on the part of the Sharsha's in Washington.

Senator BRADLEY. Right.

Ms. VIDUTIS. Yes.

Senator BRADLEY. Right now it is appropriate for us to extend most-favored-nation status to you as sovereign states just as most-favored-nation status is extended to what remains of what was the Soviet Union in this trade agreement. Is that not correct?

Ms. VIDUTIS. That is what we would most like to see.

Senator BRADLEY. Okay.

Let me ask you a couple more difficult questions. The Soviet Union now has \$62 billion in external debt. Do you believe that any portion of that is your responsibility?

Mr. KALNINS. I think I can refer to a report that I have heard recently. The Latvian Government has indicated a willingness to pay a part of that. I do not know the details behind that, but that

is again because of the practical links between the countries and they feel that that is perhaps a sign of goodwill, not because we are a part of the Soviet Union, but simply to handle some past debts that were incurred.

Senator BRADLEY. Okay.

Ms. VIDUTIS?

Ms. VIDUTIS. This is a difficult question to answer. But perhaps it could be something that could be negotiated with whatever Russia has to pay, if it could be done as republics.

Senator BRADLEY. So that neither one of you essentially say that you have no responsibility for the debts.

Ms. VIDUTIS. Actually, I do not want to say that. I think I will defer answering on that.

Senator BRADLEY. Okay.

Ms. VIDUTIS. Okay?

Senator BRADLEY. Mr. Oudovenko, do you have an opinion on that?

Deputy MINISTER OUDOVENKO. Sure.

But we do not have foreign currency to pay now these days. Therefore, we must work very hard in order to say to earn some money and to pay a part which Ukraine is supposed to pay, although we never took any foreign credits in the past. They were taken without consultation of Ukraine. But now certainly we recognize that a certain part which will be our part must be paid by Ukraine.

Senator BRADLEY. Okay.

In one sense that is a very positive comment. Because in whatever the new structure is, there must be a recognition of past actions by others, actions in which you have some responsibility. Maybe it will be a reduced amount of debt, but there is some responsibility.

Let me ask you, Mr. Oudovenko, your comments about locomotives really triggered this thought for me. In the new association or the new structure, whatever it is, do you think that you will be able to resist protectionist pressures at the republic level, exchange controls at the republic level?

Deputy Minister OUDOVENKO. I think yes. Because Ukraine is a highly developed country by its nature. It has a long history. I think this very quickly may become a very modern country with modern technologies; et cetera. We need assistance. We need help today, now. But I think very quickly we can resist and we can protect ourselves.

Senator BRADLEY. Yesterday we heard that already republics are trying to restrict what leaves their republic—trying to keep goods in the republic regardless of the traditional trade patterns that existed in what was the Soviet Union. Now don't you believe this to be a potentially dangerous course for the economic health of individual republics? Or do you think this is an inevitable course?

Deputy Minister OUDOVENKO. Senator, it is inevitable now in Ukraine. We want to protect ourselves because of different prices in Ukraine, in Russia, in other Soviet republics. Now there is an evasion into Ukraine and to buy food stuff and to take it out from Ukraine. We would like to protect, we would like to prepare ourselves for a very hard winter this winter, this coming winter.

But this is only because of a very difficult economic situation, a very difficult situation with food supply in Ukraine. This does not mean that in the future we would like to isolate. Moreover, we would like to develop our agriculture and to trade with all parts, remote parts of Russia or central Asia, et cetera.

Therefore, this is only a temporary measure to protect ourselves. We cannot protect. You cannot imagine. Because for instance you would take the price of a bottle of Vodka, there is a great difference between Ukraine and Russia. Everybody is coming to the Ukraine to buy Vodka and we do not have enough even for our own consumption. Thank you. [Laughter.]

Senator BRADLEY. And in a cold winter that is a problem. [Laughter.]

The CHAIRMAN. Thank you.

Senator Chafee?

Senator CHAFEE. No questions, Mr. Chairman.

The CHAIRMAN. Senator Riegle?

Senator RIEGLE. Mr. Chairman, just briefly. We were holding a hearing upstairs in the Banking Committee and I must now go to the Budget Committee where we have a vote scheduled in just a moment.

I strongly support the most-favored-nation trading status directly for the Baltic states. Senator Bradley and I have a proposal that we have had out there for some time which relates to this issue. It makes no sense whatsoever to move in the old direction with respect to MFN, through what there is of a central government now so-called, to deal with this.

I think two other points, just to put the ideas on the table, which are relevant. I think we are going to have to—and I am working on a proposal where we might on the larger scale work out some kind of an exchange arrangement where food is exchanged for oil. That means figuring out how oil production is set up. I am talking about the large parts of what we thought of as the Soviet Union where there are oil resources and we have the ability to draw on those resources. Such an arrangement will help feed the people to eat and that is where we can help now.

With respect to the Baltics I am struck by your point that you need farm equipment. Building this equipment is something we know how to do in this country. We ought to be doing it and we ought to be working out arrangements over some length of time where we get the farm equipment built, shipped, in your hands, so that you can privatize your system. If we can do this, as I gather Senator Symms was talking about before I came in, then we can get your agriculture system really moving.

I believe there is a way we can perhaps fashion an arrangement which is good for both countries. I really think we ought to be moving aggressively in that direction.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Senator Baucus?

Senator BAUCUS. Yes. Thank you, Mr. Chairman.

I would like to ask the panelists their reaction to the new announced proposed economic union among the republics. I know the

details are pretty sketchy, not a lot is known, but at this point based upon what you do know, what is your reaction?

Deputy Minister OUDOVENKO. As far as Ukraine is concerned we advocate strongly an economic union with the Soviet republics. This is our standing policy. As I already mentioned before one of Ukrainian Prime Minister Fokin was to quickly conclude bilateral agreements, direct bilateral agreements, with all republics of the Soviet Union, of the former Soviet Union, and this helped us.

Ukraine will support an economic union. Certainly, again I would like to emphasize, if it is in line with our National interest and aspirations. Therefore, it will have to perceive what kind of a union is suggested. But if this union of equal partners we certainly—I am in favor of such an economic union.

Senator BAUCUS. Senator Bradley just suggested to me that I ask you whether that would mean Ukraine would have its own separate currency or not.

Deputy Minister OUDOVENKO. Yes. I recently had a visit from Canada, a head of a company which prints money, and he already showed me a sample of Ukrainian future currency. [Laughter.]

But former Prime Minister Powell prohibited the issuance of Ukrainian currency. Then we offered another proposal to put a special mark on Soviet currency to be circulated only in Ukraine. This was also refused.

Then what we are doing now, we implemented the system of so-called coupons. In other words, when somebody receives a salary, together with the salary 70 percent is given in coupons. If you want to buy bread or milk or any food stuff you must produce with money coupons. This is again to protect ourselves. This is a temporary measure. But this is to protect ourself in this very difficult transitional period. And secondly, this is the future currency of Ukraine.

Thank you.

Senator BAUCUS. Is that compatible with an economic union, a separate Ukrainian currency?

Deputy Minister OUDOVENKO. Yes. We shall have our separate currency with a new economic union.

Senator BAUCUS. Yes.

Mr. KALNINS. Well, the Latvian Government has no plans in joining a Soviet economic union. However, we would be ready to cooperate with this union once it is formed, just as we would with a European community or any other economic units in the world.

As to your question about currency, we do have plans to begin the use of our own currency. The latest report we heard, it could be by 1992. However, the three Baltic governments are working together on this. Even though each has plans for their own currency, they are going to try to coordinate this and keep the values similar so that there will be some kind of coordination and cooperation between the three countries.

Senator BAUCUS. Okay.

I have no further questions. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much for your testimony. We are appreciative of that. Thank you.

Our next witnesses are Mr. Dwayne O. Andreas, chairman and chief executive officer of the Archer Daniels Midland Co., Decatur,

II. Mr. Andreas has an intimate knowledge and long experience in doing business with Russia. Over 70 percent of our exports to the Soviet Union are agricultural products. Mr. Andreas and his company have been major factors in that trade.

I am looking at Don Kendall, former chairman and chief executive officer of Pepsico. He probably did one of the most successful barter deals in the history of our relationship with the Soviets. He got rid of some of that Vodka for them in the winter.

And Mr. John Murphy of Dresser Industries. Mr. John Murphy is with a company whose relationship with the Soviet Union goes back to the 1930's and was part of the reason for the creation of the Dresser company.

So we are delighted to have you here with all your many other responsibilities to give us your insights as American business people.

Mr. Andreas, if you would lead off.

STATEMENT OF DWAYNE O. ANDREAS, CHAIRMAN AND CHIEF EXECUTIVE, ARCHER DANIELS MIDLAND CO., DECATUR, IL

Mr. ANDREAS. Mr. Chairman, thank you for inviting me here today to answer your questions. I am going to abbreviate my statement because it is here for the record. I am going to try to go through it in order to save your time and just touch some of the high spots.

Now the news reports during the past few weeks from the Soviet Union have left many of us stunned. However, I want to point out that we cannot permit our astonishment to delay adjusting our nation's policies to take into account the vastly changed world. We have waited 50 years for this moment.

The new world order so often referred to is presently emerging before our eyes. It can be shaped to a great extent by what the United States says and does in the next few days or weeks. We must, of course, act prudently. But there are times when delay and inaction themselves are imprudent. This is such a time.

The United States has given MFN, most-favored-nation status, to over 100 countries. I submit, Mr. Chairman, that it is ridiculous under the present circumstances for the Soviets to be held by Congress and the administration in the same economic restricted category as Cuba, North Korean, Cambodia and Vietnam.

Granting MFN right now will reduce present prohibitive tariffs on Soviet goods entering the United States from approximately 74 percent to about a 4-percent level that other countries pay. This action would enable the United Soviet Sovereign States to earn dollars to buy U.S. farm products, food, and feed which they need.

The restrictions on the freedom to immigrate from the Soviet Union, which was the original reason for enacting our trade restrictions have been removed. Prime Minister Shamir on the CBS Face the Nation program which aired on December 9, 1990 said, and I am giving you an exact quote, "We are happy with it," now that is referring to Soviet immigration policy, "We are happy with it and the newcomers are very happy. And we are grateful to the Soviet Union."

In answer to a question asked by Leslie Stahl he said, and I quote again, "You know, we are grateful for this change of their policy for allowing these people to come now to Israel. I think for this reason, I think this is the time to suspend the Jackson-Vanik Amendment in such a way as to facilitate the trade relations between Russian, the Soviet Union and the United States."

Leslie Stahl asked then, "You're asking us to waive that so that we can give them direct agricultural aid and things like that?"

Shamir, and I quote again, "I think it is time to do it and you know it would help them."

All other requirements of Jackson-Vanik have been fulfilled and mostly succeeded. The Supreme Soviet has even passed a statute relating to the freedom of immigration an act that is not even mentioned or required by Jackson-Vanik. The continued delay in granting MFN despite the full compliance with Jackson-Vanik on the part of the Soviet Union is now generating some antipathy and hostility within the Soviet bureaucracy and that is largely because they think we have reneged on a long series of promises that were given to them by our Secretaries of State and other officials.

Now, Mr. Chairman, first and foremost we must take into account in considering this new relationship that there are 30,000 thermonuclear warheads which threaten our existence and additional tens of thousands of tactical weapons. We must pursue policies aimed at reducing the threat of those weapons and preserving our own national security.

Our national security and our National interest take a precedence over everything else. For that reason now that the democratic forces have achieved the upper hand it seems clear to me that it is in our National interest to adopt policies to encourage above all stability as well as political and economic reform in the Soviet Union.

President Bush has assigned his highest priority to our relationship with the Soviet Union as was indicated by the President's nomination of Robert S. Strauss to serve as our representative in Moscow. Ambassador Strauss, one of our country's most knowledgeable and able diplomats will be representing our President and the Secretary of State in the halls of the Kremlin and also consulting closely with Congress.

Now President Gorbachev, and Yeltsin and Nazarbieve and Saliar, are trying to recast the Soviet Union into a loose political federation of sovereign republics with close economic ties. This is a difficult undertaking, but I believe one that the United States should encourage in every way that we possibly can.

I would like to now comment on the question of food supplies because that is of an emergency nature in the Soviet Union at the present time. The Soviet Union faces a very difficult time in the coming winter. Already there are serious shortages of food in the major cities. Store shelves are empty. These shortages have been caused by hoarding.

When it was announced that they were going to a market economy by Rishkof about 8 months ago the farmers and the housewives, anticipating higher prices, began hoarding food supplies. The farmers are withholding them from the cities in very large quantities, maybe as much as 30 million tons.

Gorbachev said to me 1 day, you know, we used to shoot them if they did not send their food to the cities; we do not do that anymore. [Laughter.]

So they we are trying to figure out another way. Housewives have swept the shelves in the cities clear of almost all consumer goods. What food is available can only be purchased on the black market, which of course most of us regard as the free market.

Now the Soviet leaders tell me, and I believe they are correct, that they must quickly make large quantities of food conspicuously visible on the shelves of stores in their eight largest cities in order to accomplish two things. One, to stabilize prices; and secondly to discourage hoarding.

Then and only then after this is accomplished would they be able to abolish the severe price controls and move further toward a market economy which they know is an ultimate necessity and which they fully intend to do.

The absence of food from the store shelves is the most destabilizing force any society can ever confront. Confronted with food shortages, people go from anger to hunger to violence. The risk of course is that the seedling Soviet democracy might be lost or overturned.

And the Saddam Husseins and the Ayatollahs of that part of the world, just as we speak, are conspiring to get control of those nuclear weapons. Under conditions of anarchy or rebellion, undoubtedly they would succeed.

Granting MFN now as a practical matter would enable the Soviet Union to increase exports. Now they do have things to sell here. They could earn dollars and other foreign exchange with which to purchase food. It would begin the process of hardening the ruble and improving their creditworthiness so that they can buy our goods and stock those empty shelves in a commercial manner.

It would remove one of the many Cold War barricades to trade between the East and the West. Moreover, it is my opinion, it is essential to the continued process of economic and political reform in that country. These reforms are certainly in our national interest.

Mr. Chairman, one of the companies which has had an enormous amount of experience in the Soviet Union is Cargill Inc., which is perhaps one of the greatest and most important trading and processing companies in the world. Mr. Whitney MacMillan, the chief executive, and one of the principal owners of that company, has traveled extensively in the Soviet Union many times and is thoroughly familiar with the problems facing our two countries.

So I decided to submit along with my testimony a letter written to President Bush by Whitney MacMillan on May 22, 1991. Although I had no prior knowledge of this letter, several copies went to others and one of them has come into my hands recently. I thought it was so important and such a good suggestion that I have taken the liberty of attaching it to my testimony. As a matter of fact, I am going to read parts of the letter to you:

To the President and the White House:

Dear Mr. President: An important opportunity is at hand for the United States to strengthen the basis on which American companies do business with the Soviet Union. We believe it is time to grant the Soviet Union Most Favored Nation status.

We also would urge you to provide the USSR with additional credits or credit guarantees for food and agricultural products.

* * * *

We believe it would be appropriate to put food exports to the USSR on a more predictable footing. This could be done by establishing a "revolving fund" for credits and repayments. We can attest that the Soviets are keeping to the letter of their contracts with us. We have no reason to doubt that they are, over time, a creditworthy customer. We also are certain that if we fail to provide assistance promptly, American farmers, Soviet consumers overall relations will suffer.

* * * *

We recommend the administration create a special revolving credit fund. No legislation is necessary to create such a fund within the Commodity Credit Corporation. Operating under the umbrella of the GSM-102 and GSM-103 programs and in concert with other authorities, a revolving fund would allow the Soviets to continue to buy American agricultural products as they repaid their debt and thereby replenished the pool of funds available funds to them. We know similar funds that have been established by U.S. competitors and have facilitated their on-going trade with the USSR.

Mr. President, the Soviet Union faces daunting prospects in its perestroika to make major economic and social adjustments, straighten out the structural imbalances that have developed after decades of central planning and developed an infrastructure capable of meeting the wants and the needs of the Soviet citizens. The United States can aid them in that process with steps of our own. We urge that you do so.

Mr. ANDREAS. Now this letter, I skipped parts of it here, what he is suggesting is that we create a bilateral clearing arrangement under which they can buy several billion dollars of American farm commodities and commit themselves after a period of 3 years to repay it by shipping us oil which we can elect to either sell, use or put in our stock pile.

This kind of an arrangement has been made quite often between other countries as bilateral agreements and I think it is a good suggestion. It was suggested by the Senator here a little while ago and I just want that to be included as part of my testimony.

Thank you.

[The letter appears in the appendix.]

The CHAIRMAN. Good. Thank you.

[The prepared statement of Mr. Andreas appears in the appendix.]

The CHAIRMAN. Mr. Kendall, if you would comment.

**STATEMENT OF DONALD KENDALL, FORMER CHAIRMAN AND
CHIEF EXECUTIVE OFFICER, PEPSICO, INC., PURCHASE, NY**

Mr. KENDALL. Thank you, Mr. Chairman. I first of all want to thank you and the rest of the committee for giving me this opportunity to testify. Certainly when President Bush sent the U.S.S.R.-U.S. Trade Agreement on April 2 I do not think any of us would have anticipated the kind of hearing we are having and what would happen since that bill has been sent up. But I think as a result of it you could not be more timely in your hearing and it could not be more important.

I would like to read a summary also of my statement with the Chairman's permission and would like to enter the full statement into the record.

I come before you as a private citizen with over three decades of experience selling Pepsi to the Soviet Union and to Eastern

Europe. Pepsi was the very first introduced to the Soviet Union and occurred about 32 years ago at the American National Exhibition in Moscow when I convinced Nikita Khrushchev to drink a couple of Pepsis. [Laughter.]

Although Premier Khrushchev's taste test received world-wide publicity, as you recall at the time our advertising slogan was "Be Sociable, Have a Pepsi," and it showed Khrushchev drinking Pepsi around the world with a headline "Khrushchev learns to be sociable." [Laughter.]

It took another 13 years before we finally signed an agreement which allowed our product in the Soviet Union. At the time of that first agreement in 1972 the challenge facing American companies was exactly the same challenge that we face today, how to take profits out of a country where currency cannot be converted.

Our solution was to swap Pepsi concentrate for the right to distribute Stolichnaya Vodka in the United States.

Our latest agreement represents an estimated \$3 billion in retail sales of Pepsi and Stolichnaya in the next decade. The number of Soviet plants that are now producing Pepsi Cola is 34 and we are in the process of putting in another 50 plants.

The most innovated provision of the agreement calls for the construction of a minimum of 10 Soviet tankers and these vessels will be sold or leased to international companies and we get 25 percent of the foreign exchange. As a matter of fact, we have already sold over \$254 million worth of tankers, of which 25 percent of that money is used for our expansion program in the Soviet Union of bottling plants and the Pizza Huts.

Today you can find a Pepsi plant in every republic within the Soviet Union. We sell nearly 1 billion bottles of soft drinks there a year. Our products even played a role during the attempted coup. When President Yeltsin was defending the Russian Parliament building his forces were sustained by 300 pan pizzas from Pizza Hut and 20 cases of Pepsi. As a matter of fact, Yeltsin was so happy he called up the Pizza Hut manager and thanked him for supplying them during the coup. [Laughter.]

We have learned three important lessons in our three decades of dealing with the Soviet Government and the Soviet consumer. These three lessons probably have even greater relevance today. When the republics strive to become market economies first we have learned to be patient. Negotiations take time and it takes years to show a profit, yet the potential for profit is enormous.

Second, we have learned to be creative. Like all American companies we were faced with the challenge of how to repatriate the money we have earned from the rubles that we have converted. Incidentally, we have all of our capital investments out of the Soviet Union and we are taking our profits out.

We solved this problem by trading Pepsi concentrate for Vodka and our ship deal. It is important to remember that we just sell the Soviets concentrate. They provide the sugar, the bottles and the water, the same as a franchise bottler would do in Texas.

This system employs literally thousands of Soviet citizens and gives many Soviet entrepreneurs the opportunity to learn how to operate a successful business operation.

Third and finally, we have learned to proceed with little or no help from the U.S. Government. For the past three decades American trade policy has been subservient to foreign policy, to the detriment of American companies. It is time that our government policy got in line with the business realities of the world, which the Germans, the Italians, the English, and the Japanese have recognized a long time ago.

But we have seen dramatic changes in the past weeks and more changes are undoubtedly on the way. Pressure has been mounting for an infusion of economic aid into the Soviet Union following the attempted coup. These appeals reached a crescendo with the focus shifting to economic aid to the republics.

But I do not think economic aid is the way to go. Our budget deficit has made hefty foreign aid packages impractical. And besides, no one has yet made a convincing case that a Marshall Plan II would work anyway in the Soviet Union.

But private investments does work. We have demonstrated that. It employs people. It creates wealth. It improves productivity. It brings the Soviet Union into the world market economy. Business to business relationships survive the shifts in government.

In my view the first plan of attack should be developed right here in the U.S. Congress. There are several initiatives that can and should be taken by Congress to stabilize the U.S. laws that govern how U.S. business is conducted in the Soviet Union.

First, and in my view, the most important initiative is the approval of the U.S.S.R.-U.S. Trade Agreement so goods imported from the Soviet Union will receive most-favored-nation treatment or MFN. Critics say MFN will not matter. They argue that the ruble cannot be converted so our companies have to turn to barter. They say the Soviets do not have anything our consumers want. I say the critics underestimate the good ole creativity of the good ole Yankee entrepreneur, as well as the reemerging republic entrepreneurs.

We should not underestimate the business opportunities that market forces are likely to create as the Soviet economy evolves into a market driven economic system. This is why MFN is so important. In order for U.S. businesses to go to the Soviet Union and strike a deal they need assurances that the Soviet products will not be subjected to discriminatory treatment, but rather will be allowed to compete on an equitable basis with other imported products in the U.S. market.

The second initiative I would like to see involves repeal of the Jackson-Vanik. I know that many members of this committee support a 1-year waiver, but I encourage you to go a step further and repeal the amendment altogether. Only complete repeal will give American business the certainty to move ahead and explore creative methods of counter trade. With just a 1-year waiver there is always the uncertainty that exorbitant tariffs could be slapped back on again.

The threat of reimposition of Jackson-Vanik restrictions makes it very risky for companies to invest in the Soviet Union and this risk will discourage meaningful investments.

My third recommended initiative involves repeal of the Stevenson-Byrd Amendment that limits Ex-Im Bank credits to the Soviet

Union to \$300 million. It is my understanding that the \$300 million in credits have already been awarded to U.S. companies for projects in the Soviet Union.

We should increase Ex-Im Bank credits. We should do what the Germans are doing. The Germans are not giving aid to the Soviet Union except what they did initially to get the reunification and to pay for getting the Soviet soldiers out of East Germany.

What they are doing is giving their companies credits and insuring them against political risk, and letting the German companies go in and make the investments.

My fourth recommendation initiative is to permit the Overseas Private Investment Corp., OPIC, to operate in the Soviet Union. I would not put the restrictions on OPIC guarantees that would limit their activities in the Soviet Union. I would open that up and broaden it so that you can get more companies going over and doing business in the Soviet Union and insuring them against political risk.

OPIC can provide risk insurance that is crucial for U.S. companies operating in the Soviet Union. These legislative actions can take place now. The actions I have outlined today can be put into place in a short period of time and with negligible cost to the U.S. taxpayers.

Thank you very much.

[The prepared statement of Mr. Kendall appears in the appendix.]

The CHAIRMAN. Mr. John Murphy, who is a member of the Board of Directors of the U.S. Chamber of Commerce and chairman, president and chief executive officer of Dresser Industries.

STATEMENT OF JOHN J. MURPHY, MEMBER, BOARD OF DIRECTORS, U.S. CHAMBER OF COMMERCE, AND CHAIRMAN, PRESIDENT, AND CHIEF EXECUTIVE OFFICER, DRESSER INDUSTRIES, DALLAS, TX

Mr. MURPHY. Thank you, Mr. Chairman. I also really appreciate the opportunity to be here today with your committee.

It is in my capacity as a member of the board of the Chamber that I appear today. First to outline the Chamber's policy with regard to the trade treaty. The Chamber strongly urges prompt congressional approval of the trade agreement with the Soviets. The Chamber has been a proponent of normalizing trade relations with the Soviet Union now since 1988, including a waiver or repeal of the Jackson-Vanik Amendment to the 1974 Trade Act.

This opinion of the Chamber has been in fact strengthened by recent events in the Soviet Union. Further, we regard that as only the first step in a process of additional actions which need to be taken with regard to trade with the Soviet Union.

I would like to take a few moments and just outline those as well, the things we recommend for your additional consideration. There is a breakdown of two categories, one of five actions which we can do unilaterally as a nation to help ourselves; and secondly, two steps which we believe should be part of a multinational program to help ensure world peace and democracy.

The five unilateral actions to get the United States in a competitive position are these: (1) The negotiation and implementation of an investment treaty. It has been started but it is not making much progress. (2) Negotiation and implementation of a tax treaty. This is of the same condition, a lot of discussion but not much action really. (3) Congressional repeal of the Stevenson-Byrd Amendments to restrict Ex-Im Bank financing. (4) As Mr. Kendall mentioned, provisions of OPIC noncommercial risk insurance coverage. (5) We think it also appropriate now for a more timely overhaul of the export control systems to reflect current world realities.

The first four items essentially get us on an equal footing with our competitors in Europe and the fifth we are all involved in.

Beyond this point it is my view that the democratization of the Soviet Union must be considered at severe risk until such time as the economy of the region shows significant progress.

The two multinational programs we would recommend for your consideration are focused on the G-7 group of nations, which have the most to gain by seeing economic reform lead to a stable democratic government; and the most to lose should reform fail. Given the large population base and immense geography of the region involved, the only possibility of getting the economy going in a meaningful way is through large scale projects with private capital, targeted at critical sectors of the economy, such as energy, telecommunications, other critical areas.

However, with the noneconomic risks involved companies, private companies, are very reluctant in essence to bet the company on these very, very large projects. We need a way to solve that problem.

We, therefore, recommend that you give serious consideration to the following proposals: (1) The establishment of a multinational noncommercial risk insurance fund modeled after the Multilateral Investment Guarantee Agency. This should have backing from the G-7 official export insurance agencies and also should have Soviet participation and contributions and obligations to the fund. (2) Again, the group of seven nations should work with the appropriate Soviet authorities to devise an exchange rate that is reasonably stable and predictable. They cannot do it by themselves. The Bretton-Woods agreement provided the mechanism for a secure currency system after World War II and a comparable system based on G-7 participation is now appropriate at the end of the Cold War.

We suggest that these two issues, noncommercial risk and currency exchange rates, are so large that the United States should not try to solve them acting alone but rather in conjunction with major industrialized nations.

Those are our comments and we look forward to your questions; and appreciate the opportunity to be here.

The CHAIRMAN. Thank you very much. Those are interesting contributions.

[The prepared statement of Mr. Murphy appears in the appendix.]

The CHAIRMAN. Let me state the attitude of the Chairman and I think the members of this committee. Remember, this agreement was negotiated back in June 1990. It was submitted to the Congress August 2 of this year as we were going out in recess. This is the

first week we are back and we have scheduled a hearing on this agreement. That is how important we think it is as a priority.

I for one certainly believe we ought to be granting MFN and we ought to expedite it as much as we can. We are not sure who we are dealing with in all of this. But I think we have to send a strong, clear signal that we want to reward the democratization that is taking place in the Soviet Union and show that we are interested in trying to develop trade and moving toward MFN.

I agree that democratization is at risk. And particularly if there were to be food riots this winter. What happens? Do they turn back to some strong person of the hard right and say well we had food before and now we don't?

It is in our best interests—American taxpayers and democracies around the world—I think, to see that we get some humanitarian aid over there this winter.

One of the problems—Mr. Andreas, you were speaking of this—with the Commodity Credit Corporation as I understand it is that you are talking about, if I remember right, a 98 percent guarantee.

Mr. ANDREAS. That is what they are giving now.

The CHAIRMAN. That sounds awfully good. Four and a half percent guarantee on the interest.

Mr. ANDREAS. Yes.

The CHAIRMAN. That sounds awfully good. Except for the problems of U.S. banks today. A lot of U.S. banks are in trouble. They do not want anything listed that is a loan that is in arrears and they don't want to have negative collateral in any way. So it seems that we have to do something to encourage commercial banks in this country to help make the loans to make the credit guarantees viable.

I would like any comments any of you might have on what we ought to do.

Mr. ANDREAS. Well, it is true that the American banks have not been forthcoming and not been willing to take that risk. Now during the last \$500 million of credit European banks were forthcoming. But we must remember, European banks are mostly socialized.

The CHAIRMAN. That is right and they were pushed by the governments that are involved.

Mr. ANDREAS. Right. And pretty much owned by the governments in Europe as a matter of fact.

I believe if we want to participate in this business we will have to change that and the government, the Commodity Credit Corporation can do it. But, you know, the laws of the last farm bill was very ambiguous. When the President wanted, was very eager to extend \$1.5 billion credit a few months ago, he had to get an act of Congress to authorize him to do it because of the restrictions that were in the last agricultural bill about creditworthiness.

Now we have extended credit to a dozen countries that I know of that have no credit rating whatsoever and are not likely to ever pay it back. But when the Soviet Union came along, which has never defaulted to this day on a purchase of food from the outside world, they were declared uncreditworthy. Now that is due to the Cold Warriors that are still in our government who wanted to take one last shot at the Soviet Union.

But it happens because of the very ambiguous language in the farm bill. I think that should be cleaned up.

The CHAIRMAN. All right.

Mr. ANDREAS. Now I have something here that might interest you and it is very urgent. I just received this about two hours ago from our office in Hamburg. Salayen, just before he resigned, he sent a letter to Andreson in the EEC and here is what he said they must have this winter to avoid starvation or riots in the cities—5.5 million tons of wheat; 800,000 tons of meat; 900,000 tons of sugar; 350,000 tons of butter; 300,000 tons of flour; 300,000 tons of fats and oils; 50,000 tons of tobacco; 50,000 tons of baby food; 30,000 tons of malt; and 200,000 tons of dried milk.

I just made a quick calculation here. That adds up to about \$7 billion worth of food that Saliav says they need in the cities right now, for this winter. That is a huge requirement.

Now they have been offering to buy all these things on credit. Of course, they would like to have them on some kind of an aid program, too, I assume. Although I have never known them to ask for money. What they have asked for is food.

Many of these foods exist in warehouses right now in our country and in Europe. The government is paying storage and interest on them. It seems to me that that problem should be addressed. Because my own opinion after being in Moscow, and all three of us have been there I suppose 30 or 40 times, my own opinion is that so much hoarding is taking place, that unless we get massive quantities of food into those cities you are going to have riots in the streets this winter.

The CHAIRMAN. Let me tell you, Dwayne, I was over there visiting with the American Ambassador, Jack Matlock. He was talking about that kind of a problem. He said he was talking to one of the Soviet officials and the shelves were bare on this particular household commodity. He said, you know, we have some and said, let me take care of it for you. And the fellow said, oh, no, no, no; we have plenty stored away.

Mr. ANDREAS. Yes.

The CHAIRMAN. And that is the way it has been.

Mr. ANDREAS. The people who knew how to do it—

The CHAIRMAN. So we have to get something on the shelf so they can see it.

Mr. ANDREAS. Well, and Gorbachev and his emissaries are saying it would be dynamite to take another move toward a market economy while the shelves are empty.

The CHAIRMAN. Yes.

Mr. ANDREAS. Get something on the shelves and then they are anxious to move toward a market economy. But meanwhile the people who were smart enough to get their pantries full are all right, but half the people did not get a chance to fill their pantries and that is where the problem comes.

The CHAIRMAN. But I think that John Murphy is right when he says that it has to be a multinational effort. We have to get these other countries involved in the process, too.

Mr. MURPHY. Absolutely.

I would just make one comment there, Senator. The food parliament is a real problem, but it is a short-term problem that seems

to reoccur every year. Fundamentally the solution to that longer term has got to be getting the economy going in many sectors and then things will really happen.

I have been in the Ukraine, seen their farmland. Incredible farmlands. Beautiful. But they are not very productive.

The CHAIRMAN. Well, you are here representing the Chamber, but you also represent a very sophisticated technological company that produces equipment the Soviets need. Your own company in particular produces a lot of drilling equipment.

Mr. MURPHY. Yes.

The CHAIRMAN. I hear that the Soviets have antiquated equipment and that their production is falling despite enormous reserves there. So we have to work out some things there.

Mr. MURPHY. Well, I would make, if I may, just one other comment on that. We have the impression here that their manufacturing plants technologically are old, in bad shape. That is not necessarily correct.

I was in some plants in the Ukraine just a year ago and 2 years ago that are some of the best equipped manufacturing plants I have seen any place in the world. The capital equipment is there. The people know how to operate it, but they do not get much out.

But much of the capital investment to do these things is already in place if it is used right.

The CHAIRMAN. Well, I turned the light off on you fellows. I see they turned the light on me. [Laughter.]

The CHAIRMAN. The chairmanship should have some perks.

Senator Chafee?

Senator CHAFEE. Thank you, Mr. Chairman.

I would note for the record and I suppose everybody may know it that as a young graduate from Yale George Bush went to work for Dresser Industries.

I would like to ask this, Mr. Andreas, on page 6 you say that the Soviet Union can increase exports. They do have things we can use. I know Mr. Kendall has touched on some of those, such as Vodka. But what are some of the other products that we might buy? Because there seems to be a general agreement in our country, at least it is stated generally, that the trouble is they don't have anything we want to buy.

Mr. ANDREAS. Well, they are the richest and largest country in the world in raw materials. Now the problem has been that they have fixed the prices administratively on everything they export and they have priced almost everything above the world market prices.

Therefore, we have never found out what they can sell and we won't find out until you finally have a market economy. Because they will have to invent things. But I will tell you this, they have lots of fertilizer, lots of exotic minerals, lots of diamonds. If the price of diamonds came to the world market level they could increase their production of diamonds, they could increase their production of gold, and they could increase their production of oil.

I think you also should consider that if we give them MFN and the Japanese and the Germans and our own people can see that they can sell Russian goods in the United States, lots of foreign

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companies will go in there to produce. Labor is very cheap there. A lot of the raw materials are very cheap.

So I do not think any of us can sit down and dream up what they will do. But the history of the world is that if people have the opportunity to do it, they figure it out. They have got ceramics. They have quite a lot of things.

Mr. KENDALL. Mr. Senator, the thing you have to look at in the Soviet Union, I have traveled all of it, I have been in a lot of their research facilities. I think people are inclined to forget in this country what the Soviets have done in research. You know, they beat us in space. They were the first one to put up a station up in space, which we still have not done. They have unbelievable things in their research laboratories that have never come out.

In fact, some companies have already been set up to go over and take research out of their laboratories and put it out into the market place. I think once you let American business go over there, with the same advantages that the Germans, the English and the French have, with the credits and the guarantees, that you will be amazed at the products that start coming out of the Soviet Union.

The Pizza Huts, for example, I can tell you that we have in the Soviet Union are as well run and as well managed as any Pizza Hut anywhere in the world. The two Pizza Huts, for your information, we just closed the first year, we did \$12 million. We do not have any two Pizza Huts anywhere in the world that do that kind of money.

In the bottling plants that we have operated, we have been conducting quality control seminars for 15 years in the Soviet Union. Two years ago they won the quality control award. These people are well educated and are very capable. All they have to do is turn them loose.

Senator CHAFEE. Well, I am supportive of the MFN. As a matter of fact, if I could wave a wand around this place I would change the definition of MFN. I think it is untruth in labeling. Most favored nation does not mean you are giving somebody a break. Absent most-favored-nation status, that absent you are putting a tremendous surcharge on a relatively few number of countries in the world. So the impression abroad is that by granting MFN you are doing somebody a very big favor. It is nonsense, as you gentlemen so well know.

I would just like to ask one question of you as a group. That is, I heard those figures that Mr. Andreas gave, when you are talking 5.5 million tons of wheat. I believe your first item was wheat.

Mr. ANDREAS. Yes, indeed.

Senator CHAFEE. And 900,000 tons. I mean we are talking tons.

Mr. ANDREAS. Of sugar.

Senator CHAFEE. Of sugar.

Mr. ANDREAS. Right.

Senator CHAFEE. And 35,000 tons of butter and on and on it went.

Mr. ANDREAS. 300,000 of butter. [Laughter.]

Senator CHAFEE. All right. Who is going to quibble over a few pounds of butter?

I have always heard the figure given that from farm to table 35 percent of the produce is lost, not through pilferage but through decay, lack of refrigeration, and so forth. If we undertook some kind of a massive effort and through loans or whatever it might be, would this get from the ports to the stores?

Mr. KENDALL. Before Mr. Andreas answers that, can I say something?

Senator CHAFEE. The answers have to be relatively brief because my light is about to go off here.

Mr. KENDALL. First of all, the food shortages in the Soviet Union last year were widely exaggerated by the press. There were not the shortages that people talk about. A lot of people go to Moscow and see these lines and empty shelves and think there is not food. That is just plain not true. It is moved out into different channels and you can get anything you want if you have enough rubles or foreign exchange.

There are some people who have suffered in the larger cities who are retired and do not have the rubles to go and get it. In fact, I defy you to go to the Soviet Union and Moscow and say you can find a skinny Russian. It just was not true.

This year is different. Our people say the same thing that Dwayne Andreas' people are saying, that they are concerned this year that there could be a shortage. But I do not think we should exaggerate that shortage and I do not think the figures that you just heard given suggest there is any rationale to say that that is what they are really going to need. I do not think we know that yet.

I think that somebody is going to have to go over there and do a lot of talking with people who are knowledgeable in this field to find out what they really need. Then we should really help them.

Senator CHAFEE. What do you say, Mr. Murphy?

I am particularly interested in the transport. I mean we are going to be beset around here with do something, do something, help the Soviet Union. The question is, have they got the infrastructure to get it from port to St. Petersburg or to Moscow or Kiev, wherever?

Mr. MURPHY. My views of the infrastructure from the ports to the cities is fair. The real problem is the infrastructure from the farms to the storage to the cities. It is horrible, absolutely, unbelievably bad. That is where the losses are taking place, from the point of the farm, you know, they cannot move it. It is laying on the ground and it is being eaten by the birds and the rats and everything else. That is where the big losses take place.

From the ports to the cities, I believe they can manage that, yes. They will probably need some technical help in doing it because of the quantities involved. But they are very capable people. They are survivors. They make things happen when they have to. I would not worry about moving it from ports. That is not where the loss takes place.

Senator CHAFEE. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Senator BAUCUS?

Senator BAUCUS. I thank the Chairman.

Gentlemen, in your statements you each made several recommendations as to how American businessmen can do a little better job of investing or selling, doing business over in the Soviet Union. You mentioned the Commodity Credit Corporation and ambiguity; you mentioned the Byrd-Stevenson limitation on Ex-Im. I assume Mr. Murphy might have some thoughts about the Export Control Act.

If we make the changes that you recommend, is America still behind the curve compared with other countries—German, other European countries, maybe Japan—those government's efforts to either help or remove restrictions for their businessmen doing business in the Soviet Union? Or if we make the changes you outline are we at least on a level playing field of perhaps doing better?

I would just like an idea of where we are as a country vis-a-vis the other countries.

Senator CHAFEE. Assuming the adoptions.

Senator BAUCUS. Assuming the adoptions.

Mr. MURPHY. Let me try to answer that from a manufacturing standpoint which is the business I am in. If these things are done I would not worry a moment about competing in the Soviet Union against anybody in the world.

They view products built in the United States as absolutely the best there is. They prefer our products over German, by far over French, and by far over Japanese. It is amazing. It is only one of the few places in the world I find that consistently but it is there.

A good example. One of our businesses that is headquartered in New Jersey is in the business of building pumps for refineries, for chemical plants and other applications. That division will be doing about \$20-\$25 million this year in the Soviet Union in chemical pumps. We are not producing them in New Jersey, however. We are producing them in England.

We are producing them in England because we can get export credit guarantees, not any financing, but just make sure that the Russians will pay. They have paid. It has never been a problem. But that is why we are putting that business in England.

The problem in doing that was not any place except with the Russians. They wanted it built in the United States because they felt it would be a better product. The products are the same. It would in fact be a lower cost to us to produce it in the United States. But we are in England for that reason.

So if these things are done I do not worry about competing with anybody in the world in the Soviet market.

Senator BAUCUS. I ask because I am a little concerned with the EC-92 coming along and for the proximity of Europe to the Soviet Union.

But anyway, Mr. Andreas, do you have a reaction to my question?

Mr. ANDREAS. Yes. I think this would put us for the first time in 30 years on an even playing field. But I want to tell you that we have made a study of this. Western Europe does 33 times as much business with Russia as the United States does now. So we are way behind. We have had enormous trade restrictions here that no other country has.

Now the result is most companies, like Mr. Murphy just described, have subsidiaries or affiliates in Europe. My company does \$6 billion worth of business in the United States. We have grown into a \$6 billion company in Europe, primarily because it is difficult to do the business outside of the United States.

We do \$1.5 billion with East Communist countries a year. It will take years for the United States to catch up because the Europeans are way ahead of us. The German Government finances everything that we are willing to do in those countries. So it is urgent that we do it now but it will take a long time to catch up.

I do think the things that Mr. Kendall and Mr. Murphy recommended will give us an even playing field. But we are way behind. I had one of the most important members that was in the Cabinet a few years ago told me that we probably have lost \$15 billion of business a year because of our trade restrictions. We have 100,000 items listed in this country that we cannot even sell to France.

Senator BAUCUS. Because of the restrictions that you as a group recommend that we eliminate?

Mr. ANDREAS. Yes. Credit, everything. We are not competitive. The only place we have been competitive is on the grain agreement.

Now I would like to add one thing. You asked the question. If you do not mind brainstorming a little bit, I was told by a very knowledgeable man recently that you could take the average bomb that the Russians have, hydrogen bomb, the plutonium in it is worth a great deal. We could pay \$5 million he told me, per bomb, that would be \$150 billion for their bombs, and convert them with our technology into peaceful purposes at a very substantial profit. [Laughter.]

I am not a scientist so I do not want to guarantee that. But we need to brainstorm about what we can do with our countries to our mutual benefit.

The other thing that I have discussed actually with Gorbachev, they have a space program where in some cases they are way ahead of us. We could buy into their space program for \$5 billion or \$10 billion and save \$5 billion or \$10 billion. Because in many ways they have done things that we will not accomplish for 4 or 5 years.

Senator BAUCUS. Mr. Kendall, briefly.

Mr. KENDALL. Senator, to get away from the brainstorm a moment, I am particularly pleased to hear you raise the question about a level playing field. I wish that more people, not only in the House but in the Senate, would think about putting American business on a level playing field because that just has not occurred in the past.

If you do the things that we have recommended, yes, we will have a level playing field. Will we catch up with them? Yes, I think we will. But you have to recognize some of the things that have already happened.

Since April alone, since the April agreement was made in the Soviet Union where they were going to have this economic union where the countries were going to sign this agreement that was supposed to be signed before coup, nine Japanese companies have

opened up 26 offices around the Soviet Union getting ready for this. So they are moving.

There is no question of the seriousness of the islands issue, which looks like it is going to be settled. When settled the Japanese are going to be in there like gang busters. The United States has got a problem in their balance of trade.

We have to get more concerned about our own economic welfare and we have to look at the Soviet Union as an opportunity for the United States. This is jobs here. This is employment in the United States and this is exports which we can get money to help our own problem and at the same time help the Soviet Union because they need American business people over there to train them.

If we get involved it is not only going to help them, but it helps us.

Senator BAUCUS. I very much agree with you. Thank you very much.

Senator CHAFEE. Mr. Chairman, I just want to say I very much agree. I think the illustrations, particularly that each of them gave, but the one by Mr. Murphy about the product that could have been made in New Jersey. By making it in England in order to take advantage of things we ought to be doing, shows that we need to move rather rapidly in these efforts.

The CHAIRMAN. I think we can move very rapidly on the parts within our jurisdiction in this committee. I think the testimony has been extremely interesting and helpful to us. I share much of the concerns and the objectives.

Except for one thing, Dwayne Andreas, when you talked about moving the space program. You know, I am from Houston and if you move that to Russia, you are going too far.

Mr. ANDREAS. Well, I want to tell you when Mr. Yeltsin was here and he spent a weekend with us at our home he wanted to see Houston. He did. We were able to arrange it. I think you helped do that.

The CHAIRMAN. That is right.

Mr. ANDREAS. He did go through our space and he came back and told me that he could add a lot of things to our space program. [Laughter.]

The CHAIRMAN. Well, I would be delighted to have him move them here. That would be fine.

That concludes. Thank you, gentlemen, very much.

Our next witness, Ms. Cardin, is the chairman of the National Conference on Soviet Jewry. Ms. Cardin, if you would come forward, please.

Ms. Cardin, if you would go ahead, please.

Ms. CARDIN. Thank you.

STATEMENT OF SHOSHANA S. CARDIN, CHAIRMAN, NATIONAL CONFERENCE ON SOVIET JEWRY, WASHINGTON, DC, ACCOMPANIED BY MARK LEVIN, ASSOCIATE EXECUTIVE DIRECTOR, NCSJ

Ms. CARDIN. Thank you, Mr. Chairman. Senator, we met not too long ago to discuss this issue, as you will recall. The world has

changed radically in the Soviet Union, if that name still prevails since we met.

At that time we were discussing with you and we choose to discuss again our position. I welcome this opportunity to testify before this committee on the issue of waiving Jackson-Vanik and affording most-favored-nation status to the Soviet Union. I am honored to come here to express the viewpoint of the National Conference on Soviet Jewry at this time in the upheaval of the Soviet Union and in recognition of what has taken place over the past few years.

For those who may not know the National Conference on Soviet Jewry is the organized voice of the American Jewish Community. It is comprised of 48 national agencies, 300 community councils, 200 federations and numerous committees across the land.

You will recall, I am certain, that in 1974 just as the National Conference on Soviet Jewry spoke on behalf of our community in support of the Jackson-Vanik Amendment. We speak today for the same community, in this case recommending that there will be passage of MFN, that the trade agreement will be signed, and indeed there will be this recognition that democracy should continue and the movement to democracy should continue within the Soviet Union.

We have believed for some time that the Jackson-Vanik Amendment has been more than an economic tool. We believe that it was a tool for social change in the Soviet Union. And we believe that much of the progress made in recognizing human rights came about because there was the Jackson-Vanik Amendment.

Indeed, I understand that President Gorbachev in addressing the CSC conference that is going on now alluded to the fact that external forces can be brought to bear and recognition can be made when humanitarian affairs begin to decline or to assist in addressing humanitarian issues.

Senator, I expect to be in Moscow beginning the 16th of this month, not only to attend that conference, this will be my 12th visit since 1989 but to see what the changes are and to see what the progress is that has been made in addressing humanitarian issues and specifically Soviet Jewry immigration.

We have monitored the change within the Soviet Union over the past several years and in December 1990 encouraged our administration and Congress to support further movement toward a trade agreement and a recognition of MFN. We suggested that if the President had the assurances and the promise that there would be continuing improvements that in fact the Soviets had earned that.

We believe that the time has come to use this as a carrot, not as a stick and indeed to encourage the Soviets to go even further, particularly at a time when we are not certain what the formation of the union will be and at a time when I believe you will begin to address, and this administration will begin to address, how the independent republics will respond. Will they be held responsible for the same type of immigration standards, humanitarian issues, that the Jackson-Vanik prevailed in the Soviet Union and will that be brought to bear on the new republics, whether they be the Baltic republics or other republics seeking independence?

Those are questions which I recognize have yet to be answered.

In 1989 we began to see the opening of the gates, and indeed in 1990 even a further swelling, and to date over 300,000 Soviet Jews have been enabled to leave the Soviet Union. We believe that monitoring this progress and this effort is critical to the Jackson-Vanik Amendment. We suggest that the amendment be retained as an instrument, allowing the President to use the instrument when necessary, if necessary, in giving full flexibility.

So at the same time that we encourage the trade agreement be signed and implemented and MFN granted, we also request that the Jackson-Vanik Amendment be kept in tact. It does encourage a monitoring process. It enables us to see whether these changes will be more permanent and whether the instability that is there now will lead to stability and assurances that we believe we will need for the minority of Soviet Jewry that remains.

The volatility of that which has happened recently in Lithuania is of concern to us and shows us that there are no assurances at this time. But we still believe that MFN should be granted and the trade agreement signed.

There are problems in spite of the fact that the general atmosphere in which the Soviet Jewish minority lives has improved. Indeed, there are educational and cultural opportunities now which did not exist before and religious opportunities which did not exist before.

There are still problems. There is still bureaucracy. There are still differences of opinion as to what the military service will require that is included in the new exit-entry law. There is still concern about the long-term refusniks. There is concern about the state secrecy. There seems to be no limit if one would wish not to impose the limit. There are concerns that there is no redress for poor relatives. There are concerns that there is not a reasonable understanding of how the bureaucratic impasse can be dealt with at the individual republic levels.

So we are concerned. And of course we are concerned about the rise of anti-Semitism, which all of us are watching with trepidation.

The CHAIRMAN. Let me say that I have been a strong supporter of Jackson-Vanik and an original co-sponsor of that provision. Scoop Jackson was a life-long friend of mine. The changes have been radical since that piece of legislation was enacted.

But as I understand what you are saying, you strongly disagree apparently with Mr. Kendall's recommendation that it be repealed.

Ms. CARDIN. Yes, we do.

We believe that there is sufficient uncertainty, particularly now in the break up of what was the Soviet Union; and sufficient dangers to stability that exist there now with rising ethnic and nationalist tendencies that would require our ability to monitor. This instrument, which is a flexible instrument would enable the Soviets and the republics to benefit from the trade agreements.

But should anything happen it would be there to enable them to understand that they have promises to keep.

The CHAIRMAN. Of course, that is his argument—that it is a flexible instrument; and as long as it is there it is going to deter American investment because companies do not see the continuity and stability. That is his argument.

Ms. CARDIN. I heard the argument, Mr. Chairman. I have heard the argument; we have heard the argument before. We believe that a positive economic climate will take place as soon as more American industries and companies see the profit margin and the profit line in the Soviet Union. Then this instrument will not be a hindrance. They will continue.

I understand and we understand the economic deprivation that has existed for many of our companies over a period of time. We agree with the level playing field that we should have for our own economy and our own people.

The CHAIRMAN. You will not have a level playing field. You will not have that if we have the amendment and other countries do not. That is their argument.

Ms. CARDIN. Mr. Chairman, I beg to disagree with their conclusion.

The CHAIRMAN. Well, that is what I wanted to clarify.

Ms. CARDIN. We believe that the Jackson-Vanik Amendment was more than an economic instrument. It also created so much.

The CHAIRMAN. Of course it was more than an economic instrument and we meant it to be. Yes.

All right. Thank you very much.

Ms. CARDIN. Thank you very much, Mr. Chairman.

[The prepared statement of Ms. Cardin appears in the appendix.]

The CHAIRMAN. The hearing is adjourned.

[Whereupon, the hearing was adjourned at 12:55 p.m.]

APPENDIX

ADDITIONAL MATERIAL SUBMITTED

PREPARED STATEMENT OF DWAYNE O. ANDREAS

Chairman Bentsen, Senator Packwood, Members of the Committee: Thank you for inviting me here today. This trade agreement—indeed, the entire subject of our country's economic relationship with the Soviet Union—requires immediate attention. So, I am very pleased to have this opportunity to testify and to urge its prompt approval by the Congress.

The news reports during the past few weeks from the Soviet Union have left us all stunned. However, we cannot permit our astonishment to delay adjusting our nation's policies to take into account a changed world. Other changes in our policies toward the Soviet Union will, of course, be necessary as the situation in that country evolves. But, granting most-favored-nation status to the Soviet Union is an important first step in meeting the enormous challenge now facing all parties concerned, especially the leaders of that troubled nation. The stakes here are very large, and time is of the essence.

We have waited almost 50 years for this moment. Not since 1945 has history presented such an opportunity to advance the causes of freedom and democracy and human welfare. The "New World Order," so often referred to, is presently emerging before our eyes. It can be shaped to a great extent, for better or worse, by what the United States says and does in the next few months. We must, of course, act prudently. But there are times when delay and inaction are themselves imprudent. I believe the present is such a time. So let's not be timid in our response to the changes underway in the Soviet Union. The United States has given MFN status to over 100 countries. The time has now passed for the Soviets to be held by Congress and the Administration in the same economic restricted category as are Cuba, North Korea, Cambodia and Vietnam. Granting MFN, right now will reduce present prohibitive tariffs on Soviet goods entering the United States from about 74% to the 3% level that other countries pay. This action would enable the United Soviet Sovereign States to earn dollars to buy U.S. farm products like wheat, corn, and soybeans which they need.

The question of whether to grant the Soviet Union MFN has been actively, often heatedly, debated in this country—indeed, in this Committee—for almost one quarter century. The proposal to grant MFN to the Soviets was first formally proposed to Congress in 1972 by good people who had good reasons; the idea was resisted by good people, sometimes armed with very good reasons. Now the course of world history has changed, and I believe we must change our nation's course accordingly. The restrictions on the freedom to emigrate from the Soviet Union which was the original reason for enacting the Jackson-Vanik amendment have been entirely removed. Prime Minister Shamir on the CBS, FACE THE NATION which aired on December 9, 1990 said; "We are happy with it." (Soviet Emigration Policy) "And the newcomers are very happy and we are grateful to the Soviet Union."

In answer to a question asked by Leslie Stahl he said: Shamir: "You know, we are grateful for this change of their policy for allowing—allowing these people to come now. And I think that for this reason, I think it's time to suspend—the Jackson-Vanik amendment in such a way as to facilitate the trade relations between Russia—Soviet Russia and the United States."

Stahl: "You're—you're asking to—for us to waive that so that we can give them direct agriculture aid and things like that."

Shamir: "I think it's—I think it's time to do it. You know, that will help them."

All other requirements of Jackson-Vanik have been fulfilled or even exceeded. The Supreme Soviet has even passed a statute relating to freedom of emigration, an act not even specified or required by Jackson-Vanik. The continuing delay on the part of the United States in granting MFN despite the full compliance with Jackson-Vanik on the part of the Soviet Union is now generating antipathy and hostility within the Soviet bureaucracy.

Before we can intelligently decide where we are headed, we must be certain where we are at present—our starting point. Our leaders, particularly our President, must steer by the stars, not by each passing ship.

First and foremost, we must take into account the inescapable reality that there are thirty thousand thermonuclear warheads which threaten our existence. Accordingly, we must pursue policies aimed at promoting stability, reducing that threat, and preserving our national security.

This principle of national security and national interest must be, of course, always overriding. I believe that in the near future it will lead us to conclude that it is in our national interest to adopt policies which would have been unthinkable a few years ago, in order to encourage stability, as well as political and economic reform, in the Soviet Union.

President Bush has assigned his highest priority to our relationship with the Soviet Union. This was evident by the President's nomination—with the Senate's unanimous consent—of Robert S. Strauss to serve as our representative in Moscow. Ambassador Strauss, as the members of this Committee well know, is one of our country's most knowledgeable and able people. I am confident that he will serve our country well, working closely with President Bush and Secretary Baker, on our political and economic relationships with the Soviet Union, and also consulting closely with the Congress.

The President's decision last week to recognize the Baltics was the right one. He will no doubt face similar, more difficult, decisions in the future. It is apparent that President Gorbachev is striving to recast the Soviet Union into a loose political federation of sovereign republics with close economic interdependence. This is a difficult undertaking, but one I believe the United States should encourage as much as possible.

I also support the President's decision to dispatch a Presidential Mission to examine the needs of the Soviet Union for emergency medical and food supplies. The latter topic—food supplies—is something about which I (and the company I head, Archer Daniels Midland) can claim some expertise and on which I would now like to comment.

It is no secret that people throughout the Soviet Union face an unusually difficult time in the coming winter. Already, there are serious shortages of food in major cities. Store shelves are empty throughout the country. These shortages have been caused by hoarding, in expectation of the shift to a market economy. Farmers and housewives, anticipating higher prices, several months ago began hoarding food supplies. Farmers have refused to send supplies to the cities; housewives have swept the shelves clear of almost all consumer goods. What food is available can be purchased on the black market. The food exists, but the Soviet distribution system is withholding it from consumers.

Soviet leaders tell me—and I believe they are correct in their assessment—that they must quickly make large quantities of food conspicuously visible on the shelves of stores in their eight largest cities to stabilize prices and discourage hoarding. Only after this is accomplished will they be able to abolish price controls and move to a market economy which they know to be an absolute and ultimate necessity. I need not add that the absence of food from store shelves is the most destabilizing force any society can ever confront. Confronted with food shortages, people quickly progress from anger, to hunger, to violence. The risk, of course, is that the seedling of Soviet democracy might be lost.

Approval of this trade agreement and granting MFN to the Soviet Union, of course, will not by itself put food on the shelves in Moscow next week. I wish it were that simple. But approval by Congress of this agreement would be a very important first step.

The United States during the Cold War denied MFN to the Soviet Union because it was our national policy to impair Soviet capacity to earn foreign exchange and provide for its people—something we were not prepared to do without massive reform of the communist system. All of that is now history. The reasoning of thirty years ago, of course, was valid. Denial of MFN did impair their ability to earn hard currency and provide for their people. Now the inverse is equally true. Granting MFN, as a practical matter, would enable the Soviet Union to increase exports (they do have things we can use) and earn foreign exchange with which to purchase food.

It would begin the process of hardening the Ruble and improving their credit-worthiness so that they can buy our goods and quickly stock those empty shelves. It would remove one of the many Cold War barricades to trade between East and West.

Perhaps most important of all in the coming weeks, granting MFN would also serve as a valuable signal to the people of the Soviet Union of our intentions and good will. That is a very important signal to send people and also an important signal to send to world markets. This would be an important, indispensable step toward normalization of relations between the United States and the Soviet Union. Moreover, it is, in my opinion, essential to the continued process of economic and political reform in that country. For these reasons, I urge that Congress quickly approve this agreement.

Hundreds of American businessmen, directly and through their European subsidiaries, have enjoyed a very close relationship with the business and Government community of the Soviet Union and are extremely knowledgeable about how we should conduct ourselves in relation to them in our own national interest.

One of the companies which has had an enormous amount of experience in the Soviet Union is Cargill, Inc., which is perhaps the most important trading and processing company in the world. Mr. Whitney McMillan, CEO and one of the principal owners of that company, has traveled in the Soviet Union many times and is familiar with our two countries mutual problems.

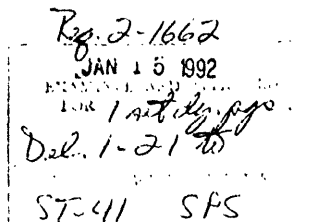
I am submitting along with my testimony a letter written to President Bush by Whitney McMillan on May 22, 1991. Although I had no prior knowledge of this letter, several copies went to others, and one came into my hands recently. I have taken the liberty of attaching it to my testimony because I believe it contains words of great wisdom and suggestions that should be carefully considered by our Government.

CARGILL

P O. Box 9200
 Minneapolis, Minnesota 55440

Whitney MacMillan
 Chairman of the Board

May 22, 1991



The President
 The White House
 Washington, D.C. 20500

Dear Mr. President:

An important opportunity is at hand for the United States to strengthen the basis on which American companies do business with the Soviet Union. We believe it is time to grant the Soviet Union Most Favored Nation status. We also would urge you to provide the USSR with additional credits or credit guarantees for food and agricultural products.

As you know, Mr. President, U.S. agriculture has enjoyed a special relationship with the Soviet Union. For years, even when overall relations between our two countries were strained, the Soviets remained U.S. agriculture's customer. In fact, for many years they were our best customer. With Soviet consumers taking about one-fifth of U.S. grain exports, this trading relationship is critical to good prices for farmers and a healthy rural economy.

Today, unfortunately, this mutually beneficial relationship is strained to near-crisis proportions. The Soviets need reliable credit, yet U.S. decision-making processes force your government to intervene regularly in allocating credits and approving sales quantities. This is not the stable climate needed either by U.S. agriculture or Soviet consumers.

We believe it would be appropriate to put food exports to the USSR on a more predictable footing. This could be done by establishing a "revolving fund" for credits and repayments. We can attest that the Soviets are keeping to the letter of their contracts with us. We have no reason to doubt that they are, over time, a creditworthy customer. We also are certain that if we fail to provide assistance promptly, American farmers, Soviet consumers and overall relations will suffer.

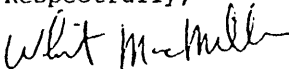
The President
May 23, 1991
Page 2

Merely issuing more credits today will not bring the Soviets into the fold as a regular, on-going customer for U.S. farm products. Without some additional steps, today's near-crisis will be repeated when the Soviets have exhausted their existing line of credit. Thus, it is imperative to develop a longer-term strategy for assisting the Soviets and keeping them as a regular customer.

We recommend the administration create a special revolving credit fund. No legislation is necessary to create such a fund within the Commodity Credit Corporation. Operating under the umbrella of the GSM-102 and GSM-103 programs and in concert with other authorities, a revolving fund would allow the Soviets to continue to buy American agricultural products as they repaid their debt and thereby replenished the pool of funds available to them. We know similar funds have been established by U.S. competitors and have facilitated their on-going trade with the USSR.

Mr. President, the Soviet Union faces daunting prospects in its perestroika to make major economic and social adjustments, straighten out the structural imbalances that have developed after decades of central planning and develop an infrastructure capable of meeting the wants and needs of Soviet citizens. The United States can aid them in that process with steps of our own. We urge that you do so.

Respectfully,



WM:msp

cc: The Honorable Edward Madigan
The Honorable Thomas Foley
The Honorable Kika de la Garza
The Honorable Patrick Leahy
The Honorable Richard Lugar
The Honorable Thomas Coleman

PREPARED STATEMENT OF SHOSHANA S. CARDIN

Mr. Chairman, members of the Committee, I welcome this opportunity to testify on the President's request to Congress to approve a trade agreement between the United States and the Soviet Union and to "waive" the Jackson-Vanik Amendment. As Chairman of the National Conference on Soviet Jewry ("NCSJ"), I am honored to come before this Committee and to articulate the viewpoint of the organized American Jewish community at a time when the Union of Soviet Socialist Republics is in the midst of a metamorphosis which will alter the course of our history. At the outset, I wish to state that we urge Congress to approve the proposed U.S.-U.S.S.R. Trade Agreement and, thereby, the extension of MFN treatment to the U.S.S.R.

Since 1974, the NCSJ has viewed the Jackson-Vanik Amendment as the principal element of U.S. foreign policy to ensure the unrestricted emigration of Soviet Jewry. In 1974, the NCSJ testified before this Committee in support of Section 402 of H.R. 10710—a measure proposed by Senator Henry Jackson, which linked Most Favored Nation treatment with freedom of emigration. Since the enactment of that historic legislation, revolutionary changes have swept the Soviet Union—evolution foreseen by few. While these changes are largely the result of internal dynamics in the Soviet Union, external forces have been the catalyst for change. Among these forces are the continuing commitment of Congress and five Presidents, as well as the policies of other governments, to secure the right of emigration for the citizens of the Soviet Union. We know that these efforts nourished the fledgling movement for human rights in the Soviet Union.

Just as the NCSJ spoke for the organized American Jewish community in 1974 in support of the Jackson-Vanik Amendment, today we speak for the same community in arguing that the time has come to grant to the Soviet Union a waiver of this amendment and MFN.

The NCSJ is the central coordinating body for activities in the United States on behalf of more than two million Jews in the Soviet Union. Forty-eight national member agencies and nearly 300 local community councils, federations, and committees are affiliated with the NCSJ. The NCSJ, therefore, has the ability to mobilize the resources, energies, and talents of millions of private citizens in this campaign for human rights. The NCSJ has worked for over two decades to enable Jews to leave the U.S.S.R. in accord with established principles of international law, and to help those who choose to remain to study, teach, and maintain their own religion and culture.

Mr. Chairman, the NCSJ is pleased to report that during the past several years there has been substantial progress towards these two important goals. Since 1970, more than 700,000 Jews have emigrated from the U.S.S.R. of this total, approximately 350,000 left during the past two years. The numbers speak for themselves. In 1986, the first full year of the policies of *glasnost* and *perestroika*, slightly more than 900 Jews were permitted to leave the U.S.S.R. More than 180,000 left in 1990. More than 711,957 have left since January 1, 1991. (See attached emigration statistics.) Furthermore, large numbers of Jewish institutions, including day schools, cultural centers, and synagogues, as well as Jewish publications and study groups, continue to take root in the U.S.S.R. with little or no governmental interference.

In spite of these positive developments, certain problems have not been resolved. *First*, while we welcome the recent and dramatic decrease in the number of long-term refuseniks, others continue to be denied their right to emigrate from the U.S.S.R. (See attached breakdown of NCSJ refusenik list.)

Second, the NCSJ has concerns regarding the implementation of several provisions of the emigration statute approved by the Supreme Soviet on May 20, 1991. Its intent is to conform Soviet domestic law with international norms regarding the right to emigrate by January 1993. However, based upon the debate over the measure, the length of time set to implement the new law was a concession to hard-liners.

The new statute generally establishes a limit of five years for access to "state secrets" as the basis for the denial of an exit visa. In certain cases the limit can be prolonged.

The new statute contains a provision preventing emigration of an individual subject to compulsory military service, unless the military authorities exempt the individual. We shall monitor the implementation of this new emigration law to determine if there are abuses regarding the implementation of these provisions.

We are concerned about the resolution of "poor relatives" cases, while the new statute allows individuals in this category to seek judicial redress in cases where relatives refuse to sign a document affirming the absence of financial obligations, it remains to be seen how Soviet courts will adjudicate these cases.

Third, in connection with the vast increase in Soviet citizens applying to travel abroad, difficulties have arisen in the processing of applications to obtain the required documentation for travel abroad. Individuals currently applying to emigrate from the U.S.S.R. face inordinate delays at the OVIR (emigration) offices. These difficulties stem from inadequate staffing, limited hours, and a general shortage of passports, which exacerbates the administrative difficulties of promptly processing applications. The Soviets need to eliminate these bureaucratic obstacles that have become a barrier to emigration.

Fourth, we were greatly disturbed by the announcement in late July of a dramatic increase in passport fees. The imposition of burdensome charges in order to exercise the right to emigrate is specifically identified by the Jackson-Vanik Amendment as a barrier to emigration.

Although human rights issues unrelated to freedom of movement are not mentioned in the Jackson-Vanik Amendment, conditions which could result in the persecution of the Jewish minority are intimately related to emigration issues. Therefore, we take this opportunity to summarize other concerns about the treatment of the Jewish minority in the U.S.S.R.

We are troubled by the continuing expressions of anti-Semitism in the Soviet press. It is a symbol of a malady which has deep roots in the Soviet Union. There have been public manifestations of anti-Jewish hostility. We are equally concerned about governmental refusal to recognize the status—indicated by official registration—of some Soviet Jewish cultural organizations, including the Va'ad, the umbrella organization for independent Jewish bodies across the U.S.S.R.

For many years, the NCSJ remained firmly opposed to a waiver of the Jackson-Vanik Amendment for the U.S.S.R. Soviet emigration performance simply did not warrant such action. However, against the background of sustained and high levels of Jewish emigration, and progress on related concerns, in 1989 the organized American-Jewish community, through the NCSJ, has reconsidered its position regarding a waiver of the Jackson-Vanik Amendment and the granting of MFN status to the Soviet Union. This process included consultations with Soviet Jews, the NCSJ constituency, representatives of the Administration, Congress, and other interested parties. On June 13, 1989, the NCSJ Board of Governors adopted a statement indicating support for a waiver of the Jackson-Vanik Amendment under the following conditions:

If the President receives appropriate assurances from Soviet authorities of significant progress on the following four priority concerns: a sustained level of emigration, strict limits on the "state secrets" restriction, resolution of the "poor relatives" problem, and progress in the cases of long-term refuseniks.

Since we issued that statement, the NCSJ has closely monitored Soviet performance in a number of areas affecting Soviet Jews. By December 3, 1990, we felt that sufficient progress has been made in the four areas outlined above for us to issue the following statement.

The NCSJ now believes that the President should consider waiving the provisions of the Jackson-Vanik Amendment for the period provided by the law. . . . In our view, such action would be fully consistent with the objectives of the legislation, which are to contribute to the goal of truly free emigration.

On May 30, 1991, because of the unprecedented numbers of Soviet Jews who have received permission to emigrate to Israel and elsewhere, the NCSJ Executive Committee voted to support a one year waiver of the Jackson-Vanik Amendment for the Soviet Union. Subsequently, on June 3, 1991, the President announced a waiver for the Soviet Union.

On July 30, 1991, after an announcement by President Bush that he will send the U.S.-U.S.S.R. Trade Agreement to Congress, the NCSJ issued a statement in support of the eventual granting of MFN to the Soviet Union.

The NCSJ welcomes the President's action, which, we believe, is appropriate at this time in light of Soviet emigration performance in general and Jewish emigration in particular.

The Jewish community's concern about the plight of Soviet Jews led to strong support for the linkage, through Jackson-Vanik, of MFN trading status with emigration. NCSJ also believes that Jackson-Vanik was the legal linchpin of the commitment of the United States to the human rights movement in the Soviet Union, as well as its psychological sustenance. Indeed, there are few who would question

the tremendous impact the Amendment has had in galvanizing public attention on human rights, and in making the specific right of emigration, and the general issue of human rights, a permanent fixture in U.S.-Soviet bilateral relations.

For the U.S.S.R. to receive MFN, a bilateral Trade Agreement must be approved by Congress. Accordingly, the NCSJ urges speedy Congressional approval of this Agreement, which was signed by Presidents Bush and Gorbachev in Washington on June 1, 1990.

In making this recommendation, the NCSJ endorses only a waiver, for a limited period, of the Amendment. The continuation of MFN status for the Soviet Union should be subject to subsequent waiver requests. Jackson-Vanik allows crucial flexibility to American lawmakers, because it bases the decision on granting a waiver and MFN on current conditions in the country under review. This permits Congress to continue its vital role of monitoring progress towards free emigration, and to make the decision to terminate MFN trade benefits in the event that emigration is again made subject to restriction. Moreover, the NCSJ believes that any subsequent waiver would have to be fully justified by continued movement toward the goal of truly free emigration.

In the past, the Soviet Jewry advocacy movement in the United States has adopted measured responses to constructive changes in Soviet policy, while continuing to press for progress in problem areas. We continue to be strongly committed to this course of action. As always, we recommend the strategy that, we believe, will most encourage the Soviets to liberalize their emigration procedures.

We reiterate that the Soviet Union does not permit free and unrestricted emigration. Accordingly, we will continue to advocate aggressively for the right to emigrate on behalf of the remaining long-term refuseniks, the "poor relatives," and new refuseniks. We shall not relax our efforts until the last Jew wishing to emigrate from the Soviet Union is able to do so. We urge the Soviet authorities, and the emerging republics, to bring their emigration practices into full compliance with their international obligations.

The NCSJ is mindful that the Soviet Union is in a period of severe economic crisis and political instability. We were deeply troubled by the "Sixty-Hour Coup," and we wholeheartedly welcomed the reinstatement of the constitutionally constituted government of the U.S.S.R.

We recognize that last month's events have created a plethora of possible rearrangements of the Soviet political system, including the possibility that the Soviet Union may in the future be replaced by a federation of independent states. Some republics have already chosen this course, such as the Baltic states.

Jackson-Vanik contemplates a shared responsibility for East-West trade matters between Congress and the President. That shared responsibility will require the careful monitoring of Soviet emigration practices by both branches of our government.

Regardless of the eventual outcome of the ongoing metamorphosis of the Soviet Union, current events could place minority groups at extreme risk. The Soviet Jewish minority is particularly vulnerable to civil unrest. The National Conference on Soviet Jewry calls upon the Soviet leaderships and the leadership of the individual republics to take all appropriate measures to assure the physical safety and well-being of their Jewish populations.

On behalf of the NCSJ and the entire Soviet Jewry advocacy movement in the United States, I reaffirm the significance that the Jackson-Vanik Amendment has played in the dramatic improvement in Soviet emigration performances. We have no doubt that Jackson-Vanik will help to ensure that the remarkable gains in Soviet human rights will not be lost. The process of yearly review outlined in the amendment permits for a continuing assessment of Soviet emigration practices in order to determine whether a waiver should be extended.

At the same time, the NCSJ does not support the addition of new conditions to the original Jackson-Vanik formula. For eighteen years, the Jackson-Vanik Amendment has pressured the Soviet government to grant its citizens the basic human right of freedom of movement. Today, that goal appears closer than ever before. It is critical to maintain Jackson-Vanik in its original form, as a safeguard, so that the Soviet government realizes that the internationally recognized human right of freedom of emigration remains a priority for the American people.

The National Conference on Soviet Jewry appreciates this opportunity to share its perspective with the members of the Committee. We trust that you will find our views useful in your deliberations on the U.S.-U.S.S.R. Trade Agreement.



National Conference on Soviet Jewry

WHAT IS THE NATIONAL CONFERENCE ON SOVIET JEWRY?

The National Conference on Soviet Jewry (NCSJ), a voluntary, not-for-profit agency created in 1971, is the mandated central coordinating agency of the organized Jewish community for policy and activities on behalf of more than 1.5 million Jews in the Soviet Union. The NCSJ is comprised of nearly fifty national organizations and over three-hundred local federations, community councils and committees. Through this extensive network, the NCSJ mobilizes the resources, energies and talents of millions of U.S. citizens, and also represents the American Jewish community in dealings with similar national groups abroad, and at international forums.

The NCSJ's primary goals are to enable Jews to leave the Soviet Union without obstacle, in accordance with international law, and to assure that those Jews who choose to remain have free access to their Jewish heritage through independent, registered Jewish cultural and religious institutions possessing full resources. Also, the NCSJ works closely and cooperatively with all branches of government, particularly the White House, Department of State, Congress and the Commission on Security and Cooperation in Europe (CSCE) in order to further our goals. As part of its activities, the NCSJ actively monitors Soviet compliance in the areas of free emigration and religious and cultural rights, and also monitors closely developments relating to anti-Semitism in the U.S.S.R. For years, Operation Lifeline, which was quietly operated by NCSJ, provided a continuing flow of materials, kosher food, religious and cultural objects to Jews in the Soviet Union.

The NCSJ maintains offices in New York City and Washington, D.C., staffed by specialists in international relations, research, communications, political science, and community organization. Public involvement is furthered through the holding of annual leadership assemblies, which bring our constituents together with experts in government and the academic community for the evaluation of up-to-date information and formulation of appropriate strategy; and through public manifestations, regional conferences, national seminars and special events.

In order to effectively fulfill its mandate, the NCSJ seeks the widest participation possible in our activities by private citizens and public officials, whose voiced concerns on behalf of Soviet Jewry have been and are heard by the U.S. Government and by Soviet officials. The NCSJ maintains broad contacts with Jewish organizations and activists in the U.S.S.R. in order to keep abreast of developments in the Soviet Union affecting the Jewish population and to help coordinate American support in appropriate ways for the rebuilding of Jewish communal life in the U.S.S.R.

As the NCSJ carries out its mandate on behalf of the Soviet Jewish community -- the world's third largest -- we are very much aware that the nature of our advocacy in this period of rapid and dramatic change in the U.S.S.R. will impact not only on the future of Soviet Jewry, but on that of world Jewry, well into the Twenty-first Century.

G/D#1/006

A coalition of forty-seven national organizations and over three hundred local community councils and federations

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 Washington Office: 1522 K Street, N.W., Suite 1100, Washington, D.C. 20005 • (202) 698-2500 • Fax: (202) 698-0822



SOVIET JEWRY RESEARCH BUREAU

Jewish Emigration From the USSR

Statistics

Oct. 1968 - 1970	4,235	1980	21,471
1971	13,022	1981	9,447
1972	31,681	1982	2,688
1973	34,733	1983	1,314
1974	20,628	1984	896
1975	13,221	1985	1,140
1976	14,261	1986	914
1977	16,736	1987	8,155
1978	28,864	1988	18,965
1979	51,320		

	<u>1989</u>	<u>1990</u>	<u>1990 To Israel</u>	<u>1991 To Israel</u>	<u>1991 To U S</u>	<u>1991 Cum. To Israel</u>	<u>1991 Cum. Total*</u>
January	2,796	4,719	4,591	13,360	1,300	13,360	14,660
February	2,425	5,791	5,746	7,164	1,713	20,524	23,537
March	4,240	7,443	7,380	13,336	2,470	33,860	39,343
April	4,557	10,648	10,641	16,286	2,171	50,146	57,800
May	3,779	10,202	10,202	16,048	2,373	66,194	76,221
June	4,354	11,197	11,015	20,473	3,204	86,667	99,898
July	4,537	15,665	15,395	10,325	2,142	96,992	112,365
August	6,756	17,907	17,484	8,688	3,269	105,680	124,322
September	8,442	19,323	18,725				
October	9,450	20,614	20,324				
November	11,191	26,136	25,186				
December	<u>8,690</u>	<u>37,170</u>	<u>35,070</u>				
	71,217	186,815	181,759				

Through August 1991, 664,790 Jews left the Soviet Union with Israeli visas, of whom 467,883 went to Israel.

* Figures reflect only those emigrants arriving in Israel or the United States.

National Conference on Soviet Jewry

A coalition of forty-seven national organizations and over three hundred local community councils and federations
 New York Office: 10 East 40th Street, Suite 907, New York, N.Y. 10016 (212) 679-6722
 Washington Office: 1322 K Street, N.W., Suite 1100, Washington, D.C. 20005 (202) 898-2500



30th Anniversary Commemorative and 1991 Leadership Assembly
New York City Sunday October 14 - Tuesday October 16, 1991

National Conference on Soviet Jewry

NCSJ REFUSENIK LIST

The current list contains 544 cases of Soviet Jewish individuals or families who have been prevented from emigration by the Soviet authorities.

Number	Reason for Refusal	Code
191	Access to State Secrets	ss
177	Arbitrary	ar
144	Poor Relatives	pr
8	Unknown	
<u>24</u>	Insufficient Relationship	ir
544*	(denied permission to apply because invitation was not from close relative)	

ACTIVE CASES:

355* Refused within last two years, since 1989.
Of the 355, 210 refused at least twice.

Long-term Active Cases:

86 Refused five years; reapplied since 1989.
Of the 86, 68 refused ten years.

Long-term Cases, Current Activity Unconfirmed:

152 Refused five years, undocumented regarding reapplication since 1989.
Of the 152, 146 refused ten years.

September 11, 1991

A coalition of forty-eight national organizations and over three hundred local community councils and federations

New York Office 10 East 40th Street Suite 1701 New York N.Y. 10016 • (212) 679-6122 • Fax (212) 686-1193 • Telex 237311 NCSJ
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National Conference on Soviet Jewry

Member Agencies

- | | |
|---|--|
| AMERICAN GATHERING & FEDERATION OF JEWISH HOLOCAUST SURVIVORS | JEWISH WAR VETERANS OF THE UNITED STATES OF AMERICA |
| AMERICAN ISRAEL PUBLIC AFFAIRS COMMITTEE | LABOR ZIONIST ALLIANCE |
| AMERICAN JEWISH COMMITTEE | NA'AMAT USA |
| AMERICAN JEWISH CONGRESS | NATIONAL COMMITTEE FOR LABOR ISRAEL |
| AMERICAN ZIONIST FEDERATION | NATIONAL COUNCIL OF JEWISH WOMEN |
| AMERICANS FOR PROGRESSIVE ISRAEL/HASHOMER HATZAIR | NATIONAL COUNCIL OF YOUNG ISRAEL |
| AMIT WOMEN | NATIONAL FEDERATION OF TEMPLE SISTERHOODS |
| ANTI-DEFAMATION LEAGUE OF B'NAI B'RITH | NATIONAL JEWISH COMMUNITY RELATIONS ADVISORY COUNCIL |
| B'NAI B'RITH INTERNATIONAL | NORTH AMERICAN JEWISH YOUTH COUNCIL |
| B'NAI B'RITH WOMEN | RABBINICAL ASSEMBLY |
| BNAI ZION | RABBINICAL COUNCIL OF AMERICA |
| BRITH SHOLOM | RECONSTRUCTIONIST RABBINICAL ASSOCIATION |
| CENTRAL CONFERENCE OF AMERICAN RABBIS | RELIGIOUS ZIONISTS OF AMERICA |
| CONFERENCE OF PRESIDENTS OF MAJOR AMERICAN JEWISH ORGANIZATIONS | STUDENT STRUGGLE FOR SOVIET JEWRY |
| COUNCIL OF JEWISH FEDERATIONS | SYNAGOGUE COUNCIL OF AMERICA |
| FEDERATION OF RECONSTRUCTIONIST CONGREGATIONS AND HAVUROT | UNION OF AMERICAN HEBREW CONGREGATIONS |
| FREE SONS OF ISRAEL | UNION OF ORTHODOX JEWISH CONGREGATIONS OF AMERICA |
| HADASSAH | UNITED SYNAGOGUE OF AMERICA |
| HERUT ZIONISTS OF AMERICA | WOMEN'S AMERICAN ORT |
| JWB | WOMEN'S LEAGUE FOR CONSERVATIVE JUDAISM |
| JEWISH LABOR COMMITTEE | WORKMEN'S CIRCLE |
| JEWISH NATIONAL FUND | WORLD ZIONIST ORGANIZATION-AMERICAN SECTION |
| | ZIONIST ORGANIZATION OF AMERICA |

Local Affiliates

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| ALABAMA
Birmingham
Mobile
Montgomery | FLORIDA
Brevard County
Daytona Beach
Fl. Lauderdale
Hollywood
Jacksonville
Lee County
Miami
Orlando
Palm Beach County
Pensacola
Pinellas County
Sarasota
South County
Tallahassee
Tampa | KANSAS
Topeka
Wichita | KENTUCKY
Lexington
Louisville | LOUISIANA
Alexandria
Baton Rouge
Monroe
New Orleans
Shreveport | MAINE
Lewiston-Auburn
Portland | MARYLAND
Baltimore | MASSACHUSETTS
Boston
Fall River
Frammingham
Haverhill
Lawrence
Leominster
New Bedford
North Shore
Pittsfield
Springfield
Worcester | MICHIGAN
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Trenton
Vineland | NEW MEXICO
Albuquerque | NEW YORK
Albany
Broome County
Buffalo
Dutchess County
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Glens Falls
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Canton
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Memphis
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Beaumont
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STATEMENT OF THOMAS J. DUESTERBERG

MR. CHAIRMAN:

I AM PLEASED TO BE HERE TO TODAY TO DISCUSS THE PROSPECTS FOR TRADE WITH THE SOVIET UNION, OR UNION OF SOVEREIGN STATES AS IT IS SOON TO BE CALLED, AND, MORE SPECIFICALLY, THE EFFECT THE U.S.-U.S.S.R TRADE AGREEMENT COULD HAVE ON BILATERAL TRADE AND INVESTMENT.

THE REMARKABLE AND FUNDAMENTAL POLITICAL CHANGES THAT HAVE OCCURRED IN THE SOVIET UNION DURING AND SINCE THE ATTEMPTED COUP HAVE PROFOUND IMPLICATIONS FOR BILATERAL COMMERCE. IN THE COMMERCE DEPARTMENT'S VIEW, THE LONGER TERM OUTLOOK HAS BEEN CONSIDERABLY IMPROVED. THE SHORTER TERM OUTLOOK, HOWEVER, MAY BE EVEN MORE CONFUSED THAN IN THE RECENT PAST.

THE PEOPLE OF THE SOVIET UNION KNOW THE LESSONS OF HISTORY IN WHICH GREATER ECONOMIC UNITY HAS LED TO PROSPERITY, AND POLITICAL UNITY AS WELL. THIS WAS ONE OF THE RESULTS OF THE FRENCH REVOLUTION. LATER IN THE NINETEENTH CENTURY OF THE GERMAN CUSTOMS UNION CALLED THE ZOLLVEREIN CREATED THE ECONOMIC DYNAMISM WHICH PAVED THE WAY FOR THE FORMATION OF THE MODERN GERMAN STATE. MORE IMPORTANTLY, THE VALUABLE LESSON OF THE EUROPEAN ECONOMIC COMMUNITY IN THE LAST 35 YEARS PROVIDES MORE RECENT CONFIRMATION OF THE ROLE OF ECONOMIC INTEGRATION IN ACHIEVING ECONOMIC GROWTH AND POLITICAL UNITY.

THE EVENTS OF THE PAST MONTHS HAVE ALSO GIVEN NEW IMPETUS TO FUNDAMENTAL ECONOMIC REFORM IN THE SOVIET UNION. MOVEMENT TOWARD MARKET PRICING, PRIVATIZATION AND DECENTRALIZATION HAS GATHERED SPEED AND HOPEFULLY WILL BE TRANSLATED INTO WORKABLE REFORMS.

THE TRADE AGREEMENT WILL BE THE FIRST PILLAR OF A NEW AND BROADER COMMERCIAL RELATIONSHIP BETWEEN THE UNITED STATES AND THE UNION. IT WILL PROVIDE CLEAR RULES OF THE GAME FOR U.S. TRADERS, STRENGTHEN THE PROTECTION OF INTELLECTUAL PROPERTY RIGHTS, PUT U.S. BUSINESSES ON A FAIR FOOTING TO COMPETE WITH LOCAL BUSINESS, AND ELIMINATE ANY POSSIBLE DISADVANTAGES FROM NON-MFN TARIFF TREATMENT.

MR. CHAIRMAN, IN THEIR TESTIMONY THE REPRESENTATIVES OF THE STATE DEPARTMENT AND THE U.S. TRADE REPRESENTATIVE COMPREHENSIVELY DISCUSS THE ADMINISTRATION'S SUPPORT FOR APPROVAL OF THE TRADE AGREEMENT. I WOULD LIKE TO UNDERLINE THE IMPORTANCE OF THE AGREEMENT FOR U.S. COMMERCIAL AND BUSINESS INTERESTS.

THE SOVIET UNION, IN THE PROCESS OF ACCELERATED REFORM, OFFERS ENORMOUS POTENTIAL FOR TRADE AND INVESTMENT. WE NEED TO PUSH AHEAD WITH THE TRADE AGREEMENT IN ORDER TO REALIZE THIS POTENTIAL, AND ENSURE THAT U.S. COMPANIES HAVE AN EQUAL OPPORTUNITY WITH OTHER FOREIGN COMPANIES

TRADE WITH THE USSR

BEFORE DISCUSSING THE PROSPECTS FOR TRADE AND THE IMPLICATIONS FOR THE TRADE AGREEMENT, I WOULD LIKE FIRST TO REVIEW BRIEFLY THE SIZE AND COMPOSITION OF OUR ECONOMIC RELATIONS.

TRADE BETWEEN THE UNITED STATES AND THE SOVIET UNION HAS BEEN SMALL OVERALL, THOUGH IT HAS BEEN IMPORTANT FOR SOME SECTORS OF OUR ECONOMY -- PARTICULARLY AGRICULTURE. OUR TOTAL EXPORTS TO THE USSR TYPICALLY HAVE BEEN \$2-3 BILLION ANNUALLY, OF WHICH 70 PERCENT OR MORE HAVE BEEN AGRICULTURAL PRODUCTS, MOSTLY WHEAT AND CORN. THUS, EXPORTS TO THE USSR HAVE BEEN LESS THAN 1 PERCENT OF OUR GLOBAL EXPORTS, BUT 10-20 PERCENT OF EXPORTS OF GRAIN PRODUCTS. THE USSR IS FREQUENTLY, IN FACT, THE LARGEST MARKET FOR AMERICAN GRAIN PRODUCTS.

MANUFACTURED EXPORTS HAVE BEEN SMALL, BUT HAVE BEEN GROWING RAPIDLY IN PERCENTAGE TERMS IN THE LAST FEW YEARS. \$750 MILLION OF U.S. MANUFACTURED GOODS WERE EXPORTED TO THE SOVIET UNION LAST YEAR, A TWO-THIRDS INCREASE FROM FOUR YEARS AGO.

IMPORTS FROM THE SOVIET UNION HAVE ALSO BEEN SMALL, THOUGH THEY HAVE BEEN GROWING STEADILY IN RECENT YEARS. U.S. IMPORTS FROM THE USSR AMOUNT TO ABOUT \$1 BILLION -- LESS THAN ONE-HALF OF ONE PERCENT OF OUR GLOBAL IMPORTS. ALMOST ALL OF OUR IMPORTS FROM THE SOVIET UNION ARE RAW MATERIALS OR SEMIPROCESSED PRODUCTS -- MOSTLY ENERGY PRODUCTS AND METALS.

WHILE OUR TRADE HAS BEEN SMALL, HOWEVER, IT HAS BEEN EXTREMELY POSITIVE FOR THE UNITED STATES. SINCE 1980, IN FACT, OUR TRADE WITH THE SOVIET UNION HAS RESULTED IN U.S. TRADE SURPLUSES CUMULATING TO OVER \$21 BILLION.

SHORT-TERM PROSPECTS FOR TRADE

IN THE NEAR-TERM, PROSPECTS FOR FURTHER TRADE GROWTH ARE LIMITED. THE SOVIET ECONOMY'S DETERIORATION IS ACCELERATING. REAL GNP COULD DECLINE 10-15 PERCENT THIS YEAR, ON TOP OF LAST YEAR'S DECLINE OF ABOUT 5 PERCENT. THE CAUSES OF THIS DECLINE ARE ROOTED IN THE FAILURE OF THE CENTRALLY PLANNED SYSTEM, AND THE SOVIET ECONOMY HAS BEEN DECLINING AT A GRADUALLY INCREASING RATE FOR SEVERAL YEARS.

AS THE CENTRALLY DIRECTED SYSTEM BEGAN TO COLLAPSE, A NEW PRIVATE SECTOR BEGAN TO GROW RAPIDLY IN PRODUCTION AND SERVICES. BY SOME ESTIMATES, THE PRIVATE ECONOMY IN THE USSR MAY ALREADY ACCOUNT FOR 15 PERCENT OF ALL EMPLOYMENT. THE GROWTH OF THE PRIVATE SECTOR, HOWEVER, IS NOT NEARLY ENOUGH TO COMPENSATE FOR THE COLLAPSING STATE SECTOR, WITH THE RESULT THAT THE ECONOMY IS DROPPING RAPIDLY.

TOTAL SOVIET IMPORTS FROM THE WEST ARE LIKELY TO DROP, GIVEN SHRINKING SOVIET HARD CURRENCY EARNINGS AND THE NEED TO BRING THEIR TRADE DEFICIT UNDER CONTROL. THE SOVIET UNION'S MAIN SOURCE OF HARD CURRENCY, OIL EXPORTS, ARE DECLINING SHARPLY. IN ADDITION, SOVIET EXPORTS OF MANUFACTURED ITEMS HAVE BEEN DECLINING BECAUSE SOVIET ENTERPRISES ARE NOT HONORING CONTRACTS ARRANGED BY CENTRAL AUTHORITIES AND CANNOT OBTAIN SUPPLIES FROM ENTERPRISES IN OTHER REPUBLICS.

THE COUP AND POST-COUP DEVELOPMENTS HAVE FURTHER COMPLICATED THE ECONOMIC SITUATION IN THE SHORT RUN. ONE OF THE MOST IMPORTANT OBSTACLES TO DOING BUSINESS IN THE USSR TODAY IS THAT NOBODY KNOWS WHO IS IN CHARGE, OR WHO IS ABLE TO ENTER INTO CONTRACTS. THE CENTRAL GOVERNMENT AND THE REPUBLICS ARE JUST NOW IN THE PROCESS OF WORKING OUT OWNERSHIP OF PRODUCTIVE ASSETS AND THE TERMS OF TRADE AMONG EACH OTHER.

THE ABILITY TO OBTAIN FINANCING HAS BEEN THE SINGLE LARGEST BOTTLENECK FOR U.S. COMPANIES AND OTHER FOREIGN COMPANIES INTERESTED IN TRADE AND INVESTMENT IN THE USSR AND WILL BECOME AN EVEN GREATER BARRIER IN THE NEXT SEVERAL YEARS. THE INTERNATIONAL FINANCIAL WORLD WILL REMAIN EXTREMELY CAUTIOUS IN THEIR LENDING PRACTICES TO THE SOVIET UNION. IT WILL HELP CONSIDERABLY IF THE SOVIET REPUBLICS CAN CREATE A FAVORABLE INVESTMENT CLIMATE AND IF THEY CAN ADOPT ECONOMIC REFORM PLANS WHICH MEET INTERNATIONAL STANDARDS.

IT SEEMS CLEAR AT THIS POINT THAT INVESTORS ARE LOOKING FOR GOVERNMENT-BACKED INVESTMENT INSURANCE PROGRAMS, BOTH UNILATERAL AND MULTILATERAL, PRIOR TO COMMITTING TO LARGE SCALE INVESTMENTS IN THE NEAR FUTURE. THERE ARE SIGNIFICANT PROSPECTS FOR INCREASING HARD CURRENCY EARNINGS IN THE NEAR TO MEDIUM TERM IN THE OIL AND GAS SECTOR. PRIORITY FOR HARD CURRENCY PURCHASES ARE LIKELY TO BE PLACED BY THE SOVIETS ON THE PETROLEUM SECTOR AS WELL AS FOOD PROCESSING AND STORAGE, CONSTRUCTION EQUIPMENT, TELECOMMUNICATIONS, AND HEALTH CARE.

GIVEN THE SHORT-TERM OUTLOOK, CAUTION IS THE ORDER OF THE DAY. THE COMMERCE DEPARTMENT IS ADVISING COMPANIES TO BE PARTICULARLY CAREFUL WHEN ARRANGING PAYMENT WITH SOVIET PARTNERS. AT THE SAME TIME, WE ARE ENCOURAGING U.S. COMPANIES TO INVEST THE TIME AND ENERGY NECESSARY TO EXPLORE THE CHANGES GOING ON AND TO ESTABLISH A PRESENCE IN THE SOVIET MARKET, BOTH TO TAKE ADVANTAGE OF EXISTING, IF LIMITED, OPPORTUNITIES AND TO BE POSITIONED TO TAKE ADVANTAGE OF FUTURE POSSIBILITIES.

LONG-TERM PROSPECTS FOR TRADE

LET ME NOW TURN TO THE LONGER RUN OUTLOOK, FOR THE SOVIET UNION AND VARIOUS REPUBLICS OFFER ENORMOUS COMMERCIAL POTENTIAL FOR AMERICAN COMPANIES. THE SOVIET UNION SHOULD BE ABLE TO BECOME AN IMPORTANT PLAYER IN THE WORLD MARKET ONCE IT BECOMES A MARKET ECONOMY AND MAKES THE PAINFUL CHANGE AWAY FROM ITS UNWORKABLE ECONOMIC SYSTEM. COMPANIES THAT DO NOT ENTER THE MARKET NOW MAY FIND THEMSELVES WAY BEHIND THEIR EUROPEAN AND JAPANESE COMPETITORS.

THE SOVIET UNION HAS A LARGE, HIGHLY EDUCATED POPULATION OF 290 PEOPLE AND A TERRITORY RICH IN NATURAL RESOURCES, CONTAINING HUGE DEPOSITS OF OIL AND GAS, A RICH VARIETY OF METALS AND ORES, LARGE TIMBER RESERVES, AND ENORMOUS TRACTS OF FERTILE SOIL. THE SOVIET UNION, FOR EXAMPLE, HAS ALMOST HALF OF ALL THE WORLD'S PROVEN RESERVES OF NATURAL GAS.

TO GIVE AN IDEA OF THE POTENTIAL CONSUMER MARKET WITHIN THE SOVIET UNION, ONE MIGHT COMPARE CURRENT CONSUMPTION LEVELS FOR U.S. AND SOVIET CITIZENS. FOR EXAMPLE, THERE ARE 46 CARS FOR EVERY 1000 PEOPLE IN THE USSR, COMPARED TO 571 CARS PER THOUSAND IN THE UNITED STATES AND 350 IN THE EUROPEAN COMMUNITY. THE USSR HAS 130 TELEPHONES FOR EVERY 1000 PEOPLE, COMPARED TO 950 IN THE UNITED STATES AND 700 IN EUROPE. AND THE LIST GOES ON AND ON. WITH SUCCESSFUL ECONOMIC POLICIES AND A FREE MARKET, THE SOVIET UNION COULD WELL BE ONE OF THE WORLD'S LARGEST MARKETS FOR CONSUMER GOODS IN THE NEXT CENTURY.

SINCE AUGUST 23, MANY OF THE SOVIET OFFICIALS THAT HAD ACTED AS BARRIERS TO REAL ECONOMIC REFORM HAVE BEEN RELIEVED OF THEIR DUTIES, AND THEIR REPLACEMENTS ARE COMMITTED TO CREATING A MARKET ECONOMY. THE RUSSIAN REPUBLIC APPEARS TO BE WILLING TO DO WHAT IS NECESSARY TO STIMULATE TRADE AND INVESTMENT; AND, PRIOR TO THE COUP, HAD ALREADY BEGUN TO CREATE A LEGAL FRAMEWORK DESIGNED TO ENCOURAGE FOREIGN INVESTMENT. OTHER REPUBLICS ARE APT TO FOLLOW THE RUSSIAN REPUBLIC'S LEAD IN ORDER TO BE ABLE TO COMPETE FOR FOREIGN CAPITAL TO STIMULATE THEIR ECONOMIES.

EFFECTS OF THE TRADE AGREEMENT

GIVEN THESE EVENTS, MR. CHAIRMAN, WE SHOULD MOVE AHEAD WITH IMPLEMENTATION OF THE US-USSR TRADE AGREEMENT. THE ENTRY INTO FORCE OF THE TRADE AGREEMENT WILL PROVIDE A BETTER COMMERCIAL ENVIRONMENT AND WILL SYMBOLIZE THE SUPPORT OF BOTH GOVERNMENTS FOR BILATERAL TRADE.

IN THE WAKE OF THE FAILED COUP, WITH THE INCREASING DESIRE OF PEOPLE IN THE SOVIET UNION TO INTEGRATE THEMSELVES INTO THE INTERNATIONAL ECONOMY, IT IS OF EVEN GREATER IMPORTANCE THAT THEY KNOW THAT THE UNITED STATES OFFERS THEM AN MFN TRADING RELATIONSHIP. THE U.S. BUSINESS COMMUNITY ALSO NEEDS THIS STRONG AFFIRMATION THAT THE AMERICAN GOVERNMENT WILL SUPPORT THEIR COMMERCIAL ENDEAVORS AS THEY COMPETE WITH EUROPEAN, JAPANESE, AND OTHER FIRMS.

AMBASSADOR KATZ' STATEMENT PROVIDES AN EXCELLENT DESCRIPTION OF THE AGREEMENT, AND I WOULD LIKE ONLY TO STRESS A FEW POINTS.

BEST AVAILABLE COPY

FIRST, THE AGREEMENT IS NOT ONE-SIDED. IT CONTAINS VALUABLE BENEFITS FOR AMERICAN FIRMS TO HELP THEM ENTER AND SELL IN THE TERRITORY OF THE SOVIET UNION. THE UNITED STATES OBTAINED A SERIES OF PROVISIONS IN THE TRADE AGREEMENT WHICH PROVIDE IMPROVED BUSINESS CONDITIONS FOR U.S. COMPANIES.

THE AGREEMENT MAKES IT MUCH EASIER TO ESTABLISH SALES AND REPRESENTATION OFFICES IN THE TERRITORY OF THE USSR. IT PROVIDES A LIMITED, 60-DAY, PERIOD FOR ACCREDITING OFFICES OF U.S. COMPANIES, WITH THE GOAL OF MAXIMIZING NEW ENTRANTS TO THE MARKET AND SMALL FIRMS AS WELL AS COMPANIES ALREADY OPERATING IN THE U.S.S.R.

THE TRADE AGREEMENT ALSO GRANTS U.S. COMPANIES WITH SALES OFFICES THE RIGHT TO HIRE SOVIET CITIZENS DIRECTLY AND COMPENSATE THEM IN MUTUALLY AGREEABLE TERMS. THIS IS AN EXTREMELY IMPORTANT BENEFIT, FOR IT GIVES U.S. FIRMS THE ABILITY TO HIRE WHOM THEY WANT.

OTHER CLAUSES OF THE AGREEMENT INCLUDE PROVISIONS FOR ACCESS TO OFFICE SPACE AND LIVING ACCOMMODATIONS, WHETHER OR NOT DESIGNATED FOR USE BY FOREIGNERS. OFFICE AND LIVING SPACE HAS BEEN ONE OF THE BIGGEST CHALLENGES FACING COMPANIES IN THE SOVIET UNION. THERE IS A SEVERE SHORTAGE OF SUITABLE FACILITIES, AND COMPANIES GENERALLY HAVE HAD TO WAIT UNTIL SOVIET AUTHORITIES GRANTED THEM SPACE TO MOVE INTO. THERE ARE ALSO PROVISIONS COVERING THE RIGHT TO ENGAGE AND SERVE AS AGENTS, AND ACCESS TO OFFICIAL AND COMMERCIAL INFORMATION, WHICH IN THE PAST HAVE BEEN DIFFICULT OR IMPOSSIBLE TO OBTAIN.

ADDITIONALLY, THE AGREEMENT WILL GUARANTEE MFN TARIFF TREATMENT FOR U.S. COMPANIES SELLING INTO THE USSR. THE TRADE SYSTEM THAT HAD BEEN USED BY THE SOVIETS RELIED ON ADMINISTRATIVE BARRIERS RATHER THAN TARIFFS TO CONTROL IMPORTS, BUT THIS IS LIKELY TO CHANGE SHORTLY. IN MARCH 1991, THE SOVIET LEGISLATURE PASSED A NEW CUSTOMS LAW WHICH PROVIDES FOR A NEW HARMONIZED TARIFF SCHEDULE. WHILE THE SCHEDULE WAS STILL IN REVIEW PRIOR TO THE COUP ATTEMPT, IT WAS TO HAVE HAD A SIGNIFICANT DIFFERENCE BETWEEN MFN AND NON-MFN DUTIES ON PRODUCTS COMING INTO THE SOVIET UNION. THE TRADE AGREEMENT WOULD ALLOW U.S. COMPANIES TO AVOID A SIGNIFICANT LOSS OF CURRENT EXPORTS WHICH COULD RESULT FROM THE APPLICATION OF SOVIET NON-MFN DUTIES.

EFFECTS OF THE TRADE AGREEMENT ON U.S. IMPORTS

TURNING NOW TO THE IMPORT SIDE, THE POTENTIAL INCREASE IN SOVIET SALES INTO THE UNITED STATES RESULTING FROM THE GRANTING OF MFN IS SMALL IN THE NEAR TERM. A NUMBER OF STUDIES HAVE BEEN CONDUCTED INTO THIS QUESTION, ALL REACHING THIS SAME CONCLUSION. A CAREFUL STAFF STUDY BY THE DEPARTMENT OF LABOR CONDUCTED LAST YEAR SURVEYED AVAILABLE ESTIMATES OF THE IMPACT ON U.S. IMPORTS. THE STUDY INDICATED THAT SUCH INCREASES IN IMPORTS WOULD BE SMALL OR MODERATE AND THAT THE CURRENT LEVEL OF COMPOSITION OF SOVIET EXPORTS DO NOT APPEAR TO POSE A THREAT TO U.S. EMPLOYMENT IN THE NEAR OR MIDDLE TERM. RECENT STUDIES BY THE INTERNATIONAL TRADE COMMISSION AND THE GENERAL ACCOUNTING OFFICE CONCUR.

A NEW COMMERCE DEPARTMENT STAFF STUDY ALSO CONCURS WITH THIS FINDING. THE COMMERCE ANALYSIS EXPLORES WHAT WOULD HAPPEN TO U.S. IMPORTS FROM THE USSR IF SOVIET PRODUCTS WERE TO GAIN THE SAME SHARE OF OUR MARKET THAT THEY HAVE IN THE OTHER MAJOR INDUSTRIAL NATION MARKETS. SINCE SOVIET PRODUCTS DO NOT FACE NON-MFN TARIFF DISCRIMINATION INTO OTHER MARKETS, SOVIET SALES INTO THESE MARKETS SHOULD GIVE A REASONABLE IDEA OF WHAT MIGHT HAPPEN TO U.S. IMPORTS FROM THE SOVIET UNION ONCE MFN IS GRANTED.

THE STUDY FINDS THAT EVEN WITH MFN TREATMENT, OTHER INDUSTRIAL NATIONS ARE BASICALLY IMPORTING ENERGY PRODUCTS AND RAW MATERIALS FROM THE USSR, AND THAT VERY FEW FINISHED MANUFACTURES ARE IMPORTED. FACTORS SUCH AS PRODUCT QUALITY AND INABILITY TO PRODUCE WORLD CLASS MANUFACTURES ARE THE FACTORS THAT HAVE BEEN LIMITING THE APPEAL OF SOVIET GOODS.

BOTH MFN AND NON-MFN U.S. IMPORT DUTIES ON RAW MATERIALS TEND TO BE LOW OR EVEN DUTY-FREE, AND THUS THERE IS VERY LITTLE MFN DUTY DIFFERENTIAL ON THE PRODUCTS THAT THE USSR HAS AVAILABLE TO EXPORT TO THE UNITED STATES. AMMONIA AND PLATINUM, FOR EXAMPLE, ARE AMONG THE TOP TEN ITEMS IMPORTED FROM THE USSR AND THEY ENTER DUTY-FREE. IN FACT OVER 50 PERCENT OF U.S. IMPORTS FROM THE SOVIET UNION ALREADY ENTER THE UNITED STATES DUTY-FREE.

THE STUDY CONCLUDES THAT IMPORTS FROM THE USSR ARE MOST LIKELY TO INCREASE BY NO MORE THAN \$100-200 MILLION IN THE NEAR TERM, ASSUMING THAT SOVIET PRODUCERS HAVE THE ABILITY TO INCREASE PRODUCTION ENOUGH TO SELL THAT ADDED AMOUNT TO THE UNITED STATES. THAT LATTER ASSUMPTION IS ITSELF QUESTIONABLE, AND THE REAL EFFECT OF MFN IN THE SHORT TERM MIGHT BE MUCH LESS.

AT THE OUTSIDE, THE ANALYSIS INDICATES IT IS POSSIBLE THAT GRANTING MFN COULD RAISE U.S. IMPORTS FROM THE SOVIET UNION BY AS MUCH AS \$400 MILLION, BUT SUCH AN AMOUNT WOULD BE MOST UNLIKELY GIVEN THE SUPPLY CONSTRAINTS AND THE TRANSPORTATION COSTS. EVEN THAT AMOUNT, HOWEVER, WOULD BE A VERY SMALL INCREMENT IN TERMS OF GLOBAL U.S. IMPORTS -- ABOUT ONE-TENTH OF ONE PERCENT. IT SHOULD BE NOTED, MOREOVER, THAT MOST IMPORT INCREASES FROM THE USSR WOULD BE LIKELY TO DISPLACE IMPORTS FROM OTHER SOURCES, LEAVING TOTAL U.S. GLOBAL IMPORTS VIRTUALLY UNCHANGED.

IN THE LONGER-TERM, THE GRANTING OF MFN WOULD PROVIDE MUCH GREATER INCENTIVES FOR SOVIET EXPORTS TO THE UNITED STATES, ESPECIALLY FOR MANUFACTURED GOODS. JOINT VENTURES, OR WHOLLY OWNED INVESTMENTS IN THE SOVIET UNION BY U.S. OR OTHER WESTERN FIRMS COULD GRADUALLY INCREASE THE RANGE AND AVAILABILITY OF WORLD CLASS PRODUCTS THAT COULD FIND MARKETS IN THE UNITED STATES. PETROCHEMICALS, PAPER AND WOOD PRODUCTS, AND LABOR-INTENSIVE MANUFACTURED GOODS WOULD BE AMONG THE POSSIBLE CANDIDATES.

A REINVIGORATED ECONOMIC REFORM EFFORT AND INCREASING ENTERPRISE AUTONOMY, COULD EVENTUALLY CONTRIBUTE TO A SIZABLE INCREASE IN SOVIET EXPORTS IN THE LONG-TERM. THE POTENTIAL INCREASE WILL DEPEND ON NUMEROUS FACTORS, INCLUDING POLITICAL AND ECONOMIC STABILITY, ECONOMIC REFORM PROGRESS, THE ABILITY TO ATTRACT FOREIGN INVESTMENT, EXPANSION AND IMPROVEMENT OF SOVIET DOMESTIC MANUFACTURING CAPACITY, AND INTERNAL AND EXTERNAL BARRIERS TO TRADE.

COMMERCE DEPARTMENT ACTIVITIES

U.S. COMMERCIAL INTERESTS IN THE SOVIET UNION ARE POTENTIALLY HUGE. THE KEYS TO BUILDING BUSINESS IN THIS EVOLVING MARKET ARE INVESTMENT AND MATCHMAKING OF U.S. AND LOCAL BUSINESS PARTNERS.

U.S. GOVERNMENT SUPPORT FOR ITS BUSINESS COMMUNITY IS IMPORTANT TO ENSURE A FAIR AND RECEPTIVE ENVIRONMENT THROUGH EFFECTIVE RELATIONS WITH CENTRAL AND REGIONAL GOVERNMENTS, AND TO PROVIDE TRADE DEVELOPMENT AND PROMOTION PROGRAMS WHICH HELP OUR FIRMS GET ESTABLISHED. COMMERCE DEPARTMENT PROGRAMS PROVIDE THESE SERVICES AND, IN ADDITION, SEEK TO BRING THE BUSINESS KNOWLEDGE AND INTERNATIONAL EXPERIENCE OF U.S. COMPANIES TO THEIR SOVIET COUNTERPARTS AS THEY CONTINUE DOWN THE PATH OF DEVELOPING A VIABLE MARKET ECONOMY DOMINATED BY THE PRIVATE SECTOR.

THE DEPARTMENT'S OFFICE OF EASTERN EUROPE AND SOVIET AFFAIRS IS NOW FIELDING SOME 120 CALLS PER DAY FROM COMPANIES LOOKING FOR COUNSELLING ON THE SOVIET MARKET. THE CHANGES UNDERWAY IN THE SOVIET UNION HAVE INCREASED THE AMERICAN BUSINESS COMMUNITY'S NEED FOR INFORMATION.

THE UNITED STATES AND FOREIGN COMMERCIAL SERVICE OFFICE (US&FCS) IN MOSCOW HAS ALREADY BEEN EXPANDED, AND THE RANGE OF SERVICES TO U.S. COMPANIES IS BEING ENLARGED. WE ARE FOCUSING ON HOW TO FIND POTENTIAL PARTNERS FOR AMERICAN FIRMS AND HOW TO ESTABLISH DIRECT CONTACT BETWEEN BUYERS AND SELLERS -- PARTICULARLY IN THE RAPIDLY

GROWING SOVIET PRIVATE SECTOR. US&FCS HAS RECEIVED APPROVAL FROM THE STATE DEPARTMENT TO ESTABLISH AN OFFICE IN ST. PETERSBURG IN THE SUMMER OF 1992 AND HAS A PENDING REQUEST TO OPEN AN OFFICE IN KIEV.

THE SECRETARY OF COMMERCE COCHAIRS THE JOINT U.S.-U.S.S.R. COMMERCIAL COMMISSION --OR "JCC,"--WHICH IS THE BINATIONAL GROUP CHARGED WITH WORKING WITH THE CENTRAL GOVERNMENT TO REMOVE BARRIERS TO US-SOVIET COMMERCE AND TO DEVELOP TRADE AND INVESTMENT DEVELOPMENT PROGRAMS AND EXCHANGES. NSC, USTR, AND THE DEPARTMENTS OF STATE, TREASURY, AGRICULTURE PARTICIPATE.

THE JCC IS THE BILATERAL BODY RESPONSIBLE FOR PERIODICALLY REVIEWING OPERATION OF THE TRADE AGREEMENT. AN IMPORTANT ELEMENT OF THIS IS TEACHING NEWLY EMERGING SOVIET BUSINESSES AND AMERICAN COMPANIES ENTERING THIS MARKET ABOUT THE TRADE AGREEMENT AND ITS IMPLICATIONS FOR THEM AND FOR THEIR BILATERAL TRADE. TO DO THIS, THE DEPARTMENT PLANS A SERIES OF EDUCATIONAL SEMINARS IN BOTH COUNTRIES TO DISCUSS THE "HOW-TO'S" OF DOING BUSINESS AND THE ROLE OF THE TRADE AGREEMENT IN TWO-WAY TRADE.

THE DEPARTMENT HAS ALSO USED THE JCC TO CONTINUE TO PRESS THE SOVIET LEADERSHIP ON THE ISSUE OF SOVIET PAYMENT ARREARS. AS A RESULT, SOME 11 COMPANIES HAVE RECEIVED PAYMENT WORTH \$75 MILLION. WE ARE AWARE OF 32 U.S. COMPANIES, HOWEVER, WHICH ARE STILL OWED ABOUT \$115 MILLION. BY COMPARISON, FOREIGN COMPANIES AS A WHOLE ARE OWED MORE THAN \$5 BILLION BY SOVIET ORGANIZATIONS. WE CONTINUE TO RAISE THIS LIST OF PAYMENT ARREARS TO SOVIET CENTRAL AND REPUBLIC LEVEL LEADERS.

THE JCC HAS ESTABLISHED A RANGE OF INDUSTRY SECTOR WORKING GROUPS TO HELP AMERICAN COMPANIES IN SELECTED AREAS OF GREAT COMMERCIAL POTENTIAL. THESE INCLUDE OIL AND GAS EQUIPMENT, MEDICAL EQUIPMENT, CONSTRUCTION EQUIPMENT, FOOD PROCESSING EQUIPMENT, AND TOURISM.

THERE HAVE BEEN SOME TANGIBLE RESULTS. DUE IN PART TO THE MEDICAL EQUIPMENT GROUP'S EFFORT, U.S. EXPORTS OF MEDICAL EQUIPMENT TO THE USSR HAVE TRIPLED OVER THE LAST YEAR AND DOUBLED IN THE PHARMACEUTICAL AREA. FIVE JOINT VENTURES HAVE BEEN ESTABLISHED IN THE HEALTH CARE AREA. RECENTLY WE ESTABLISHED A U.S.-U.S.S.R STANDARDS WORKING GROUP TO INCREASE UNDERSTANDING OF TECHNICAL STANDARDS AND TO WORK WITH THE SOVIETS IN DEVELOPING THEIR SYSTEM ALONG INTERNATIONALLY ACCEPTED LINES.

WE ARE ALSO WORKING WITH THE INDIVIDUAL REPUBLICS, AN ACTIVITY WE PLAN TO ACCELERATE. SEVERAL MONTHS AGO, SECRETARY MOSBACHER MET WITH RUSSIAN PRESIDENT YELTSIN AND THEY AGREED TO ESTABLISH AN AD-HOC WORKING GROUP TO FOCUS BOTH ON EXPANDING TRADE AND COMMERCIAL RELATIONS AND ON DEVELOPING PROGRAMS TO ASSIST RUSSIAN BUSINESSES LEARN TO OPERATE SUCCESSFULLY UNDER MARKET CONDITIONS. YURIY SKOKOV, THE RUSSIAN REPUBLIC'S COORDINATOR FOR FOREIGN ECONOMIC RELATIONS, IS TENTATIVELY SCHEDULED TO COME TO WASHINGTON AT THE END OF THIS MONTH TO INITIATE WORK UNDER THIS AGREEMENT. THE DEPARTMENT WILL BE EXPLORING WAYS TO INTERACT WITH OTHER REPUBLICS AS WELL.

IN RECENT YEARS, THE DEPARTMENT OF COMMERCE HAS UNDERTAKEN A BROAD TRADE PROMOTION PROGRAM IN THE SOVIET UNION. THIS HAS INCLUDED ORGANIZING NATIONAL PAVILIONS AT SOVIET INTERNATIONAL TRADE EXHIBITIONS, ORGANIZING TRADE MISSIONS AND HOSTING VISITING SOVIET BUSINESS GROUPS IN THIS COUNTRY. INCREASINGLY, OUR PROGRAMS HAVE INCLUDED REGIONS OUTSIDE MOSCOW, AND THIS TREND WILL NOW INCREASE RAPIDLY. THE DEPARTMENT RECENTLY COMPLETED A HIGHLY ACCLAIMED TRADE MISSION AND HEALTH CARE CONFERENCES TO RUSSIA AND UKRAINE WHICH TOOK PLACE DURING PRESIDENT BUSH'S VISIT.

FINALLY, MR. CHAIRMAN, THE COMMERCE DEPARTMENT IS IMPLEMENTING AN EXTREMELY IMPORTANT TECHNICAL ECONOMIC ASSISTANCE PROGRAM, THE SOVIET-AMERICAN BUSINESS INTERNSHIP TRAINING PROGRAM, OR "SABIT." AMERICAN COMPANIES GIVE SOVIET MANAGERS AN OPPORTUNITY TO WORK IN THE UNITED STATES IN A U.S. CORPORATE SETTING FOR UP TO SIX MONTHS. THE COMPANIES PROVIDE TRAINING AS WELL AS LIVING EXPENSES, WHILE THE SOVIET SIDE PAYS TRANSPORTATION TO AND FROM THE UNITED STATES.

SOME 22 U.S. FIRMS HAVE SIGNED UP TO SPONSOR OVER 40 SOVIET MANAGERS. OVER 500 MANAGERS FROM ALL PARTS OF THE SOVIET UNION AND FROM PRIVATE ENTERPRISES AS WELL AS STATE-OWNED FACILITIES HAVE ASKED TO PARTICIPATE.

THE IMPORTANCE OF THIS PROGRAMS AND OTHERS LIKE IT CANNOT BE OVERSTATED, FOR TO TRANSFORM THE SOVIET ECONOMY TO A MARKET ECONOMY IT IS ESSENTIAL THAT SOVIET MANAGERS LEARN HOW TO RUN SUCCESSFUL BUSINESSES UNDER MARKET CONDITIONS.

THE TRADE AGREEMENT, ALONG WITH OTHER PROGRAMS WE HAVE DISCUSSED, CAN MAKE A STRONG CONTRIBUTION TO THE EXPANSION OF A U.S. BUSINESS PRESENCE IN THE SOVIET UNION, WHICH IN ITSELF CAN BE ONE OF THE STRONGEST FORCES HELPING TO SHAPE THE EVOLUTION OF A FREE MARKET ECONOMY IN THE SOVIET UNION AND ITS VARIOUS PARTS.

THANK YOU, MR. CHAIRMAN.

U.S. Trade with the Soviet Union, 1983-1990

	1983	1984	1985	1986	1987	1988	1989	1990	Cumulative 1983-1990
Exports to the Soviet Union	2,002,872	3,283,931	2,422,826	1,247,512	1,479,765	2,767,605	4,271,222	3,087,593	20,563,326
<i>of which</i>									
Agricultural	1,457,140	2,816,809	1,868,912	655,313	929,855	2,168,487	3,436,327	2,241,403	15,574,246
Non-agricultural	545,732	467,122	553,915	592,199	549,909	599,117	834,895	846,910	4,989,799
Machinery & Transport Equipment	147,660	109,174	111,059	155,460	87,117	117,130	247,841	339,673	1,315,114
Imports from the Soviet Union	347,065	554,241	408,558	558,241	424,704	578,014	702,696	1,065,362	4,638,881
Merchandise Trade Balance	1,655,807	2,729,690	2,014,268	689,271	1,055,061	2,189,591	3,568,526	2,022,231	15,924,445

Note: Data before 1989 are estimated. Figures are in thousands of U.S. dollars.

Source: Compiled from official statistics of the U.S. Department of Commerce.

All items in U.S. total exports (F. a. s. value) to Soviet Union
(Thousands of dollars)

SITC rev 3 commodity	1986	1987	1988	1989	1990
0--Food and live animals.....	326,103	866,747	1,952,693	3,345,003	2,157,429
1--Beverages and tobacco.....	497	142	159	684	48,006
2--Crude materials, inedible, except fuels.....	371,747	95,593	251,784	95,659	80,091
3--Mineral fuels, lubricants and related materials....	55,964	53,425	52,341	28,385	29,032
4--Animal and vegetable oils, fats and waxes.....	15,472	18,788	26,395	26,005	22,648
5--Chemicals and related products, n.e.s.....	294,578	282,051	276,995	331,944	280,456
6--Manufactured goods classified chiefly by material..	9,936	12,237	39,944	131,619	46,941
7--Machinery and transport equipment.....	155,460	87,117	117,130	247,841	339,673
8--Miscellaneous manufactured articles.....	16,360	62,618	46,701	59,030	68,965
9--Commodities & transit not class elsewhere in sitc:	1,395	1,048	3,442	5,049	16,352

Note: Data before 1989 are estimated.
Compiled from official statistics of the U.S. Department of Commerce.
Commodity trade data before 1989 exclude special category exports.
Refer to the bilateral total trade tables for the data on total trade by country and region.

Leading items in U.S. total exports (F. a. s. value) to Soviet Union
(Thousands of dollars)

SITC rev 3 commodity	1986	1987	1988	1989	1990
044--Wheat (not including sweet corn) unmilled.....	280,589	381,460	887,842	2,021,881	1,078,331
04--Wheat (including spelt) and meslin, unmilled.....	0	385,256	742,819	806,736	542,544
081--Feeding stuff for animals not incl unmilled cereals:	7,844	6,406	253,321	388,576	337,744
562--Fertilizers (except crude of group 272).....	125,510	109,744	106,949	237,073	201,116
012--Meat nes & edible offal, fresh, chld, frz.....	0	0	10	9,644	98,500
752--Automatic data process machs & units thereof.....	603	520	1,563	14,541	72,442
023--Butter and other fats and oils derived from milk:	0	0	0	6	67,866
726--Textile & leather machinery & pts thereof n.e.s.....	698	3,413	1,182	28,470	61,956
222--Oil seeds/oleaginous frt for extr soft fix veg oil:	312,981	42,705	157,889	67,104	61,000
122--Tobacco, mfg whether containing tobacco substitute:	495	133	84	620	47,446
874--Measuring/checking/analyzing & contr instr/appt nes:	10,489	51,737	29,021	34,805	32,750
726--Printing & bookbinding machinery, & parts thereof....	46	27	2,785	6,299	26,700
611--Animal oils and fats.....	15,470	18,787	26,382	26,005	22,648
774--Electro-diagnostic apparatus.....	7,100	745	2,496	4,019	21,000
728--Machry etc specialized for particular industries nes:	2,639	9,929	12,289	10,462	19,533
542--Medicaments (including veterinary medicaments)....	277	195	708	10,229	19,170
057--Fruit, nuts (not including oil nuts) fresh or drigd:	37,635	27,360	46,848	19,534	15,720
759--Parts etc for office mach & auto data process mach:	167	1,389	411	2,124	15,700
582--Plates, sheets, film, foil & strip of plastics.....	59,446	64,731	54,912	33,532	15,660
335--Residual petroleum products, n.e.s., etc.....	13,985	13,682	9,861	14,008	15,260
673--Iron & nonalloy steel flat-roll prod, not clad etc:	0	0	0	1,956	13,800
741--Heating & cooling equipment and pts thereof, n.e.s.....	588	3,198	4,578	16,875	13,680
334--Oil (not crude) from petrol & bitum minerals etc....	41,977	39,655	42,472	14,378	13,330
931--Special transactions & commod not classif by kind....	196	11	2,254	2,669	13,000
723--Civil engineering & contractor's plant & equipment:	43,963	12,143	23,206	51,561	12,400
744--Mechanical handling equipmt; & pts thereof, n.e.s.....	6,324	1,095	5,465	6,044	10,240
651--Textiles yarn.....	0	0	245	2,918	9,180
737--Metalworking machinery, and parts thereof, n.e.s.....	456	1,776	2,208	323	4,210
285--Aluminum ores & concentrates (including alumina)....	0	0	2	0	8,800
731--Mach tools working by removing metal or oth material:	1,140	2,812	1,754	21,182	8,140
772--Electrical apparat for switchg or protectg elec circ:	528	67	446	672	7,900
743--Pumps, air or other gas compressors and fans.....	3,345	6,273	8,766	7,588	7,660
721--Agricultural machinery (excl tractors) & parts.....	433	199	593	744	7,060
048--Cereals & prods of flr or starch of frts or vegs:	0	0	11	0	6,970
251--Pulp and waste paper.....	7,437	12,135	19,908	19,720	6,970
764--Telecommunications equipment, n.e.s. & pts, n.e.s.....	890	211	4,640	4,913	6,200
541--Medicinal etc products, except medicaments.....	467	625	1,463	2,370	6,100
892--Printed matter.....	196	632	1,825	2,430	6,000
674--Iron & na steel flat-rolled products, clad, etc....	0	0	9,588	53,187	5,900
778--Electrical machinery and apparatus, n.e.s.....	10,277	10,839	13,236	6,346	5,770

Note: Data before 1989 are estimated.
Compiled from official statistics of the U.S. Department of Commerce.
Commodity trade data before 1989 exclude special category exports.
Refer to the bilateral total trade tables for the data on total trade by country and region.
Top 40 commodities sorted by total exports, F. a. s. value in 1990.

STATEMENT OF MARSHALL I. GOLDMAN

Most commentators have concluded that the August 19 coup was a farcical failure. Farce it may have been, but failure it was not. Admittedly it did not succeed as the plotters had intended--indeed it produced just the opposite results. Nonetheless the changes have been dramatic since then. Instead of strengthening such institutions as the central control of the Communist Party, the military and the KGB, the coup weakened them. The coup did in three days what perestroika could not accomplish in six and one half years.

In the near vacuum that has resulted, there is an unprecedented opportunity for meaningful economic reform. The economy is on the verge and in some cases has already collapsed but because the hardline opponents of market reform have been discredited, skillful leadership may be able to stimulate changes that otherwise would have been impossible. But it is not only economic reformers who may stand to gain, there are also opportunities for those of us on the outside. The Union of Soviet Socialist Republics as a united political entity is no longer something we need to worry about. They have even changed the name of the country to the Union of Sovereign States (USS) (perhaps UFFR would have been more appropriate--the Union of Fewer and Fewer Republics). Admittedly there are still 27,000 nuclear weapons there to worry about, but it is hard to see why we continue the massive military buildup we keep supporting. The Soviets simply no longer have the ability to become an external aggressor of the sort that might have been possible a decade ago. Just as the reformers in what used to be the Soviet Union should be forced to think boldly, so reformers in the United States' military establishment should be forced to reconsider expenditures not just on this or that weapons system, but on the whole U.S. military establishment.

What has happened?

In the aftermath of the coup, political and economic power has shifted to the various republics, particularly the Russian republic and Boris Yeltsin. Whether our Administration recognizes it or not, Mikhail Gorbachev is now not much more than a figurehead. He and the center lack the power to tax which is now the prerogative of the republics. The center thus lives on a form of reverse

revenue sharing. The republics are also becoming the effective owners of the mineral resources and property within their jurisdictions. Moreover in the new political entities that have been created (the State Council, the Supreme Soviet and the Inter-Republic Committee) economics has become a matter that is largely the domain of republic-oriented officials. No wonder someone like Gregory Yavlinsky, who only two months ago was urgently seeking financial support from the west, has reversed himself and September 5 warned that the west should not give any money to what used to be the Soviet Union. As he put it, "I don't know if we will end up with one or thirty-five different currencies."

What is the source of the economic problem?

The country now finds itself in the grip of a depression. But unlike depressions in the west which are brought on by a lack of demand, the Soviet Union has a supply-side depression. Soviet factories are closing down because they find themselves without supplies. This supply side depression is a consequence of several factors, most of which were the inevitable result of the effort to switch from central planning (allocation of goods by quantity) to a market-based system (allocation by prices and cost). Under central planning, Gosplan and Gossnab allocated goods among the country's factories and consumers. There was also a conscious effort to create monopolies--under state ownership of the means of production, there was no need for competition or duplication and what the planners regarded as the resulting waste.

Moving to a market-based system meant therefore the elimination or at least the curtailment of the powers of Gosplan and Gossnab. Unfortunately no one realized that an independent wholesaling institution would have to be created to provide the same functions. Moreover the monopolization of the Soviet economy meant that disruption of production in one factory was likely to produce ripple effects for its customers who would also have to close down because there were no alternate manufacturers or wholesalers for them to turn to. Institutions which were thought to be advantageous in the old system became disadvantageous in the process of transition. All of this plus inflation and labor unrest began to cause serious breaks in the distribution and manufacturing of goods and food.

The combined effect was that during the first half of 1991, the GNP fell 10-15% and was expected to drop by 20% for the year as a whole; inflation was growing at a rate of 300% and the budget deficit was at least 20% and probably closer to 25-30%. If that were not enough, there has been drought in several of the major wheat-producing areas and there is concern that the harvest will drop 25% or more from what it was last year when even then there were bread lines. Not surprisingly, even some of the republics that have not formally become independent have begun to prepare for the issuance of their own currency and to erect custom barriers on their borders. These custom barriers by the way are designed not to keep goods out as is usually the case, but to keep goods in--a beggar their neighbor policy. With or without political independence, such actions amount to economic independence.

To the outside observer, the response is often--"Don't they know they can't make it alone?" The usual reply is, "Maybe not, but they cannot seem to make it together either."

There are many reasons to believe this breaking up of the Soviet Union will compound the already serious economic dislocation of the various republics. How will they be able to divide up the railroad network and the electrical grid? In addition, many Soviet factories have become dependent on suppliers from outside their republic. Moreover since the center lacks a tax basis of its own, it may be forced to print even more rubles to pay its military budget which will then cause even more inflation, at least for those still using the ruble.

But there are also advantages to a breakup. The Soviet Union is too large and diverse and it is probably too heterogeneous for its own good. Decentralization may increase incentives and a sense of ownership. Smaller entities may also make possible taxation with representation which will probably lead to an even further reduction of the real money spent on the military. Finally competition between the onetime republics for foreign investment may lead to a more rapid move to the market and the adaptation of investment incentives. With time--once the anger of the divorce process has cooled--there may be some economic reconciliation such as the creation of a trading bloc or payments union. But in the short run, the fear of Russian hegemony added to the traditional local rivalries will handicap efforts at economic cooperation.

What are the implications for the United States?

The first thing the American public, but particularly George Bush and his advisors must come to appreciate is that Gorbachev is no longer the controlling force in the Soviet Union. For some reason the Administration has some difficulty understanding the focus has shifted to the republics, especially Russia. Thus the emergency relief that will probably be necessary this winter must be decentralized. That makes it all the harder to administer and all the more important that emergency aid be handled by our own agencies. Under the circumstances we should require that there be inspection of the distribution of this aid (if we can agree to inspect missile plants--we should be able to inspect food distribution centers) and that we establish terms of conditionality (the process must be handled honestly and efficiently or our aid will cease).

We must also begin to consider longer run help. Private investment is still the most effective way to foster economic growth. To do that, however, the various republics will have to reconcile themselves to the idea that foreigners will have to make a profit. Historically this has been hard for many people in the Soviet Union to accept. They should understand, however, that such profits need not be at their expense--if done properly both sides should be able to benefit.

Unfortunately private investment alone will not suffice. Western governments will also have to participate. This participation will take many forms. First the west must be willing to open up its market to exports from the Soviet Union as well as Eastern Europe. That includes the extension of most favored nation status to the Soviet Union. Here the record with regard to facilitating the export of goods from that region of the world is discouraging however. Yet it is silly to give loans or grants and then ban or unfairly tax imports from the factories and farms aided by that economic help.

It would also make sense to coordinate such efforts in some way, much as was done after World War II in western Europe through what became the OECD. It is also likely that technical help and project support will be more effective than providing blank checks.

But well-coordinated or not, because the present economic situation in the Soviet Union is so serious, the fact remains that to be effective, large sums of money will be needed. But given our own internal needs, such sums will not be found easily. Yet if some day we have the boldness to reevaluate the fundamental assumptions underlying our military strategy, we conceivably could find the money for more such efforts than now seem possible. We cannot always rely on the eruption of volcanoes to ease us out of places like the Clark Air Force base or have the Phillipine Senate force us to do without the Subic Bay Naval Base-- decisions we apparently lack the courage to make on our own.

These are unique times. The breakup of the old structures that have haunted us and the Soviet people for seventy years or more could well lead to chaos but it also means that new opportunities for not only the Soviet people but for us as well are available that could only be dreamed of before.

STATEMENT OF ROBERT D. HORMATS

I appreciate the Finance Committee's invitation to testify at this opening set of hearings on the US-Soviet Trade Agreement.

You have a challenging task before you. In the midst of a highly unsettled situation in the Soviet Union, this committee must decide whether to approve or disapprove legislation permitting the US to implement the US-USSR Trade Agreement of June 1, 1990. Despite current uncertainties in the Soviet Union, I commend this agreement to you. I do so for three reasons:

-- It serves important US commercial interests;

-- It represents an opportunity for the US to send a positive signal to reformist forces in the former USSR;

-- It gives the US a vehicle to encourage harmonious economic relations among the newly sovereign republics.

Passage of legislation permitting implementation of this agreement would enable the US to offer MFN to the former USSR in return for its implementing a considerable range of obligations to the US. While negotiated with the union government, this agreement does not place the US in a position of seeking to preserve a tight knit Soviet Union against the wishes of the republics. In the Soviet Union (or the new Union of Sovereign States), economic decisions today are largely taken by councils dominated by representatives of the republics. If they choose to accept and implement this agreement as an economic "union" or "zone," that would be desirable. It is a course the US should encourage because it emphasizes harmonious economic relations among the republics -- which is necessary for their economic survival. Some implementation responsibilities then would be in the hands of the center and others in the hands of republics; the precise division of responsibility could be worked out among them.

If some republics, citing their new sovereignty, decide not to accept or to implement this agreement, negotiated as it was by the Soviet government, the US could negotiate an agreement containing similar terms with each separately. That could be done with the Baltic nations.

Unsettled conditions in the former Soviet Union might cause some members of this Committee to be reluctant to support this agreement at this time. But these conditions are likely to obtain for many months, if not years, to come. The US can do little to change them through its trade policy. Holding up this agreement would not help. The European Community has a trade agreement to support its companies in the Soviet Union; its businesses operate in the same uncertain environment as do ours, but they are better off because of the obligations the EC's agreement imposes on the Soviets at all levels. The US-USSR Trade Agreement equips American officials

with the authority needed to work with Soviet, Russian, Ukrainian and other officials to promote American commercial interests. It would also signal those now making decisions at the center and in the republics about the domestic policies the US believes they should pursue to integrate themselves into the global trading system.

I also favor repeal of the Stevenson and Byrd Amendments to remove restrictions on Soviet eligibility for US government credits and credit guarantees, thereby providing immediate tangible benefits for the USSR and important support for American exports. That would also be linked to resumption of Soviet repayments on their Lend-Lease debt to the US.

BACKGROUND

If this hearing had been held last year, consideration of this agreement would have been relatively uncomplicated. It improves market access for US exports to the former USSR, facilitates the operation of US firms there and offers intellectual property rights protection. It also opens new export possibilities for the former USSR in a way that encourages market reforms, because only through such reforms will the republics be able to take substantial advantage of MFN status.

However, stark new realities have dramatically altered the situation. Economic decisions in the former USSR are being taken by leaders of the republics; many have declared their independence. And the Soviet economy is in a state of collapse.

These developments pose troubling questions: Will republics that have declared independence or sovereignty accept an agreement negotiated by the old Union government? Will they want to negotiate their own agreements? To whom will the US look for implementation of the agreement -- the central government or the republics? Who will ensure compliance? How will the US respond to requests of individual republics to negotiate their own separate agreements? Will the individual republics' emigration laws permit them to meet US legal requirements for MFN? Will their human rights policies be conducive to the US extending separate MFN treatment? Who will assume responsibility for the Soviet commitment to resume payments of its remaining \$674 Lend-Lease debt?

Without denying the complications resulting from volatility and rapid change in the USSR, I would argue that there are strong arguments for passing this legislation to permit the administration to implement this trade agreement. The substance is sound. It meets the conditions of Title IV of the 1974 Trade and Tariff Act. American companies would benefit from:

-- assurance of most favored nation treatment in the USSR republics for US exports and prohibitions against the Soviets implementing quantitative restrictions or standards that discriminate against American products;

-- Soviet agreement to improve business conditions for American companies in the Union, provide information that American companies consider vital to doing business in that country and consult with US officials to liberalize access to the Soviet market for services;

-- Soviet assurances of intellectual property rights protection and reaffirmation of Soviet commitments to the Paris Convention and Universal Copyright Convention.

In return for commitments to the above measures the Soviets would receive US Most Favored Nation status. The benefits of that to the USSR are at the moment very limited, as would be the impact on the American market.

US trade with the USSR is miniscule compared to its trade with other large nations. In 1990 US exports to the Soviet Union amounted to roughly \$3 billion (about the same as US exports to Venezuela) out of a total US export figure of nearly \$400 billion. US imports from the USSR in 1990 amounted to about \$1 billion (about the same as US imports from Ecuador) out of total US imports of nearly \$500 billion.

Principal US exports to the Soviet Union are agricultural products (\$2.2 billion in 1990): grain, soybean oil cake, soybeans, meat, butter, vegetable oils and tobacco. Other US exports include textiles, leather and medical equipment. US imports from the USSR include crude oil, precious metals, alcoholic beverages, ammonia, uranium compounds and ferro alloys.

Prospects for significantly increased US exports to the USSR are limited by Soviet hard currency constraints and by lack of a history of close US-USSR trade relations compared, for instance, to Western Europe - USSR trade links. Prospects for increased Soviet exports to the US are limited by the poor quality of Soviet goods. Assuming MFN is granted, there will be some increase in US imports of Soviet products. But that increase is likely to be small, and not comparable in magnitude to imports from the other controversial MFN country, China -- which last year shipped \$15 billion worth of goods to the US.

Most Soviet exports today -- energy and raw materials -- enter the US at zero or very low tariffs, even without MFN. A US International Trade Commission report published in 1990, using data from early 1989, found that 52% of US imports from the USSR entered the US duty free and that fully 91% of Soviet imports entered at a duty rate of less than 5%.

The main near term beneficiaries of MFN are likely to be Soviet exports to the US on which the MFN tariff rate (Column 1 rate) is considerably lower than the non-MFN tariff (Column 2 rate); those items include vodka, cotton fabric, fiberboard and caviar. Items that the Soviet Union does not now sell to the US because Column 2 tariffs are prohibitively high might be exported to the US if MFN were granted, depending on quality and price competitiveness. But these probably will not be large

in number or volume in the near term. If, however, the Soviets take bold market reforms and improve the environment for private investment, they could boost exports in a number of areas over the medium term, although an export surge is highly unlikely.

A LOOK BACK

In the early 1970s, while on the National Security Council Staff, I participated in negotiations on the last US-Soviet Commercial Agreement, which was signed in October 1972. That agreement was intended to provide the Soviet Union with MFN, clear the way for Soviet access to US Export-Import Bank export credits and credit guarantees, and commit the Soviets to repay their \$722 million Lend-Lease debt to the US. The agreement was never implemented. In January 1975 it was declared null and void by mutual agreement of the US and the USSR.

Congressional concern about the USSR's restrictive emigration policy, particularly toward Soviet Jews, was the proximate cause of the agreement's demise. Congress enacted the Jackson-Vanik Amendment to the 1974 Trade Act denying MFN treatment and public (including Ex-Im) credits and credit guarantees to any non-market economy that "denies its citizens the right or opportunity to emigrate" or imposes more than a nominal emigration tax.

The administration opposed this provision but used it as leverage to obtain Soviet agreement to raise emigration levels. Senator Jackson publicly stated that he had been given assurances that the annual Soviet emigration figures in the future would be no less than 60,000; that figure, he said, would be a benchmark to monitor compliance with his amendment. Publication of that figure caused consternation in the Kremlin; it protested that decisions on emigration were an internal matter. It did not wish to be seen to be making numerical commitments under US pressure.

More troublesome issues were to come. The Congress put a ceiling of \$300 million on new Export-Import Bank loans and guarantees to the USSR, and imposed a subceiling of \$40 million for fossil fuel research and exploration. It banned completely loans and guarantees for fossil fuel production, processing and distribution. These restrictions were included in the 1975 Stevenson Amendment to the Export-Import Bank Act. Congress also stipulated in the Byrd Amendment to the 1974 Trade Act that no agency of the US government except the Commodity Credit Corporation could approve loans, guarantees, or insurance for exports to the USSR in excess of \$300 million without prior congressional approval.

The net result of all this legislation was that even if the Soviets complied with US emigration requests, the amount of Ex-Im credits available would be small. And even if the Stevenson Amendment had been repealed, the Byrd amendment's limitations would have put US policy, and thus the USSR, on a short Congressional leash.

The Jackson-Vanik Amendment plus the Stevenson and Byrd Amendments proved more than the Soviets were willing to accept. In December 1974 the Soviets denied having given the US any numerical assurances on emigration. In January the agreement was nullified by mutual agreement. Soviet payments of Lend-Lease debt, which had begun just after the signing of the Trade Agreement in the expectation that it would be approved by Congress, stopped.

US INFLUENCE IN THE REFORM PROCESS

Extending MFN to the USSR, and granting it eligibility for Ex-Im credits and guarantees, should be part of a broader US strategy for supporting reform in the USSR. That strategy must be developed and implemented with a far greater sense of urgency than now appears to be the case.

Internal commerce in the USSR has broken down. Production is in disarray. Food output will drop dramatically; transportation of produce to market, a major problem last winter, will be far worse this winter. The country is in the process of disintegration; republics are threatening to cut off products from one another, pursue separate economic policies and are threatening to establish (or have already established) their own currencies. Western support cannot be decisive in reversing these developments, but it can be structured to support sound policy and harmonious economic relations among the republics.

The US should make it clear that however the key republics choose to chart their courses politically, cooperative economic relations among them are essential to restoring prosperity. If political pride or political revenge lead to attempts at economic autarchy by the republics, or cause them to withhold goods from one another, the country would be committing economic suicide.

The Soviet republics are far more interlinked economically than nations of the European Community. In ten of the republics more than 50% of goods produced are sold to other republics. Even the large Russian Republic sells about 20% of its product to other republics.

The country's industrial structure is dominated by many single factory monopolies. An estimated 30-40% of industrial output is accounted for by single manufacturers. One recent Soviet study found that of 6,000 different products, three quarters were supplied by just one producer. This production structure was designed by the Communist Party and Gosplan to prevent any region from going its own way. It was also part of the Gosplan mentality that competition was bad and production should be concentrated in particular factories and regions. The CIA points out that "the Soviet Union's entire output of potato, corn and cotton harvesting equipment comes from single factories -- all in different republics." Republics simply cannot get along economically without one another. For example, the country's one locomotive factory is in the Ukraine; it requires 800 major parts, which are made by 114 other factories, in several different republics."

The monopolistic character of Soviet industry creates a special problem for reformers. It means that the republics must maintain free trade among themselves and reform their economies at a roughly similar pace. It also means that without an effort to demonopolize the system and open it up to competitive new investments, price decontrol will result in an enormous surge in inflationary pressures. Inflation already is about 100% and threatens to shoot up by multiples of that in coming months.

In extending MFN to the USSR and providing other forms of help, the US should urge the republics to work together on economic matters. It can draw on its own disastrous experience under the Articles of Confederation⁽¹⁾ The US should use its influence to convince the republics together to implement, and work cooperatively to benefit from, the US-USSR trade agreement. This means encouraging them collectively to accept the obligations contained therein and avoid imposing barriers to inter-republic trade. The latter will be particularly important in facilitating efficient shipment of food around the country. Senator Bradley, in his thoughtful proposal to reach out to the republics, rightly underscores the need for outside parties to be "fully supportive of economic cooperation among the republics and with the outside community."

A related issue concerns monetary policy. The temptation to establish separate currencies is growing. The Ukraine is already embarking on such a course. Few could blame republics wishing to junk the nearly worthless ruble. But chaos would ensue were republics to engage in irresponsible monetary policy. The chief concern is that the republics would engage in exchange controls and give excessive or unrestrained credit to local enterprises. That would make republic currencies as undesirable to hold as the ruble is today.

If separate currencies are to be created the republics must back them with sound domestic monetary policy and aim to make them convertible; they could conveniently be pegged to the European Currency Unit (the ECU). But this could only work if at the same time the domestic productive capacities of these republics were unleashed through market reform so the currency was backed up by production of real goods. Simply declaring a currency convertible does not give it value; value is a function of what the currency will buy and that depends on the ability of the issuing country to produce goods and services that people want.

(1) Under the US Articles of Confederation separate currencies and policies led to economic disarray. New York, and Rhode Island heavily taxed imported goods bound for Connecticut -- raising prices there and causing major interstate discord. Questions as to the appropriate currencies for transaction disrupted commerce.

A single sound and convertible currency for the new Union (backed up and made credible by sweeping market reform) would be preferable to a multiplicity of competing republican currencies. To make this work the central authorities must demonstrate that they can run a credible monetary policy and institute reforms to produce competitive goods. A single central bank within a common economic space or union, embracing the sovereign republics, could draw on concepts being developed in the European Community. The other alternative is to duplicate the current situation in Western Europe, where most currencies are tied to the Deutschmark; if the Russian Republic manages its economy and its currency well, that could happen in the USSR if the smaller republics tied their currencies to a stable, credible and convertible Russian currency.

A second area in which this agreement could give the US influence would be in the disposition of Lend-Lease payments. The Soviet Union's Lend-Lease debt, like other debts, should be repaid; responsibility for doing so will need to be worked out between the center and the republics. This does not mean that the US needs to insist that the funds be repatriated right away. The US should agree to a restructuring of this debt whereby the Soviets pay interest on schedule into an escrow account, which would be used for five years as a backup to Ex-Im and CCC export credits and guarantees.

In the event of a Soviet default on a CCC or Ex-Im guarantee, the non-federally guaranteed portion could be made up from this fund. After five years the Soviets would be obligated to make the fund whole. This insurance might persuade banks to accept Soviet credit for the small unguaranteed portion of US agricultural loan guarantees to the USSR. Agricultural guarantees cover only 98% of principle and 4.5% of interest. If the remainder were backed up by this escrow fund, banks again might be willing to provide credits under such guarantees for food shipments to the USSR. Of late they have been reluctant to do so.

A third area of support -- and now the most urgent one -- is emergency food and medical assistance. The Soviets experienced food shortages last winter after an unusually large harvest. This winter they are likely to suffer an extremely poor harvest, and must transport products with a collapsing infrastructure. Food deficit republics may well need to import 40-50 million tons of grain in coming months. The West will need to help finance this and to develop a system for distributing it, especially to large metropolitan areas such as Moscow and St. Petersburg. Latvia, Lithuania and Estonia will also need help.

The German government attaches urgency to such aid because it remembers what happened in Germany after the Treaty of Versailles, due in part to the absence of economic help from the victorious powers. German leaders do not want to see the USSR or Russia turn in to a slavish Third Reich -- a collapsed economy leading to a bitter and resentful populace which becomes

authoritarian, nationalistic and militaristic. Nor do they want the Soviet Union to collapse into feuding, well-armed republics, that take out their frustrations on one another. The US must recognize the intense danger of these threats as well.

Precedents for such massive relief are Herbert Hoover's American Relief Administration following World War I and the United Nations Relief and Rehabilitation Administration following World War II. A relief organization of similar nature could draw expertise and staff from the World Bank and bilateral aid agencies, plus private organizations such as the Red Cross. The Group of Seven could be the primary oversight body. The relief organization would need a strong executive committee, a respected director general, and regional and field offices in the republics and municipalities. It would determine where help is needed and ensure that food and medicine are delivered to those who need them most. The military airlift capabilities of western governments might also need to be mobilized.

One useful technique for shipping emergency assistance rapidly to needy areas and peoples would be for the West to provide some funds to Poland, Hungary and Czechoslovakia to finance the export of emergency items, including some foodstuffs and medical items. They could quickly deliver needed goods to different parts of the country by road or rail, thereby avoiding congestion at Soviet ports, which could occur were there to be a major global effort to ship food to the USSR. There is a growing feeling in Japan that as the Russian Republic considers the return of the four northern islands Tokyo should provide emergency assistance to the USSR. One way to do this would be for Japan to channel assistance to the nations of Eastern Europe to finance sales of needed goods to the Soviets. That would boost the hard currency earnings of Eastern Europe and inject vital goods into needy areas of the Soviet Union.

Finally, there is the broader question of technical assistance. The West needs to step up the pace of technical help to the key republics to establish market institutions and expertise. Areas where such help will be required include tax reform, property laws, transportation, food and product distribution, energy and transformation of military factories to civilian production.

PREPARED STATEMENT OF OJARS KALNINS

On August 21, 1991, the Supreme Council of the Republic of Latvia voted to restore the full independence of the Republic of Latvia. Since then, over 50 governments, including those of the United States and the former USSR, have begun to reestablish diplomatic ties with the government of Latvia.

It has been said that the establishment of independence is not an act, but a process. For the people of Latvia this process began several years ago, when pro-independence organizations such as the Popular Front of Latvia and the National Independence Movement of Latvia were formed, and as the residents of Latvia voted in a general election and referendum to express their support for the reestablishment of independence.

International recognition of the government of the Republic of Latvia takes this process one step further, enabling Latvia to undertake two courses of action which are necessary for full independence to be realized. The first, is the de-occupation and de-Sovietization of Latvia's territory and institutions. The second, is reestablishing ties with foreign governments and membership in international organizations. Both of these processes are now underway. The Government of Latvia has begun talks with Moscow to determine future bilateral relations, as well as the status of Soviet troops presently on Latvian soil. Latvian has been accepted into the Council on Security and Cooperation in Europe, and anticipates membership in the United Nations shortly.

When looking at Latvia's future economic relations with the international community, including its neighbor, the former USSR, and the United States, it is perhaps most useful to view it as both a rebuilding and restructuring process. Latvia's independence is not something new, but simply the de facto reestablishment of a de jure independence which has existed since 1918. This independence was interrupted by 51 years of Soviet occupation. Thus, we are now in the process of rebuilding those democratic institutions and international ties which once existed.

Political independence, however, does not mean economic isolation. It would be both unrealistic and counterproductive to ignore the effects of live decades of Soviet occupation. Latvia's present economy and infrastructure has been shaped by this occupation, and a vast network of economic ties remain with the former Soviet republics. While rebuilding its own independent, democratic institutions, Latvia is simultaneously seeking to restructure its relationships with Moscow and the former Soviet republics. Latvia understands that its own security, stability and prosperity can only be enhanced by the security, stability and prosperity of its neighbors. In fact, we are convinced that unique geographic, cultural and economic factors will enable Latvia to play a pivotal role in accelerating the reform and reconstruction process throughout the region. Just as Latvia, and its neighboring Baltic States of Lithuania and Estonia, played a pioneering role in democracy building throughout the former Soviet empire, the Baltic States today, through example and cooperation, can be instrumental in the fostering economic reform and restructuring in the sovereign republics of the former Soviet Union.

It is for this reason, that Latvia looks to the United States for assistance in rebuilding its infrastructure and market economy. The sooner we can get back on our feet, the sooner we can play a constructive role in the rebirth and rebuilding of the entire region.

As an independent state, Latvia must, of course, establish independent relations and trade agreements with the United States. For example, we look forward to the renewal of the Most Favored Nation status from the United States, as well as the removal of all COCOM restrictions on Baltic trade. We seek to sign mutually beneficial trade agreements, which will both foster the revival of Latvia's economy and encourage Western investment in Latvia. We would encourage the United States to move quickly to normalize the business climate for U.S. companies going into Latvia. For example, by providing access to Export Import Bank and Overseas Private Investment Corporation services, and by moving to establish tax and other treaties with Latvia.

While Latvia seeks to achieve economic independence and self-sufficiency, and does not wish to be dependent on others for its survival, we are presently in a difficult transition period where special assistance from the West is critical if we are to both survive and successfully implement our political and economic reform programs.

We understand that our friends in the United States are interested in providing us such assistance, and are now beginning the complex process of identifying needs and seeking practical solutions. I wish that at this point we could provide the

United States Congress with a detailed, point-by-point program outlining both our short term needs and long term goals.

But as I pointed out earlier, the Latvian government is in a state of transition. While we have been preparing for independence for quite some time, the full implementation of that independence has just recently begun. It has been less than two weeks since our government reestablished control over our borders and customs posts. The Communist Party, KGB and other repressive institutions which sought to block our independence have only recently ceased operations in Latvia. It was only ten days ago that President Bush reestablished full diplomatic ties with our government, thus opening the door to bilateral agreements, exchanges and assistance programs.

We are thus in a process of identifying and prioritizing both our short and long term needs, as well as understanding what kinds of relations and assistance are available to us. In the coming months we look forward to working with the United States Congress and other United States Government agencies in this process.

We can, however, offer a preliminary outline of our needs and hopes. In the short term, Latvia will need emergency humanitarian assistance. This could include food aid and livestock feed in order to prevent the mass slaughter of breeding herds. Latvia is also in great need of medical assistance in all forms of clinical supplies and equipment. This is especially critical for our elderly, retirement age citizens who represent nearly 20% of the entire population of Latvia and live on fixed incomes at a time of rapid inflation. Such basic medicines such as aspirin are virtually unavailable in Latvia.

Mr. Richard Judy of the Hudson Institute has outlined several medium and long term assistance measures which the United States could undertake to support restitution-building in the Baltic States, and I would like to present several of them here. They include:

1. Training for central and commercial bankers to foster the implementation of sound monetary and banking systems and credit institutions.
2. Training and assistance in administration of all aspects of privatization programs.
3. Assist in the development of small-business creation, including franchising.
4. Assist in the development of programs to attract direct foreign investment.
5. Assist in the development of pro-competition policies and program.
6. Develop new statistical services using resources of the US BLC, US Census, and Eurostat, including training and financial assistance for hardware/software necessary for implementation.
7. Assist in the design and implementation of new tax systems, including computerization, training and administrative systems for implementing VAT and income tax systems.
8. Assist in the design and implementation of a new social security system, private insurance industry and privatization of the delivery of social, health and education services.
9. Assist in development of job creation and employment services programs, in neglected areas such as housing construction, retailing, wholesaling, food processing, business services, communications and information services, and tourism.
10. Assist in developing programs for restructuring large-scale Baltic industry, much of which is obsolete and without viable future prospects.

In addition, Mr. Judy has recommended the following multi-lateral and bi-lateral financial assistance programs:

1. IMF Stabilization Fund to support introduction of sound Baltic money.
2. IMF Balance of Payments stand-by facility to support rapid trade liberalization and currency convertibility.
3. US-Baltic Enterprise Fund to provide seed capital and intermediate financing for new businesses and promising private-sector projects.

One of the key underlying factors in all of the above suggested programs is training. While Latvia has a history of democracy and free market economy, the last 51 years of Soviet rule have taken their toll and isolated the people of Latvia and their institutions from developments in the rest of the world. The availability of training at all levels of our society, from the work place to educational institutions, is a must. It is here that agencies such as the United States Information Agency and the Peace Corps could also play a role.

President Bush once referred to the key role that a "thousand points of light" in the American private sector can play in the development and growth of the U.S. economy. We are extremely gratified by the outpouring of support we have received

from private American citizens, organizations, businesses and institutions. The states of Maryland and Delaware, and the city of Dallas, are just a few examples of local communities which have already established ties with the Baltic States and have begun to implement exchange and assistance programs. It is our hope that the United States Government will establish policies which will encourage and support such initiatives, and make it easier for the people of the United States and the Baltic States to work together.

We are also extremely encouraged to learn that Baltic Desks have already been established at the Department of Commerce and Treasury, and Agency for International Development, and hope that comparable departments will soon begin operating in other branches of the U.S. Government.

The United States Congress, which has always supported Baltic independence, has long expressed that support through the work of the Ad Hoc Committee on the Baltic States and Ukraine and other Baltic support groups. Now that full diplomatic ties have been established with the independent governments of Latvia, Lithuania and Estonia, Congress may wish to establish a permanent sub-committee which can address the present and future opportunities that exist in U.S.-Baltic relations.

Up to now, I have focused largely on what we feel the United States could do to assist Latvia in its return as a free member of the world community. I would like to briefly mention some of the measures Latvia has already taken to accelerate this return.

Over the last year, Latvia has sought ties with private businesses in the West, seeking not only investment and trade, but also advice and assistance in its developmental process. The Latvian government has begun to enact laws and implement policies which would encourage investment and joint ventures, and provide a favorable climate for business. These include:

- providing start-up private enterprises with a two-year tax holiday
- drafting foreign investment legislation with broad incentives for investment,

such as:

—100% foreign ownership

—tax holidays and reductions based on size of investment

—tax breaks to encourage investment in target areas, such as infrastructure, food processing and storage, environmental technology

- removing barriers to the repatriation of hard currency profits
- streamlining the business creation process
- creating a legislative framework for new types of business structures appropriate for a market economy
- legalizing the use and trade in hard currency; establishing currency profits
- initiating rapid land reform, providing for complete privatization of the agricultural sector
- establishing treaty relations for ongoing trade with the republics of the former Soviet Union
- signing a trade treaty with Czechoslovakia to establish clearing principles
- negotiating a clearing agreement with Poland
- negotiating agreements with Lithuania and Estonia to establish a common Baltic economic space, including common customs and currency policies

Recently, Anatolijs Gorbunovs, President of the Supreme Council of the Republic of Latvia stated that, "We return to the world carrying the flags of peace and freedom, with a firm commitment to be united for Latvia." This reference to unity, which is built upon a foundation of equal rights and opportunities for all residents of Latvia, regardless of their race, religion or ethnic origin, has been echoed by Latvia's Prime Minister Ivars Godmanis, and is a fundamental principle of the Latvian government.

Equally fundamental to our freedom is the reestablishment of our rightful place in the world community. In this sense, we have an equally firm commitment to fulfill our international obligations and responsibilities. We have witnessed dramatic changes in our part of the world, and know fully well that the reestablishment of normal political, economic and social relations with the world community will not be without its hardships and difficulties. Nevertheless, we remain optimistic that the changes which have occurred and are yet to come, will benefit not only Latvia, but all the nations of the Earth. We look forward with enthusiasm and confidence to the challenges and opportunities that face us.

PREPARED STATEMENT OF CURTIS W. KAMMAN

Mr. Chairman: I am pleased to have this opportunity to appear before the Committee and give you the Department of State's views on the U.S.-Soviet Trade Agreement.

The Department strongly supports quick Congressional approval of this landmark Agreement, particularly at this critical juncture in the history of the Soviet Union, or Union of Sovereign States as it is soon to be called. We are more convinced than ever that the Agreement serves the interests of both nations well.

As you know, President Bush signed this agreement in June of 1990. The President delayed its submission to the Congress, however, until Soviet emigration law and practice met international standards, consistent with the 1974 Trade Act. We have already seen a substantial improvement in practice in the ability of Soviet citizens to emigrate. Passage of the Soviet Entry and Exit Law in May represented a significant step toward institutionalizing current practices in a law guaranteeing the right to emigrate. On that basis, the President decided to submit the Trade Agreement.

In my remarks today, I would like to address the following areas regarding the Trade Agreement:

- Its role in promoting market-oriented, economic reform in the Soviet Union;
- Its prospects for approval in the Soviet Union; and
- Our approach to the question of MFN for the Baltic countries.

ENCOURAGING ECONOMIC REFORM

It is in our interest for the Soviet Union to establish strong and functioning democracies, and to move decisively toward a market economy. We strongly support the process of political and economic reform, and if it continues, are committed to respond accordingly, step by step, to progress made. We believe this Agreement promotes that process.

At the recent Moscow Summit, President Bush underlined his support for the reforms made so far by reaffirming his desire to promote U.S. trade and investment with the Soviet Union. The Trade Agreement is an important vehicle for achieving this aim. The provisions in the Trade Agreement mitigate, to the maximum extent possible at this time, bureaucratic and other barriers to doing business in the Soviet Union.

For example, the Agreement extends MFN treatment to U.S. exports. The Soviet Union has begun to move toward a customs system that will be compatible with our Western ones. We need to ensure that we receive favorable treatment under that regime, or whatever new arrangements are reached. The Agreement offers strong intellectual property rights protection. It also makes it easier for U.S. businesses to obtain accreditation, hire whom they please, and carry out normal business activities such as advertising and conducting market surveys. Indeed, our companies are already benefiting from many of these provisions, as the Soviet authorities have acted to honor their obligations without waiting for the Agreement to enter into force.

How does this help reform? As I am sure you agree, foreign businesses can exert a powerful influence on their environment, simply by showing how the market system works in reality. Their presence helps to promote market reforms—at the same time that they generate exports, introduce more efficient technology, and supply badly needed goods in an economy of scarcities.

Finally, we believe that this Agreement, and others like it concluded by the Soviet Union, will be an element encouraging the Soviet republics, whatever their ultimate political relationship may be, to cooperate on economic issues. This, we believe, is in the interest of the Soviet republics and their peoples as well as of the United States and United States business.

SOVIET APPROVAL OF THE AGREEMENT

Events are moving very fast in the Soviet Union, and a legal process is underway to reform the institutions and procedures of a new Soviet Union. The Soviets have, however, already made clear in numerous public statements that they intend to honor all existing international commitments. We will insist, legitimately, that all the terms and conditions of the Agreement are fully implemented by our partners if they wish to continue to enjoy its benefits.

In our earlier discussions, the Soviets had indicated that the USSR Supreme Soviet would give its advice and consent to ratification of the Trade Agreement once the U.S. Congress had given its approval. The Soviet of the Republics, or upper

1991

EMIGRATION FROM USSR 1991

TOTAL.....	199196
JEWISH.....	109672
ARMENIAN.....	1292
GERMAN.....	77064
EVANGELICAL.....	2408
PONTIAN.....	8360
OTHER.....	520

1991 figures are complete through May for Pontians, complete through June for the other categories, and include Jews going to Israel in July. Not available are the number of persons entering the U.S. under parole.

From January 1990 to July 1991, there were approximately 34,000 parolees that entered the U.S. and are not accounted for in the above statistics. The majority of these parolees are Armenians.

Sources: Governments of the United States, Israel, Germany and Greece. Prepared by Department of State, Office of Soviet Union Affairs. September 10, 1991

PREPARED STATEMENT OF JULIUS L. KATZ

I am pleased to be here today to testify on the U.S.-U.S.S.R. Trade Agreement. This is the instrument through which the United States and the Soviet Union will reciprocally extend most-favored nation tariff treatment and gain important assurances for our traders. Once approved by Congress and implemented by the President, this Agreement will place U.S. traders in the same position as their foreign competitors who already receive many of the same benefits.

The Agreement contains all of the elements required by Title IV of the Trade and Tariff Act of 1974. In addition, it goes well beyond those requirements and secures important protections for U.S. businesses in the areas of intellectual property rights business facilitation and tourism.

The Agreement's benefits are much greater than its specific terms. The process of negotiating the Agreement and our Continuing discussions as it is implemented have played and will play an important role in assisting the Soviet Union in its transformation to a market economy. For example, throughout the negotiations, we stressed the need to decentralize economic decisions by placing the right to buy and sell directly in the hands of enterprises and consumers—rights for U.S. businesses that are commonplace in the West and are essential to a market economy.

Although the Agreement is not yet in force, the Soviet Union is already implementing these provisions. In our discussions, we made clear that these rights and others like them are important to the development of competition and a free market.

Before I proceed to describe the specific provisions of the Agreement, I note that this Agreement comes before this Committee at a time of great change in the Soviet Union. The responsibilities of the central and republic governments are being shaped as we speak. It is important to put into place now a set of obligations to govern our trade relations which can also serve as a road map for the central and republic governments on the requirements for ensuring a free and open trading system as part of their development of a market economy.

I would like to describe some of the key elements of the Agreement with emphasis on the benefits that will accrue to the United States by virtue of the entry into force of this Agreement.

MOST-FAVORED NATION TREATMENT AND MARKET ACCESS

The first Article of the Agreement guarantees that the Soviet Union and the United States will provide each other with most-favored nation treatment (MFN) with respect to customs duties, matters in connection with the importation of products and their use in the domestic market. Although tariffs have not traditionally been at issue with respect to the Soviet Union because of their command economy, most-favored nation treatment on Soviet tariffs will be especially important in the future as the Soviet Union moves toward a market economy and develops a meaningful tariff schedule. We expect that the Soviet Union will have a two-tiered schedule and that most-favored nation duties will be significantly lower than non-MFN duties.

In addition to MFN tariff treatment, U.S. exporters are guaranteed non-discriminatory treatment with respect to the application of quantitative restrictions, the granting of licenses and the allocation of hard currency needed to pay for imports.

In order to ensure that U.S. exporters are able to take advantage of these guarantees, the Agreement also contains obligations to provide improved market access and increased commercial opportunities, including through the progressive increase of national treatment for U.S. products and services in the Soviet Union. Most-favored nation treatment is also required in developing and applying technical standards. Standards designed merely to protect domestic production are prohibited.

It is important to have these obligations and guarantees in place before the transformation of the Soviet economy to a market system is completed. In this way, we can be certain that the process and final implementation of economic reform will not be accomplished in a manner which would be detrimental to U.S. exporters.

These guarantees also reflect obligations that are embodied in the General Agreement on Tariffs and Trade (GATT). Since the Soviet Union is only an observer to the GATT and not a full member, it is important that the ground rules for our trading relationship be clearly established on a similar basis to those of the GATT Contracting Parties. We have also made the point to the Soviets that these obligations and more would be required of them should they seek to be admitted to the GATT.

BUSINESS FACILITATION

In addition to GATT-type protections, the Agreement also provides improved business conditions for U.S. companies. The Soviet Union has agreed to provide an expedited accreditation procedure for U.S. companies. Under this procedure, approvals to establish a commercial representation in the Soviet Union will in most cases be granted within 60 days of application. The accreditation procedure will be administered with the goal of maximizing new entrants and small businesses. In the past, in order to receive accreditation, a U.S. company was required to have already established significant working relationships with Soviet organizations. The fact that this was difficult to accomplish without a business presence in the Soviet Union made the process especially frustrating for U.S. businesses. Bureaucratic delays in approving accreditation applications were also the norm.

U.S. firms will also receive access to office space and living accommodations, in chronic shortage in the U.S.S.R., on a nondiscriminatory basis regardless of whether they have been designated for use by foreigners. Firms will also be permitted to hire Soviet citizens directly rather than to go through the Soviet Diplomatic Service Agency (UPDK). The Agreement also stipulates the right of U.S. nationals and firms to engage and serve as agents, and to engage authorized Soviet organizations as distributors. As the Soviet Union decentralizes its economy, these rights will become increasingly important.

I would like to point out that this Agreement does not cover rights for U.S. investors in the Soviet Union. The Business Facilitation provisions apply to U.S. commercial representations. We are in the process of negotiating a bilateral investment treaty with the Soviet Union which will provide the better of national or most-favored nation treatment for U.S. investments, guarantees on profit repatriation and access to third party arbitration for dispute settlement.

TRANSPARENCY AND INFORMATION EXCHANGE

One of the major problems U.S. businesses have faced in trying to crack the Soviet market is lack of information. The Agreement attempts to address this problem by requiring timely publication of laws and regulations affecting commercial activity, and access to financial reports and other information helpful in selecting trade partners.

The Soviet Union has also agreed to encourage its organizations to publish directories of business organizations. Good directories of Soviet enterprises are currently nonexistent. Information of this type is crucial to U.S. companies as foreign trade authority as well as responsibility for raising hard currency and paying bills devolves from the Soviet Government to individual enterprises.

COMMERCIAL DISPUTE SETTLEMENT

The Agreement provides for national treatment in access to domestic courts and administrative bodies and also endorses the use of international third-party arbitration for the settlement of commercial disputes.

TOURISM

In addition to general provisions on business facilitation, the Agreement, in a side letter, addresses specific concerns over tourism. The side letter provides that each Party shall ensure that monopoly providers of tourism and travel-related services provide those services to businesses of the other Party on a fair and equitable basis.

This guarantee is especially important as the Soviet Union decentralizes. Traditionally, all tourism activities in the Soviet Union have been governed by one organization—Intourist. U.S. tourism and travel-related services providers found it extremely difficult to operate in the Intourist-dominated atmosphere. Having the requirement of fair and equitable treatment in place in advance of the development of new tourism enterprises will set the stage for their evolution.

INTELLECTUAL PROPERTY RIGHTS

One of the major advances in our trade relations with the Soviet Union stems from the intellectual property negotiations that took place in the context of the Trade Agreement. In these negotiations, the Soviet Union committed itself to provide strong protection for intellectual property including patents, copyrights, trade secrets, trademarks and industrial designs. Observance of these commitments has been monitored by the U.S.-U.S.S.R. Working Group on Intellectual Property that has already met twice to review legislative initiatives in both countries.

From the start, the Administration viewed the trade negotiations with the Soviet Union as an opportunity to set high standards for intellectual property protection bilaterally, complementing the efforts that were underway in the Trade-Related Intellectual Property negotiations (TRIPS) in the GATT. To this end, we sought to improve upon the requirements for intellectual property protection contained in Title IV of the Trade Act of 1974. Title IV requires that the country must be a party to the Paris Convention for the Protection of Industrial Property and the Universal Copyright Convention or provide the rights specified in these conventions and that the country must provide for the protection of industrial rights and processes.

The commitments made by the Soviet Union in Article VIII of the Agreement and the intellectual property side letters go far beyond these Title IV requirements. In the area of patents, the Soviet Union reaffirms its commitment to the Paris Convention, but also agrees to provide product and process protection for all areas of technology for a term of twenty years from the filing date or seventeen years from the date of grant. The only exception to patent coverage is for inventions that are materials useful solely in atomic weapons, since this category of inventions is not subject to patent protection in the United States. In addition to patent protection, the Soviet Union committed to negotiate a side letter on compulsory licensing for patents that will be incorporated into the Trade Agreement.

Significant commitments were also obtained in the copyright area. The U.S.S.R. agreed to introduce legislation necessary for it to adhere to the Berne Convention for the Protection of Literary and Artistic Works. It is already a member of the Universal Copyright Convention. Other copyright commitments include protection of computer programs and data bases as literary works and strong protection for sound recordings. Also, in keeping with the Trade Act requirements, an extensive section on the protection of trade secrets was included in the side letters.

Given the time schedule for the negotiations, the complexity of the issues addressed and the necessity for the Soviet Union to create a legal basis for private property, some important topics in the area of intellectual property were not resolved. However, these issues were included in the Agreement as topics to be addressed by a U.S.-U.S.S.R. Working Group on intellectual property. These issues include protection for products that were not patentable subject matter in the Soviet Union before the effective date of the law and that were the subject of patents in the United States or other countries and retroactive protection for copyrighted works.

Another important task given to the Working Group in the Agreement is the review of legislative activity. The Working Group has become a forum for an exchange of views during the development of the new Soviet intellectual property systems. In March 1991, U.S. experts spent six days with Soviet officials reviewing eleven draft Soviet laws and explaining U.S. intellectual property laws. Soviet experts were able to spend time with their counterparts at the Copyright Office and the Patent and Trademark Office, as well as meet with private sector groups.

The Trade Agreement commits the Soviet Union to introduce in 1991 the draft intellectual property laws necessary to fulfill the obligations contained in the Agreement and make best efforts to enact this legislation. Their progress to date has been remarkable, given the many other issues on the legislative agenda. On May 31, 1991, the Soviet Union passed a patent law and a trademark law, both of which became effective July 1, 1991. These laws, in our view, would, on their face, appear to provide adequate protection for patents and trademarks.

Although we have made progress in the copyright area, we have also encountered problems in the copyright area. In May 1991, the Supreme Soviet passed the "Fundamentals of Civil Law" containing a chapter on copyright that meets some, but not

all, of the Trade Agreement's copyright commitments. Similarly, some trade secret protection is contained in the "Fundamentals of Civil Law" but additional protection must be enacted before January 1, 1992 in order for the Soviet Union to fully meet their Trade Agreement commitments. In order to ensure that the Soviet Union meets these commitments in future legislation and is able to adhere to the Berne Convention, the Administration engaged in a series of high level demarches in June and July that culminated in a letter from Foreign Minister Bessmyrnykh to Secretary Baker reaffirming Soviet intentions to meet its Trade Agreement commitments.

Serious work also remains to be done on the enforcement of intellectual property rights. Penalties exist in the current statutes for infringement of copyrights but they are not sufficient to curb piracy of copyrighted works. These deficiencies, and the remaining commitments in the Trade Agreement in the area of copyright and trade secrets, were to be addressed in all-union legislation to be submitted to the Supreme Soviet in September 1991.

Due to the events in August, this timetable will now not be met. We are monitoring events in the Soviet Union to determine how legislation will be enacted in the future and whether copyright and other intellectual property issues will be union or republic responsibilities. We believe however, that the Soviet Union has committed itself to protect intellectual property, one of its principal national resources, and views this protection as a stepping stone to economic development and integration into the world's trading system.

FINANCIAL PROVISIONS

Because of the inconvertibility of the ruble, one of the first questions that any business asks in dealing with the Soviet Union is how will payment be made? The Agreement stipulates that unless private parties to a contract agree otherwise, all commercial transactions between Soviet organizations and U.S. businesses will be in hard currency. Further, the Parties are prohibited from placing restrictions on the export of convertible currency from their territories, as long as the currency has been obtained in an authorized manner.

U.S. nationals and companies are also guaranteed most-favored nation treatment with respect to opening and maintaining bank accounts in local currency; payments remittances and transfers of freely convertible currencies and financial instruments; and rates of exchange offered by financial institutions as a means of obtaining freely convertible currency.

U.S. businesses operating in the Soviet Union have sought the right to acquire rubles and use them in the Soviet Union to offset local expenses. Although the Soviets did not commit to this in the Trade Agreement, they have unilaterally accorded this right to all resident foreign businesses.

MARKET DISRUPTION AND SAFEGUARDS

As a result of the grant of MFN tariff treatment, we can reasonably anticipate an increase in imports from the Soviet Union. However, we do not expect that increase to be large at first because the column two duties we apply to the raw materials that currently make up the bulk of Soviet exports are already fairly low. Should an import surge that causes market disruption occur, however, the Agreement contains safeguard provisions consistent with the provisions of Title IV of the Trade Act.

We have agreed to consult when import increases threaten or contribute to market disruption. We also have each retained the right to unilaterally impose remedial measures, in which case the other Party may suspend equivalent benefits. The language in the Agreement reflects that in Section 406 of Title IV.

TEXTILES

In the textiles area, textiles products will be subject to the same most-favored nation tariff treatment as all other products. With respect to quantitative restrictions and market disruption, a side letter which is an integral part of the Agreement confirms that trade in textiles will be governed by separate existing or future arrangements. It also preserves the authority under U.S. law to restrain textile imports pursuant to Section 204 of the Agriculture Act.

EXCEPTIONS

The Agreement contains a national security provision which permits either Party to take any action for the protection of its security interests. General Exceptions to the Agreement track the general exceptions found in GATT Article XX, such as

measures to protect public health and safety, the environment and measures for the protection of intellectual property rights.

CONSULTATION AND IMPLEMENTATION

The United States and the Soviet Union have agreed to consult periodically to review the operation of the Agreement through the framework of the Joint U.S.-U.S.S.R. Commercial Commission which is chaired by the Secretary of Commerce and the Soviet Minister of Foreign Economic Relations. The JCC, which has been in existence since 1972, has been a useful channel of communication on business and commercial issues.

In addition to consultation through the JCC, the Parties have agreed to consult through appropriate channels at the request of either Party to discuss any matter concerning the implementation or interpretation of this Agreement.

As I mentioned earlier, we anticipate that these consultations, in addition to addressing specific problems in our bilateral relationship, will serve as a conduit for assistance from the United States in the continuing evolution of the Soviet economy toward a market-oriented system.

FUTURE COOPERATION

Recognising that the situation in the Soviet Union is changing rapidly, the Agreement contains provisions on fostering economic cooperation on as broad a base as possible, consistent with our mutual interests. In addition to the normal consultation Provisions of the Agreement, the Parties have agreed to consult on matters affecting the conduct of services industries with the goal of achieving maximum possible market access and liberalization.

TERM AND TERMINATION

After an initial term of three years, the Agreement is automatically extended for successive terms of three years unless 30 days notice is given prior to the expiration. It also may be terminated at any time upon 60 days notice.

U.S. LEGISLATIVE COMMITMENTS

In the context of the Agreement, the Administration, in a side letter to the Agreement, has undertaken a commitment to seek repeal of the legislative prohibition on the importation of Soviet gold coins into the United States. This prohibition is contained in the Comprehensive Anti-Apartheid Act, which also banned the importation of gold coins from South Africa. We will be presenting legislation to fulfill this commitment and ask that you give it your full consideration.

We also will be requesting the repeal of the Stevenson and Byrd Amendments which put a \$300 million ceiling on the amount of credits and loan guarantees to the Soviet Union. President Bush announced his intention to work with the Congress to repeal this ceiling once the Trade Agreement was under consideration by the Congress. In addition to hampering U.S. businesses, these amendments are directly related to the Soviet Union's obligations to repay \$674 million owed to the United States under the Lend-Lease program. The Lend-Lease repayment agreement and understandings concluded in 1972 make clear that the Soviet Union's repayment obligation is triggered when it receives most-favored nation treatment with respect to export credits and loan guarantees.

CONCLUSION

As you can see, the Trade Agreement with the Soviet Union is comprehensive, directly addresses specific current needs of the U.S. business community, and sets the stage for the development of future mutually-beneficial trade relations. I would hope that you would expeditiously approve this Agreement, so that we can begin to receive its substantial benefits as soon as possible. I would be pleased to answer any questions you may have. Thank you.

STATEMENT OF DONALD M. KENDALL

I want to thank Chairman Bentsen...and the rest of the Committee...for the opportunity to testify this morning. When President Bush sent the US-USSR Trade Agreement to Congress on August 2, we had no idea that the Fall Congressional hearings would focus on a dramatically changed Soviet Union. I can't think of a more timely or important hearing. I will read a summary of my more detailed statement. With the Chairman's permission...I'd like to enter the full statement into the record.

I come before you as a private citizen with over three decades experience selling Pepsi to the Soviets and Eastern Europeans.

Pepsi's very first introduction in the Soviet Union occurred 32 years ago...at the American National Exhibition in Moscow...when I convinced Nikita Khrushchev to drink a couple of Pepsi's.

Although Premier Khrushchev's "taste test" received worldwide publicity...it took another 13 years before we finally signed an agreement allowing our products to be sold in the Soviet Union.

At the time of that first agreement in 1972...the challenge facing American companies was exactly the same challenge we face today...how to take profits out of a country where currency can't be converted.

Our solution was to swap Pepsi concentrate for the right to distribute Stolichnaya vodka here in the United States.

That was the basis of our original agreement...and it's central provisions have remained in force since then.

Our latest agreement represents an estimated \$3 billion in retail sales of Pepsi and Stolichnaya Vodka during this decade. The number of Soviet plants producing our soft drinks will increase to 50 from the current 34. The most innovative provision in the agreement calls for the construction of a minimum of ten Soviet commercial oil tankers. These vessels will be sold or leased to international shipping concerns. Twenty-five percent of the foreign exchange credits generated by the ships were used to expand and modernize the bottling operations and to build two Pizza Huts in Moscow.

Today.. you can find a Pepsi plant in every republic within the Soviet Union. We sell nearly one billion bottles of soft drinks there a year.

Our products even played a role during the attempted coup. When President Yeltsin was defending the Russian Parliament building, his forces were sustained by 300 pizzas from Pizza Hut and 20 cases of Pepsi. President Yeltsin called the Pizza Hut manager and thanked him.

We have learned three important lessons in our three decades of dealing with the Soviet government and Soviet consumers. These three lessons probably have even greater relevance today...than in the past...as the Republics strive to become market economies.

First, we have learned to be patient. Negotiations take time and it takes years to show a profit. Yet the potential for profit is enormous. Consider that the Soviet Union has 290 million potential soft drink lovers. Having worked hard for over 30 years to develop a Soviet market for Pepsi, I think you can appreciate why I believe it is important to take a long-term view.

Second, we've learned to be creative. Like all American companies, we were faced with the challenge of how to repatriate the money we earned when the ruble couldn't be converted. We solved this problem by trading Pepsi concentrate for the right to supply Stolichnaya vodka from the Soviet Union and through the tanker leases and sales.

It's important to remember that we just sell the Soviets concentrate. They provide the sugar, water, bottles, bottle caps and labels. They handle production, sales and distribution. This system employs literally thousands of Soviet citizens and gives many Soviet entrepreneurs the opportunity to learn how to operate a successful business operation. It's hard to believe, but three years ago, the Soviet companies won our international regional quality control award. This is proof of the strides that can be made in operating within the Soviet economy.

Third and finally, we've learned to proceed with little or no help from our own government. For the past three decades, American trade policy has been subservient to foreign policy, to the detriment of all American companies. It's time for government policy to get in line with business reality.

But we've seen dramatic changes in the past weeks...and more changes are undoubtedly on the way.

Pressure has been mounting from some quarters for an infusion of economic aid into the Soviet Union. Following the attempted coup, these appeals reached a crescendo with the focus shifting to economic aid for the Republics.

But I don't think economic aid is the way to go. Our budget deficit has made hefty foreign aid packages impractical. And besides...no one has yet made a convincing case that a "Marshall Plan II" would work anyway.

But private investment does work. We have demonstrated that. It employs people. It creates wealth. It improves productivity. It brings the Soviet Union into the world market economy. Business to business relationships survive the shifts in governments.

In my view, the first plan of attack should be developed right here in the US Congress. There are several initiatives that can...and should...be taken by Congress to stabilize the US laws that govern how US business is conducted in the Soviet Union.

First...and in my view the most important initiative...is approval of the US-USSR Trade Agreement so that goods imported from the Soviet Union will receive most favored nation status (MFN). Critics say MFN won't matter. They argue that the ruble can't be converted. So our companies have to turn to barter. They say the Soviets don't have anything our consumers want. I say these critics underestimate the creativity of the "good ole" Yankee entrepreneur...as well as the emerging Republic entrepreneur. We should not underestimate the business opportunities that market forces are likely to create, as the Soviet economy evolves into a market-driven economic system.

Let me give you an example that shows first hand how we've worked with our Soviet partners to help them develop an infra-structure to expand their business.

When we first got into the vodka business, the typical manager of the distillery had only one accountability...he'd arrive in the morning, turn on the lights, and start the production line. Bottles, packaging, repair parts, etc. were the responsibility of "central planning". Over the past several years...because of perestroika...we have seen a remarkable change. The manager is now responsible for all aspects of the distillery, including exports, and gets "part of the action".

But this also means that he has many problems to solve. For example, to deal with periodic bottle shortages, he now sources bottles from Czechoslovakia. He also sources packaging and labels from Italy. He is able to sell vodka to other markets and is given discretion to reinvest a portion of the hard currency profits he generates through exports.

One distillery manager purchased several vans to transport his workers. And another bought warm-up suits and imported athletic shoes for his workers as an incentive. And another bought refrigerators and sold them to his employees at cost. It took years of hard work but these distillery managers are running a real business, including providing incentives to the workers to keep production going.

This is why MFN is so important. In order for US businesses to go to the Soviet Union and strike a deal, they need assurances that Soviet products will not be subject to discriminatory treatment...but rather...will be allowed to compete on an equitable basis with other imported products in the US market.

The US is the only major industrialized nation that does not have a normal trading relationship with the Soviet Union based on MFN status. The granting of MFN status is a modest, but important, step in assisting the Soviet Union in its quest for a market economy.

The second initiative I would like to see involves repeal of Jackson-Vanik. I know many members of this Committee support a one-year waiver. But I encourage you to go a step further and repeal the amendment altogether.

Only complete repeal can give American business the certainty to move ahead and explore creative methods of countertrade. With just a one-year waiver, there's always the uncertainty that exorbitant tariffs could be slapped back on. The threat of reimposition of Jackson-Vanik restrictions makes it very risky for companies to invest in the Soviet Union and this risk will discourage meaningful investment.

That is the reality of the business world. That's why I urge total repeal.

My third recommended initiative involves repeal of the Stevenson/Byrd amendments that limit Ex-Im credits to the Soviet Union to \$300 million. It is my understanding that the \$300 million in credits have already been awarded to US companies for projects in the Soviet Union.

My fourth recommended initiative is to permit the Overseas Private Investment Corporation (OPIC) to operate in the Soviet Union. OPIC can provide risk insurance that is crucial for US companies operating in the Soviet Union.

These legislative actions can take place now! They will send a strong signal to President Gorbachev, Republic leaders and the people of the Soviet Union that the United States is committed to helping them develop a market economy. The actions I have outlined today can be put in place in a short period of time...and with negligible cost to US taxpayers.

I want to mention PepsiCo's other business in the Soviet Union...Pizza Hut. We had the honor of Secretary Mosbacher opening the first Pizza Hut in Moscow in September, 1990.

Andy Rafalat, who got the first two Pizza Huts up and running in Moscow, has first hand knowledge about what it takes to supply a restaurant through the Soviet distribution system. Our ultimate goal is to have all the ingredients sourced locally. Later this month, Andy and his colleague Karl Nigl from Pepsi, will participate in a delegation led by Secretary Madigan to study the food distribution systems in the Soviet Union. Technical assistance to the Soviet Union is an area in which the government and business can cooperate.

The Soviet Union is one of the last untapped world markets. Recent events in the Soviet Union have resulted in confusion about what form the government structure is likely to take in that country in the future. No matter how the Soviet Union's political and economic structure ultimately evolves, the United States has an important stake in the outcome.

Trade can accomplish what tanks and guns and sanctions have never accomplished. It can change people's minds...and can keep them changed forever.

When Soviet teenagers sip a Pepsi or eat a pizza...they grow to want and appreciate all things Western. That includes freedom and democracy.

I've seen it with my very own eyes. That's why I don't want to see this new era of economic cooperation swept away in today's political crisis.

Mr. Chairman, thank you for the opportunity to testify here today. I will be pleased to answer any questions that you or your colleagues may have.

PREPARED STATEMENT OF JOHN J. MURPHY

Mr. Chairman, on behalf of the U.S. Chamber of Commerce, I would like to thank you for the opportunity to testify today on the proposed U.S.-U.S.S.R. Agreement on Trade Relations and its importance to the American business community. I am John J. Murphy, Chairman, President and Chief Executive Officer of Dresser Industries. I also serve on the Board of Directors of the U.S. Chamber, and it is in this capacity in which I am now testifying.

Several Chamber members, including Dresser Industries, now operate in the Soviet Union while many others have seriously considered business opportunities but have postponed such plans until the business climate, both here and in the Soviet Union, is more favorable.

U.S. CHAMBER POSITION

Since 1988, the U.S. Chamber of Commerce has advocated the normalization of trade relations between the United States and the Soviet Union, including the waiver of the Jackson-Vanik amendment to the 1974 Trade Act to pave the way for most-favored-nation (MFN) status, a cornerstone of normal trade relations between countries.

The Chamber strongly urges prompt congressional approval of the trade agreement. It represents the first step of many that should be taken over the next few months and years to put our economic relationship with the Soviet Union on its proper course for the future. It is unlikely that, by itself, mutual MFN status will result in an immediate increase in trade, as the Soviet Union neither has the hard currency to purchase new imports nor does it produce many goods which are in great demand in the United States. However, MFN is only one tenet included in the agreement. Additional provisions, such as protection of intellectual property rights and setting new standards for fair pricing of Soviet exports, will be of more immediate value and importance to American business.

In addition, approval of the trade agreement should be accompanied by progress in other areas that fall under the category of "normal trade relations" such as: (1) negotiation of a bilateral investment treaty, (2) updating the 1975 bilateral tax treaty, (3) further modification of U.S. and CoCom controls on transfer of technology to the new union and the republics, (4) congressional repeal of the Stevenson and Byrd amendments restricting Export-Import Bank financing, and (5) provision of OPIC non-commercial risk insurance coverage.

WHY A TRADE AGREEMENT NOW?

On August 2nd, when President Bush sent this trade agreement to Congress, who could have foreseen that a failed coup attempt, followed by independence movements in the republics and a series of sweeping democratic reforms, would take place all in the space of a few weeks? The Soviet Union as we knew it exists no longer. Moreover, the world has changed significantly in other ways since this trade agreement was signed 15 months ago. The need for this agreement is more pressing now than it was even three weeks ago, for three key reasons:

(1) Congressional approval of the trade agreement and MFN will send a powerful signal to the leaders of the new Soviet Union and the republics that we support their efforts toward democratic pluralism and free-market economics.

(2) The American business community needs the predictable and stable framework for trade that the agreement provides so that future business plans can be developed.

(3) This agreement will serve as a foundation for future agreements that may evolve with the new Union and with its component or affiliated republics.

It must be emphasized that, while Soviet policies have a long history of antipathy to business, U.S. policies have also contributed greatly to instability in past U.S.-Soviet commercial relations. The United States' tendency toward "light-switch" diplomacy in dealing with the Soviets in recent decades has confused both U.S. businesses and Soviet enterprises. The net result is that American business needs assurances not only from the new Union government, but also from the U.S. government, that stability and predictability will guide the formulation of trade rules, especially with respect to the sanctity of existing contracts.

BENEFITS OF THE TRADE AGREEMENT

The volume of trade between the United States and the Soviet Union has not been huge—totaling just over \$4 billion last year and consisting mainly of primary and agricultural goods. Approval of the trade agreement and extension of MFN status by themselves will not generate a dramatic increase in those numbers in the short term, particularly given the new Union's paucity of both hard currency and high-demand products for export, as already mentioned. Indeed, there are estimates that MFN status would generate only an additional \$150 million in Soviet exports to the U.S. in the next year. But extension of MFN status is an important symbol—the new Union would be on equal footing with our other trading partners.

It is also clear that in the short term the trade agreement will likely remain only a symbol for much of U.S. business as well. Trading with the Soviet Union will remain difficult and for most goods will require some form of barter or countertrade. However, in the long term, and especially if reform continues and currency becomes convertible, the new Union and its affiliates could become a vital market for American goods. In this way, the symbolic importance of extending MFN status now will prepare the way for what is likely to become a commercial relationship of great mutual benefit.

U.S. ACTIONS BEYOND THE TRADE AGREEMENT AND MFN

As I stated in my opening remarks, the trade agreement and MFN are only the starting point for any future economic relationship. The U.S. Chamber of Commerce believes that there are at least five areas in which Congress and the executive branch can move aggressively to develop trade and investment opportunities in the new Soviet Union. These changes would enable the United States to support economic reform in the region, while stabilizing further the environment for American trade and investment:

1. Conclusion of a Bilateral Investment Treaty

Negotiations have stalled on the proposed bilateral investment treaty with the Soviet Union over the issue of profit repatriation. It is imperative that negotiations on this treaty not be allowed to flounder in the wake of the restructuring now taking place. Adherence to the safeguards included in this treaty are key to future U.S. investment in the new Union. While the political reform movement there is appealing to American firms—even more now than prior to the coup attempt—it is vital that the U.S. government move aggressively by finalizing this treaty to secure and guide economic reform in the region.

2. Negotiation of a New Bilateral Tax Treaty

Now that there appears to be a Union structure—albeit a fairly loose structure—within which the central government and the republics will operate for the near future, we believe that preliminary negotiations on a new tax treaty with the new Union should begin as soon as possible. While it may not be clear how the new Union intends to collect taxes, the topic is likely to be an early agenda item in their discussions. This issue is of vital concern to American business.

3. Export-Import Bank Financing and Guarantees

The Chamber strongly urges repeal of the Stevenson and Byrd amendments that limit U.S. Export-Import Bank credit and credit guarantees to the Soviet Union. This area is of particular concern to the American energy industry, especially petroleum and other fossil-fuel companies, as well as their suppliers. The U.S. Export-Import Bank—which in fact was established in 1934 to help U.S. companies sell to

the Soviet Union—should again play its intended role in this strategically important market.

4. *OPIC and Other Investment Guarantee Programs*

Congressional approval of MFN will enable the Overseas Private Investment Corporation to set up shop in the new Union, possibly with separate coverage for individual republics. OPIC can provide a crucial source of financing and non-commercial risk insurance not readily available from commercial institutions.

5. *Export Controls*

Having recognized the Baltic nations' independence, the U.S. must in fact set them apart as sovereign nations in developing criteria for the imposition and maintenance of export controls. In addition, in order to achieve a thoughtful and comprehensive review of U.S. export control policy, the Chamber favors a simple extension of the Export Administration Act and establishment of a blue ribbon national commission, consisting of representatives from business, academia, Congress and the executive branch, to develop recommendations for a new export control system. Such a system should be effective, enforceable, and consistent with U.S. needs in an increasingly competitive world economy and national security requirements that are increasingly economic in nature. The U.S. should also develop and forward immediately proposals to CoCom to permit the export of equipment and technology necessary for the Baltics to meet their infrastructure and industrial development needs.

MULTILATERAL ACTIONS

The movement to democratize the former Soviet Union must be considered at risk until the economy of the region shows significant progress. The political and governmental reforms now underway will not, by themselves, get their economy moving and may, in fact, cause further economic hardship in the short term. To the extent the economic difficulties of daily life increase, the entire process of political and institutional reform will be placed at risk.

Given the large population base and immense geographic area involved, the only possibility of moving the new Union's economy toward health and stability is through large-scale projects, targeted at critical sectors such as highway infrastructure, housing, energy, and consumer goods. These project needs are so large that individual companies and countries will face enormous difficulties in managing them. While individual companies will make their own decisions on the economic viability of these projects, without some type of expanded political-risk insurance coverage, it is not likely many of these large scale projects will get underway in the near future.

Serious consideration should be given to establishing a multinational non-commercial risk insurance fund modeled after the Multilateral Investment Guarantee Agency. Such a fund should be backed by the G-7's official export-insurance agencies of the G-7 countries, plus Soviet contributions in the form of gold or other assets held in escrow offshore. This insurance fund should be designed to provide coverage of the non-business risks involved, so that private companies can proceed with confidence to do what they do best. Absent such coverage, the prospects for new investment in the Union's economy seem dim.

The question of currency convertibility also is a major impediment to economic progress. In this area as well, the G-7 nations should work closely with the appropriate Soviet authorities to devise a multinational approach to this problem. It is clear that the Soviets, either collectively or as independent republics, will not be able to establish a convertible currency by themselves. The Bretton Woods initiative was essential to establishing a secure Western currency system after World War R. A comparable system, based on G-7 participation, is now appropriate at the end of the Cold War.

The G-7 group of nations has much to gain by seeing economic recovery in the former Soviet Union lead to a stable, democratic government. They also have much to lose should the reform movement fail.

PRIVATE SECTOR ASSISTANCE TO THE NEW SOVIET UNION

The new Union will need considerable assistance from the private sector in order to follow through with the massive reform mission it must accomplish. U.S. government assistance can take the form of technical assistance and humanitarian aid. However, American companies also have a role to play, not only through increased trade and investment, but also through training their workers, managers, and suppliers in the day-to-day basics of market economics. Thus, organizations such as the U.S. Chamber of Commerce can and will play a role in building new business to

press for further economic and political reforms. Ultimately, it will be the private sector that will usher the former Soviet Union into the international economy. The governments of both the new Union and the United States should as a general policy seek to facilitate, rather than restrict, private-sector involvement.

THE BALTIC STATES

The Chamber has long supported the independence of the Baltic states—Estonia, Latvia and Lithuania—and welcomes their recognition by both the U.S. and Soviet governments. Negotiations should begin as soon as possible—and should be completed swiftly—to update our pre-World War II bilateral trade agreements with each of these countries so that their MFN status, suspended in 1951, can be restored.

CONCLUSION

At this crucial juncture in history, the United States has an opportunity to take a leadership role in the extraordinary events taking place in the new Soviet Union, and to take several actions helping to assure the success of the various reform movements—a success which will redound to the benefit of the United States, the Soviet Union and the international economy. Specifically, the U.S. Chamber of Commerce urges your approval of the bilateral trade agreement and MFN extension, as well as timely consideration of the several other steps recommended herein.

PREPARED STATEMENT OF AMBASSADOR GUENNADI I. OUDOVENKO

Territory—size of France or larger than Poland, Czechoslovakia and Hungary combined.

Population—51.8 million (18 per cent of the population of the USSR).

Economy—diversified industry, rich agriculture, high education level etc. Potentially—7th largest economy in the world.

Historically, Ukraine has been viewed as the “breadbasket” of the Russian Empire and of the Soviet Union. Today Ukraine produces 33% of the meat, 50% of the sunflower seeds and 60% of the sugar beets in the Soviet Union.

On the industrial side, Ukraine is the original “rust belt” of the Soviet Union with substantial output of iron ore, coal and steel. Today, this translates into 50% of the iron ore, 25% of the coal, 45% of the cast iron and 37% of the steel of the whole Soviet Union. These resources created the foundation for a large machine tool industry and heavy machine fabrication industry. For example, 96% of all Soviet locomotives are produced in Ukraine. Ukraine also has a well developed chemical industry although its own oil resources which were relatively rich in the past are now exhausted.

Building on a very strong academic base in Kiev and in a dozen other major cities, Ukraine has also distinguished itself by Soviet standards in areas of electronics, medicine and similar modern industries.

Politics: Ukraine is a founding member of the United Nations and has a long history of aspirations for independence. The major events in Ukraine’s modern history should be mentioned: the proclamation of State sovereignty by Ukrainian Parliament in 1990 in both political and economic terms and the adoption by Verkhovna Rada (Parliament) of the Act of Independence of Ukraine on 24 August 1991. In the preamble of the Independence Act it is underlined that the Parliament was stemming from a deadly threat represented by a recent coup in the Soviet Union continuing a thousand-old tradition of state creation in Ukraine, proceeding from the right to self-determination envisaged by the UN Charter and other international legal documents.

This major act, subject to approval by the will of the entire Ukrainian people, will help rally our society for protecting its democratic gains, fill the newly proclaimed sovereignty with effective substance and build a law-governed state which will protect above all universal human values and interests of each individual. Indeed I want to reassure that we are on a steady democratic course.

Ukraine is committed to defend individual human rights, human rights in general and minority rights in particular. There have been no ethnic conflicts in Ukraine, which characterize many other regions and republics of the Soviet Union and the democratic movement has from the beginning stood united in the name of all residents of Ukraine, including its Russian, Jewish, Polish and other minorities.

Ukraine stands for peaceful and controlled transition of power in the Soviet Union.

Treaties with the Russian Federation and other republics are intended to create a responsible transition from central control to republic control regarding defense and existing trade ties.

In the *international relations* Ukraine, as a subject of international law, wants to maintain direct relations with other States, conclude treaties with them, exchange diplomatic, consular and trade missions and take part in the work of international organizations to the extent necessary for the effective guarantee of the national interests of Ukraine in the political, economic, ecological, information, scientific, technological, cultural and sporting spheres.

Ukraine shall conduct itself as a fully-fledged participant in international life, actively promote the strengthening of world peace and international security and take a direct part in the all-European process and in European organizations.

To sum up the principal political goals of Ukraine—it has the intention to become permanently neutral State, taking no part in military blocs and holding to three non-nuclear principles: not to accept, produce or acquire nuclear weapons.

Ukraine is prepared to transfer strategic nuclear weapon from its territory.

To achieve all above mentioned political goals and commitments Ukraine needs to develop a solid economic structure.

Ukraine is committed to economic reform. We also know that the existing system has failed and that it must be changed. Legislation on private ownership, foreign investment, banking, etc. is already on the books and is being refined. Efforts to introduce a separate currency and border controls are driven not by a desire for parochial isolation, but by a desperate need to protect Ukraine from uncontrolled printing of huge quantities of worthless rubles by the central government. Ukraine will trade with everyone and has signed bilateral trade agreements with all republic in recent months.

Ukraine admires that it still has much to do to mobilize the full potential and enterprise of its own people and its own resources, but we are committed to do so and are taking many concrete steps in the legislative sphere and in terms of creating incentives for private initiative. We believe we can succeed, but direct contact, one-on-one with the outside world is important to the real integration of Ukraine into the world economy.

And of course this process would be much facilitated by the assistance programs of the United States and other developed countries.

What kind of assistance does Ukraine need

Ukraine's major needs for assistance fall into the following categories:

(a) *Food supplies.* The acuteness of the food situation in Ukraine can be illustrated by quoting our Prime Minister Mr. Vitold P. Fokin, who said recently that out of needed 17 millions of tons of grain, Ukraine will have this winter only 6.5 millions of tons;

(b) food processing and storage;

(c) environmental clean up, including the problem of elimination of the consequences of Chornobyl Accident. Perhaps, the problem of Chornobyl should be addressed separately, because of its grievances. Cloud from the Chornobyl explosion is casting shade on every segment of life in Ukraine, endangering the most precious we have—our children and the very genes of Ukraine;

(d) banking infrastructure;

(e) revitalizing "rust belt" type industries and redirecting them and their workers into more productive endeavors.

All of the above can be addressed via a combination of:

Technical programs from the United States and other developed countries.

Foreign private investment into relevant sectors where profit opportunities are promising.

Better mechanisms in Ukraine (and in other republics) to direct and administer foreign assistance, to attract foreign investors and to nurture local private enterprise.

During conversations in Kiev with the leaders of Ukraine, President George Bush was told about the Ukraine's stance on the vast spectrum of today's political life and economic development.

The possibility of promoting mutually advantageous economic cooperation between Ukraine and the United States were discussed also.

These are few concrete proposals of Ukraine that could be immediately addressed

—The Trade-and-Economic Cooperation between Ukraine and the USA may readily be facilitated provided the US Administration grants the most-favored

nation treatment to Ukraine as subject of International Law, and the exchange of Trade Agencies is effected.

- Ukraine, in its turn, will undertake to grant the American firms the rights to realize consumer goods on the Ukrainian market for local currency with subsequent investment of a portion of its profits in creation of joint ventures in Ukraine.
- The Government of Ukraine will render assistance to any agreement to be concluded between enterprises and amalgamation and American partners about purchasing process lines equipment, technologies and licenses on the compensatory-payment basis, that is by supplying final products, manufactured at the equipment purchased, to the USA or the third countries given a consent of the American party.
- Ukraine would use the American investments of up to 5 billion dollars to be granted on preferable terms, with the Ukrainian National Bank and appropriate Ministries acting as guarantors. Creation of a Jointly-Operated Stock Commercial Bank would greatly facilitate the affective realization of these investments.

The Government of Ukraine is ready to denationalize up to 30 coal mines in the Czechoslovakia region, the metallurgical integrated works "Zaporozhstal," automobile plant and some other industrial enterprises for them to be reconstructed and run thereafter as stock companies along with the American investors.

It seems expedient to create the Ukrainian-American Association "Trade House" in Ukraine and a network of joint stores to sell Ukrainian national goods in the regions the Americans of the Ukrainian origin dwell in.

Ukraine proposes cooperation in the following fields

Construction

1. Organization of the production of window and door frames from the PVC-based compositions using the domestic basic materials and on the basis of the American know-how, annual output approximating to 1.0 million sq.m.
2. Organization of the production of bitumen tile on the basis of the American technological equipment.
3. Participation of the American firms in the construction of International Business Center in Kiev. They are expected to supply the equipment including the telecommunication systems hardware for the Center to be equipped with.
4. Creation of joint ventures for construction and stock companies for operation of the high-rank hotels to accommodate and cater foreigners.

Food and Foodstuff Processing Industry

1. Purchasing the technologies and equipment for integrated processing of agricultural products and reduction of losses in storage.
2. Creation of joint ventures in the following fields: Few facts about Ukraine:

processing the corn and soy seeds;
 production of sausage coats;
 production of jellifying substances;
 production of food fibers;
 production of packing materials and trade equipment;
 production of cigarettes;
 processing machine building.

Light Industry

1. Re-equipment and modernization of the enterprises producing threads, yarns, fabrics, leather products, synthetic and man-made materials.
2. Production of clothing, knitwear, hosiery, haberdashery and footwear on the production-and-technological cooperation basis.
3. Creation of joint ventures to manufacture the equipment for textile, footwear, knitwear and clothing industries using the potential of the enterprises to be converted and those to produce starting materials for light industry and to process the wastes of the leather, footwear, fabric and knitwear industries.

Mass Media

1. Organization of the joint production of popular-science documentary, cartoons and motion pictures to be televised in the USA.

Subject to the will of both of our parties, the first Ukraine-US trade agreement could be signed during the forthcoming visit of the Chairman of the Verkhovna Rada of Ukraine Mr. Leonid M.KRAVCHUK to the United States later this month.

And at last but not least I would like to try to answer the question which is frequently raised:

Why bilateral or multilateral aid should go to the republic rather than to the Center

(a) Because this reflects the new political structure. All republics have declared their sovereignty and intend to pursue their own economic policies. This is only natural and appropriate because different republics are at different levels of development and different republics have different degrees of psychological receptivity to the traumas of transition to market economy structures. Aid through the center would only serve to prolong the life of the same inefficient centralized bureaucracies which all the republics have fought so hard and so long to dismantle.

(b) Because the republics are more intimately aware of their particular needs. To impose from above a single solution or "vision" for the economy on all of the republics would not only be undemocratic, but also inefficient and costly in the long run. For example, some republics including Ukraine may need food aid, but Ukraine, may have a more pressing need in areas of technical assistance.

(c) The type of aid that is most needed requires very localized application.

—Where food is needed, it is needed in certain counties or cities or in specific institutions such as hospitals or old age homes.

—Key transportation and distribution bottlenecks will not be reduced short term by union-wide schemes but by a very targeted program to build farm to market roads and storage facilities in a limited number of key areas.

(d) Giving aid directly to republics does not require huge missions in every republic. Republic representatives will agree to meet and coordinate their particular needs. You will want to encourage republics to do their homework. Dealing directly with each republic will not only help eliminate one level of middle men, it will also place responsibility on each republic as recipient of the aid to use it more efficiently.

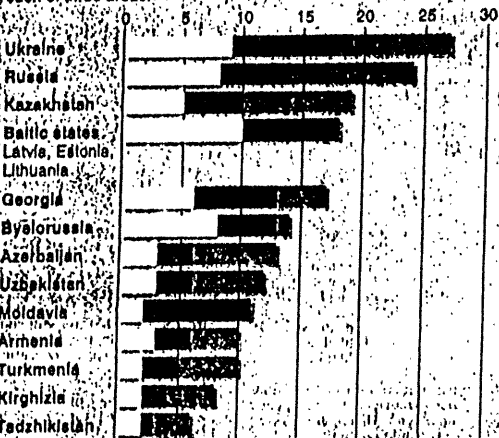
At the end of my statement I would like to point out that recent changes in the Soviet Union are events of historical significance—partly in terms of the global strategic balance, but more importantly in terms of opening a huge part of the world to a process of democratization and privatization. Part of this process is taking responsibility for ones own destiny and ones own actions. This responsibility should apply as much to receiving foreign economic aid as it does to developing our own economic and political future.

Attachment.

SOME ECONOMIC INDICATORS FOR
UKRAINE**The Wealth of the Republics:
One Bank's View**

Deutsche Bank's ranking of each republic's potential in 1991, from a score of 10 for good potential to 0 for no potential in each of three areas.

Degree of Industrialization
Agricultural production
Mineral resources



Source: Deutsche Bank, economic department

The New York Times

Table 1

Production Per Capita

	Ukraine	Germany	France	Italy
Oil (Kg)	104	60	60	80
Gas (Cu. m)	607	26	59	302
Coal (Kg)	3400	3900	2390	2600
Steel (Kg)	1060	691	344	430
Cement (Kg)	454	489	469	690
Grain (Kg)	1033	445	1058	295
Potatoes (Kg)	378	118	85	42
Meat (Kg)	115	96	112	63
Milk (Kg)	469	450	519	204
Sugar (Kg)	118	50	67	18

Table 2

Degree of Preparedness for Sovereign Economy

	Ukraine	Baltics	Russia	Caucasus	Belorussia	Moldavia	Central Asia
INDUSTRY	9	10	8	4	8	2	3
AGRICULTURE	10	8	6	4	5	9	3
RAW MATERIALS	8	0	10	5	1	0	4
MARKET	3	10	2	6	3	5	1

GENERAL INDEX OF PREPAREDNESS	7.5	7	6.5	4.8	4.2	4.0	2.8
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Source: Deutsche Bank

UKRAINE'S MAJOR CITIES &
20th CENTURY POLITICAL
BOUNDARIES IN THE WEST



POPULATION KEY

- 50,000 - 100,000*
- 100,000 - 250,000
- 250,000 - 500,000
- ▲ 500,000 - 1,000,000
- Over 1,000,000

--- Border with Austro-Hungarian Empire (Until 1917)
 ——— Border with Poland until German invasion of Poland (1939)

* Population figures apply to all cities except Chornobyl

PREPARED STATEMENT OF SENATOR JOHN D. ROCKEFELLER IV

Six weeks ago most of us here had serious reservations about providing assistance to the Soviet Union because of the uncertain commitment of the Soviet government to genuine economic reform.

Today, the need for caution remains, but the political transformation that is occurring makes a real economic transformation much more likely. And it makes our role in facilitating it all the more important.

We have to care about what is happening in the Soviet Union for one important reason close to home. We already find ourselves moving rapidly into a world of global markets and widely diffused production. A nation's ability to sustain a wholly domestic industry with its own national standard of performance is vanishing. In this new economic world, depth and breadth of market share will be the key to survival. Failure to gain a foothold in many national markets will be fatal, as consumers gravitate toward the larger producer and more commonly accepted standard. If we cannot capture a market, we not only lose it to our competition, but we risk surrendering our ability to compete globally.

Thus it is self-interest that propels us into this untapped market in Eastern Europe and the new republics. Our failure will mean gain for our European or Japanese competitors, and it will affect our competitive strength throughout the world.

I had hoped by this time the President would be prepared to lead. To tell the American people what kind of a world he envisions and what our role in it ought to be. Instead he has chosen the passive role of letting the good news of Communism's death roll in and watching his rating climb in the polls.

Unfortunately, it will take leadership to make American business and industry part of the solution in Eastern Europe. Our businesses must go to the republics and negotiate vigorously, but they will get their with our government's help. We must back them up with a trade agreement, MFN status, export financing assistance and fewer obstacles to technology transfer. The Cold War will not be over in anything but name until we are prepared to end our technological discrimination against these countries. And we will not have truly won it unless we are helping to shape the future economy in this part of the world.

Some part of our effort will involve assistance—certainly on an emergency humanitarian basis and quite likely for the long term as well.

One problem will be to find the money in the face of our great domestic needs. That will be difficult, but not impossible. Others have made a number of proposals already, most of them involving the still-too-large defense budget. But many needs can be met without cash—by providing Western experience and knowledge from our people willing to give their time and talent to this cause. But it will take government leadership to find those people, define the mission, and mobilize them to participate.

We must also challenge our allies, particularly Japan, to help. They have much to gain both economically and politically from this new world, and we are in a position to convince them to take the risk.

The major remaining problem—and it is a large one—is to send our help to the right people and insure it is used for the right purposes. Today that is impossible. Appropriate structures do not yet exist, and procedures have not been developed in the republics to use assistance wisely. But the events of August have accelerated that process dramatically. Timely assistance on our part can help the democratic, market-oriented forces there craft effective structures.

This is the test of leadership: our ability to anticipate events and by doing so, to shape them and influence their outcomes. The alternative is to sit back and react to events, as we have been doing. That is the easiest course, particularly when the news is good. But it won't be long before the news turns bad, as winter arrives and these newly independent peoples begin to deal with the economic disaster Communism has left them.

We are fortunate to live at a time when we can witness the end of one chapter of human history and the beginning of another. The world we have known our entire adult lives is gone, but the next chapter remains to be written.

The burden of that writing inevitably falls on those directly involved—the citizens of the rapidly vanishing Soviet Union. But while they must be the architects of their new society, they need not build alone. Indeed, without Western tools they not be able to build at all.

Thus the burden is also partly ours. We must find a way to meet that challenge and turn it into an opportunity. An opportunity to create a free and prosperous society where none has existed for centuries. And in the process an opportunity to

cement the peace between long time adversaries so that we can both devote our resources to economic development rather than military armament.

We should heed the call of history and seize the gift of time and opportunity we have been given. It is a rare generation that receives it and an even rarer one that knows what to do with it.

STATEMENT OF DIANA BIELIAUSKAS VIDUTIS

Mr. Chairman, esteemed members of the Senate Finance Committee, it is a great honor for me to come before you today. My name is Diana Bieliauskas Vidutis. I am an American national, and Chief of Staff at the Lithuanian Embassy.

Regrettably, Ambassador Stasys Lozoraitis, who had hoped to testify today on Lithuania's behalf, was suddenly called by the President of the Security Council of the United Nations to take part in a meeting today during which they would vote on Lithuania's admission to the United Nations. We have been assured that a recommendation will be transmitted to the General Assembly and that the independent nation of Lithuania will be admitted into the United Nations.

Please accept our sincere apologies for Mr. Lozoraitis' not being able to testify today as he had wished. The very notion, however, that a Baltic ambassador could not appear at a congressional hearing because he had been called to the United Nations on pressing business is testimony to the steadfast support of the U.S. Congress throughout these past 51 years of Soviet occupation.

I hope that this support will continue as Lithuania rebuilds its economy and reenters the world marketplace. In the 1920s and 30s, during its years of independence, Lithuania was a flourishing market economy with close ties to the West, as evidenced by this book of statistical abstracts from 1923 with a Ford advertisement on its cover. It was a multifaceted, varied, self-sufficient economy with significant import and export traffic.

Lithuania would like to regain and enhance the stature it enjoyed in the world economy prior to Soviet occupation. Most Favored Nation Status will encourage our investors and nascent entrepreneurs to explore the American market, and I hope that America will also look to Lithuania and the other Baltic States as a gateway to Russia and Europe. Allow me to assure you that we are totally open to free trade with our neighbors to the East as well as our neighbors to the West.

The Government of Lithuania is moving rapidly to establish the trade, banking and tax laws that will facilitate Lithuania's reintegration into the world economy. These include a convertible currency, laws on privatization of property, laws on repatriation of profits for foreign investors, and price reform.

Secretary of State Baker will be in Lithuania tomorrow where we understand he will be discussing economic issues and possible trade agreements with our government. Mr. Lozoraitis will be happy to provide the Committee with an extensive written statement giving an overview of the economic situation in Lithuania following this visit.

In conclusion, I would like to reiterate Lithuania's appreciation for your unswerving dedication to the issue of Baltic independence for the past 51 years. Most Favored Nation status not only impacts our countries' economic relationship but also opens doors to enhanced communication between our peoples. I assure you that we look forward to an active and mutually productive relationship with the United States. Thank you.

COMMUNICATIONS

STATEMENT OF THE AMERICAN ASSOCIATION OF EXPORTERS AND IMPORTERS

I am Eugene Milosh, President of the American Association of Exporters and Importers (AAEI). Previously, during the rise and demise of Detente, 1973 through 1980, I was Vice President of Operations for the U.S.-U.S.S.R. Trade and Economic Council and was directly involved in international market development in Eastern Europe and the Soviet Union with Union Carbide Corporation for twelve years.

I am submitting this statement today in my capacity as an Officer of AAEI to briefly describe the Association's position regarding extension of MFN status to the Soviet Union and Baltic republics as well as to offer my perspectives of the U.S.-Soviet trading relationship.

Rapid and stunning events have taken place in the Soviet Union, fostering economic and political reforms, decentralization, ethnic nationalisms and differing degrees of independence in various republics. Clearly, the process of convulsion against the past has taken on a momentum of its own and is irreversible in the near term. However, during a transition to an unfamiliar market economy, there is a danger that dislocations already occurring will lead to economic hardship and social unrest which could undermine the entire region. Characteristically the Russian empire has expanded and contracted over the centuries and during periods of strife and economic upheaval has had a history of fragmentation during which national, ethnic, cultural, religious and territorial rivalries have prevailed.

It is in the interest of the United States and Western nations to collectively insure a successful transition in the Union of Republics and Baltic nations by offering a variety of assistance measures. It is important to keep in mind that assistance in the form of aid and loans can only be temporary and serve as a bridge. Ultimately, in order to revitalize their economies, the new countries must restructure, regain their industriousness and become self reliant through free enterprise. In essence, they have to develop trade based on the ability to export in order to service loans as well as to pay for purchases of much needed equipment and raw materials. For this potential to become a reality, Western policy agendas must be implemented in four basic areas—financial aid in conjunction with reform, U.S. import liberalization, energy development assistance and emergency food relief with support for its distribution.

FINANCIAL ASSISTANCE

It now appears that basic humanitarian relief, medical supplies, emergency equipment and fuel will be needed to help the current leadership in getting through the winter. This relief will not be necessary for the entire economy but limited to pockets of poverty and isolation caused by an inadequate distribution system and production imbalances. Reliance on market forces will not alleviate this situation, and in fact, command decisions will be required. For this reason, a multilateral response closely matching actual needs with equitable distribution of supplies as warranted. Measures must be included to avoid black market diversion and corruption in the distribution process.

Beyond emergency assistance, there are suggestions for providing the Union of Republics with massive credits and loans both directly and through the World Bank and IMF for rebuilding the failing infrastructure within the republics. Recently Congressman Gephardt and others have suggested the U.S. commit \$3 Billion annually for the next four to five years and tie the package to general reform such as currency convertibility and privatization, but with an undefined time or requirement schedule. I would only suggest that it may be premature to talk in terms of these large sums when the State Council, the top emergency decision making body in the Union, does not have a dedicated Chairman for Economics to run the econo-

my. Also disturbing is the thought that international bankers and economists often make decisions based upon political criteria and institutional drive rather than as businessmen. Loans and aid should be tied to realistic commercial infra-structure and environmental projects with defined goals for growth and export potential as well as to the willingness of the new republics to be flexible in adopting Western methods and commercial practices. The reform, to some degree, must precede extension of large credits. A pragmatic example of the problems of reform and its impact on business decision and competitiveness can be demonstrated by the dilemma of what the State Council and republics will do with just one component of the Ministry of Chemicals Industry. Currently it is operating as a lumbering giant in a void. For instance, how will the soap and detergent sector be restructured? Will it be privatized or semi-privatized (as by a Proctor and Gamble or Colgate Palmolive), operating across republic territories, or will it be dismembered into separate companies in each republic with little or no commercial coordination? The problem is further complicated because in the past, plant location in the Soviet Union has not been handled with any sense of market location, distribution or operating efficiencies in mind. For this reason analyzing a loan for a soap and detergent project becomes very difficult until a detailed restructuring plan is known and in place. Since the State Bank will be phased out, the problem is further exacerbated by an undefined banking/financial system. Traditionally banks play a major role in risk analysis and offer import/export trade financing to enterprises and project loans. The yet undefined structure will take time to establish, perhaps six months to a year, and will depend on emergency political decisions expected over the next four to six weeks. Therefore, the immediate technical assistance envisioned to help organize an infra-structure comprising a financial system, road and rail transportation, etc. essentially becomes government to government in nature. For this reason Congress must assume a more active role, insisting on accountability as it appropriates billions of dollars to well meaning international financial institutions, to avoid the problems of the past.

On a more direct basis, the United States should be prepared to repeal legislation restricting Export-Import Bank financing and give permission to OPIC to operate in the new Baltic republics and Union republics enabling project type loans to be offered to the newly established republics. For this program to be meaningful it will be necessary to repeal the Stevenson amendment that limits U.S. government sponsored credits to \$300 million over a four year period. Clearly, as reform continues, there will be enormous potential for U.S. industries to participate in rebuilding major sectors of the Union and Baltic economies, including transportation, communications, energy, chemicals, consumer products, forest products, agriculture and food, etc., which in many cases will require conversion from military production to the civilian side—a move in the right direction.

TRADE LIBERALIZATION

A. Most Favored Nations Status

In the early seventies AAEI formulated a policy opposing adoption of the Jackson-Vanik amendment on the grounds that it represented confusion between trade policy and foreign policy goals. AAEI has consistently opposed the use of withdrawal of Most Favored Nations Tariff treatment and other hostile trade measures as an improper approach to the solution of political problems.

We have taken this position because unilateral trade sanctions rarely work effectively, and in most cases injure the United States economy, which is so dependent on international trade—especially in agriculture and more sophisticated products which are the first to be targeted for retaliation resulting in the loss of overseas markets and investment opportunities to competitors.

In the case of Jackson-Vanik there is no clear parallel or consistent linkage between trade volumes, tariffs and emigration. Rather, other factors contribute to Soviet emigration policies, such as their internal economic situation, standard of living, unemployment, and fears of crippling losses due to emigration of some of their best scientists and managers.

Addressing those who believe that the Jackson-Vanik withdrawal of MFN treatment was correct policy, we say that the wave of emigration permitted by the U.S.S.R. should entitle that country to a waiver in the most propitious manner possible and should be granted simultaneously with our recognition of the special status of the new Baltic nations. Legislation enabling this transition has already been introduced.

Any further humiliation of a government floundering on a sea of troubles is not in our long term interest of supporting those whose policies advance the cause of

peace and offer reductions in mutual military threat and high levels of defense expenditures. As a practical matter, given the slim possibilities for a major expansion of U.S.-Soviet trade, perhaps \$200 million, the granting of most favored nation tariff treatment is hardly significant. Yet this symbolic act will be a contribution to the stabilization of a very dangerous situation within the "economic space," and could assist the Baltic nations to begin trading on an equal footing. In this sense the Baltic nations have a unique opportunity to become a Hong Kong for the new republics providing international trade services and a gateway to the East, particularly if the republics falter in the progress of their economic reform. Other reasons for this special position is a manufacturing base in textiles, consumer electronics, paper and household appliances, products impacted by column two tariff rates. In addition to a more Western business and work ethic, a long standing relationship with the Nordic, and Finnish nations will stimulate trade development. Therefore, if passage of the U.S.-Soviet trade agreement extends beyond this year, the Administration and Congress should consider an expedited MFN authorization for the newly recognized Baltic countries.

B. General System of Preferences

It was just one year ago that AAEI suggested the extension of GSP benefits to Czechoslovakia, Poland and Hungary. One year later we are pleased Congress and the Administration have extended these benefits to most of Eastern Europe via the Trade Enhancement Initiative for Central and Eastern Europe. Now it is time to consider the same accommodation for the new Baltic nations to reclassify the Baltic nations so that they will not be hampered by restrictions originally imposed on the Soviet Union.

A strong U.S. Generalized System of Preferences (GSP) is a prime asset to the United States. Motivated by enlightened self-interest, the European nations, Canada and Japan, have their own GSP programs. The international system of burden sharing, represented by the various generalized preferential schemes of donor nations, is a vital part of an equitable system of international trade and of aid to third world progress. GSP countries, as a group, purchase from the U.S. nearly 40% of total U.S. world-wide exports. GSP earnings have helped them pay for the U.S. exports—and today the healthiest segment of the U.S. trade balance is with the GSP beneficiary countries. While the net effect may be to increase these exports incrementally, providing GSP benefits to the Baltics also symbolizes a willingness to help during a difficult economic transition. It may be early to consider uniform application of GSP benefits to other Union republics due to the political transition underway and their immense differences, the newly recognized Baltic nations are well situated for GSP consideration. As a first step, the Administration could provide assistance in expediting application and preparation of GSP petitions.

C. Quotas

One of the most effective methods of improving a country's economy is the development of industries that have a real and immediate export potential. While many industries require time to tool up and modernize, more often quick export results can be realized by increasing or redistributing quotas on products such as textiles and apparel, steel, foods and other import sensitive goods. The President has the authority to increase quotas under Section 204 of the Agricultural Act of 1956, but because of the political nature of quotas, would require support from Congress. In this regard, the Baltic nations should not be grouped with any previously established Soviet quotas.

D. Export Controls

As to export controls, the Association has felt that there has been an exaggeration of national security requirements and inadequate appreciation of third-country availability of U.S. banned products. The Baltic states, we believe, should receive the same degree of freedom to import high technology as we are in the process of granting for Poland, Czechoslovakia, and Hungary with the same requirements for protection against transshipment or diversion of end-use. For whatever new government which may evolve among the remaining portions of the former Soviet Union, there is very little which can be said during this period of uncertainty. Our goal is a transition to an effectively functioning economy in a democratic society. To achieve this, the West must be willing to provide it's highest technologies compatible with our security requirements, including protection against proliferation of nuclear, chemical and biological warfare capabilities.

ENERGY DEVELOPMENTS

In my opinion the primary reason for the collapse of the Soviet Union was the failure of the centrally planned economy also characterized by a stinting of individual incentives and politically oriented managers. The second reason was the catalyst of "Glasnost" credited to both President Gorbachev and former Foreign Minister Shevardnadze. Glasnost permitted self examination, a feeling of new found freedom, communication with the outside world and appreciation for historical roots of a multi-national empire. The third reason, equally important in terms of economics was the plateauing of Soviet energy production. Combined with basic flaws in a centrally planned economic system, actual production of energy related products and other downstream products have been in a decline of 5 to 10 percent over the last three years and are projected to decline further in 1992, with basic fuel imports forecast. It is interesting to note the energy decline was predicted in the mid-seventies by a controversial report published by the CIA. I recall vividly denial of any such weakness by Soviet officials in the Ministry of Petroleum Industry. In fact, the Primary reason the Soviets reject the 1974 Trade Agreement with the United States was not the Jackson-Vanik amendment. Rather it was the Stevenson and Byrd amendments restricting government sponsored credits to the U.S.S.R. in an aggregate of \$300 million, and more importantly, with no loans permitted for production of fossil fuel energy resources. In large measure the Soviet energy crisis was the beginning of the decline of an empire that could not sustain itself, its republics and the added burden of an Eastern Europe that was draining potential hard currency earning in return for soft currency and shoddy products. Afghanistan in 1979 provided the last straw by further depleting scarce resources. The realization of a failed economic and political structure paved the way for Mr. Gorbachev's new approach.

With revolutionary changes that have occurred recently in the Soviet Union, there is no doubt that it is in the best interest of the United States to assist the new Union to develop its energy resources. Certainly it would help the world energy supply/demand balance, help stabilize energy prices well into the future and help in maintaining world order. The U.S. energy industry including exploration, operations, processing and equipment manufacturers are in a prime position to pursue this new market opportunity. For these reasons the Byrd amendment restricting U.S. industry's opportunity in this lucrative and politically important market should be repealed as soon as possible.

However, because energy is so critical to the emergence of a new Union arrangement and because the Russian Republic is endowed with 90% of the known resources, a clearly defined United States policy must be formulated at the same time the Byrd amendment is repealed. It was only a year ago that the U.S.S.R. attempted partial energy embargoes of the Baltic nations for purposes of preserving a central bureaucracy. U.S. Policy makers cannot at this time rule out the possibility that current efforts to form a loose economic Union could conceivably disintegrate into a new and different form of empire building. The Yugoslavian road map to realignment of republics leaves little room for optimism. While delivery delays for reason of short supply are to be expected and energy bilateral trade agreements amongst the republics are possible, economic blackmail by energy embargoes for foreign policy goals is unacceptable. U.S. energy assistance to the Union of Republics or to the individual republics should be conditioned on free trade in energy. Perhaps there should be written assurances that new on-stream production must be subject to the transparency of both internal and external market pricing and unencumbered supply/demand factors.

It should be noted that a significant increase in energy production in the new Union of Republics will not in itself resolve future economic woes just as credits alone will not resolve the problem faced by most of the republics. Instead, a concerted effort must be made to increase productivity across many sectors and especially those manufacturing industries with an export potential permitting a greater value added component. Ultimately, the ability of the new Union of Republics either collectively or individually to attract capital for investments will depend on the rapid expansion of non energy related exports. The question is not how much credit to extend, but how will it be repaid through hard currency exports.

On behalf of the practical, experienced business people in our 1200 member company association dedicated to trade expansion through the world-wide import and export of goods and services, let me say that we look forward to cooperating with the newly emerged democracies by establishing normal, direct business relations. We ask the Administration and Congress to pass the U.S.-Soviet and U.S.-Baltic trade agreement promptly, to proceed with other trade liberalizing measures includ-

ing GSP, export controls, and with the proper safeguards, to repeal the Stevenson and Byrd amendments.

**STATEMENT OF THE AMERICAN SOVIET TOURISM
SOCIETY**

The American Soviet Tourism Society (ASTS) is composed of over 60 firms that actively promote tourism between the United States and the USSR. Its members include those tour operators who assist over 80% of all Americans who visit the USSR, major American and foreign airlines who carry those travelers, and other travel related companies. Together, the experience of the ASTS as to travel between the two nations is unrivaled. Many of the member firms have been active in the travel market to the USSR for over 35 years and have a keen understanding of the intricacies of the destination.

ASTS is delighted that travel and tourism has been recognized as an integral part of international trade and that the proposed Trade Agreement includes a Tourism Side Letter. We have been active in advising the U.S. Travel and Tourism Administration of the U.S. Department of Commerce concerning the Trade Agreement and the Tourism Side Letter and feel that it is an important first step. Specifically we feel that all trade and economic agreements need to include:

- o Tourism Annexes or Side Letters to all agreements including air bi-laterals, maritime, consular and exchange agreements.
- o Active travel industry consultation in the drafting of such agreements.
- o The right to freedom of travel by citizens of both nations.
- o Free conversion of currency by tourists in the absence of freely convertible currencies.
- o Commercial access in the USSR by American firms on a reciprocal basis.
- o A method of including the interests of land travel services in any air bi-lateral agreements.
- o Strict enforcement of the prohibition on the providing or the selling of commercial services by Government Tourist offices.

The United States has only recently awakened to the fact that travel and tourism now constitutes an important share of international trade and the balance of payments. If the present trend continues, travel and tourism will, by the year 2000, be the largest element of US foreign trade. As such it deserves full consideration in all international agreements.

STATEMENT OF CORD HANSEN-STURM

Cord Hansen-Sturm is an economist who lectures on public policy and international business strategy in the Graduate Program in Tourism and Travel Management at the New School for Social Research in New York City. As a career diplomat and member of Secretary of State William Rogers Policy Planning and Coordination Staff during the brief detente in 1972, he coordinated interagency studies on lifting the embargoes and normalizing economic relations with the communist countries of Europe. As vice president of American Express for international business development in the 1970's, he was responsible for expanding travel and related services in the Soviet Union and other communist countries. Mr. Hansen-Sturm, who is writing a book on the foreign policy of travel, wrote and testified often during the eighties on the high cost to the nation of its travel sanctions.

The USSR Trade Agreement under consideration contains a pioneering and useful side letter on tourism. This paper discusses the importance of featuring travel and tourism in the agreement and taking other steps to eliminate the prejudice and ignorance preventing an intelligent travel and tourism policy for the Soviet Union.

Travel and tourism is the largest industry in the world and this nation's largest single export. The United States is no exception to the general rule that the elites who run the world are frequent travelers who need to observe reality with their own eyes and to communicate face to face. For these reasons, travel and tourism is the single most important sector in foreign trade, yet the nation has no coordinated policy to facilitate travel flows and the provision of travel services. It is sad but typical that the Commerce Department testimony presented by Thomas Duesterberg on September 11 does not include data on travel trade in its bilateral payments statistics. The Commerce testimony treats travel as if it were cotton candy rather than the meat and potatoes of U.S. economic relations with the U.S.S.R..

The United States has separate aviation, maritime, consular, and exchanges agreements with the Soviet Union, each negotiated in a vacuum without adequate input from the travel and tourism industry or even an idea about the level of travel flows or the make up and health of the travel industry these agreements so importantly affect. The Reagan Administration stopped collecting and publishing data on travel trade with the USSR as part of its embargo strategy in the 1990's. The 1985 bilateral aviation negotiations, for example, were conducted in ignorance of what the market was. The administration still had not analyzed the U.S.-U.S.S.R. travel market when the Department of Transportation held US-USSR route allocation hearings in 1990. Most of the nine major airlines competing for routes dropped out upon learning from other airline testimony that the minuscule number of U.S. travelers (180,000 in 1990) were already well served by long established European airlines experienced in flying Americans to Russia in turbulent political weather. The bilateral aviation market was too small and fragile in the short term to support any but the most well positioned and financed new American ventures.

The common purpose of each of these separate transportation, cultural exchange, and consular agreements negotiated in isolated compartments by experts ignorant of the overall travel picture, is to facilitate travel. Soon there will also be a Tourism Agreement, which will help fill in some of the missing policy

gaps, and hopefully, will produce some trade statistics that will belatedly inform the administrators of the other travel facilitating agreements. However, the critical agreement affecting the travel industry will be the overall Trade Agreement which establishes useful rules for doing travel business in the Soviet Union. The agreement, with its consultative mechanisms, will establish badly needed transparency on travel trade and investment that will protect the travel infrastructure in the future from political manipulation.

The side letter on tourism makes it clear that trade in travel services and the interests of travel companies will be covered by the overall agreement on trade. The letter is needed because the tendency of policy makers has been to assume that the interests of the travel industry are 1) not important and 2) have been taken care of in the uncoordinated and uninformed mini-agreements mentioned above.

The side letter on tourism is an important step in a process of clearing away deep seated prejudice among policy makers that tourism is fluff and replacing it with the idea that travel and tourism are essential information infrastructure for all economic transactions. Personal trips are information inputs into every significant business transaction and cultural exchange. The same elites who travel on business reconnoiter the same territory with their families on vacation. Trade in travel services is a prerequisite to trade in all other goods and services. This is why the nation will pay so dearly for its mistaken policies of reducing travel to the Soviet Union as an economic and political weapon.

The collapse of communism and the Soviet state marks the end of a half century of economic warfare between the American superpower and its ill fated rival. U.S.- U.S.S.R. trade and investment agreements are important final steps in normalizing economic relations and establishing an economic peace. The nation cannot recover from the travel war that other democracies avoided until it understands the extraordinary extent of the damage wrought on the U.S. economy.

Travel denial policies impact on the economies of nation-states in three ways: 1) they reduce income and employment in travel companies and their suppliers, 2) they reduce all other trade and investment in proportion to the decline in travel inputs necessary for most economic transactions, and 3) they reduce a nation's stock of knowledge about how things work in the embargoed destination in proportion to the number of information gathering trips foregone. The country implementing the travel embargo suffers the same types of costs as the target country.

- During the heightened embargo period of the early 1980's the damage to U.S. travel companies and their suppliers ran into the hundreds of millions of dollars. That great sum, however, is only the tip of the iceberg that is still blocking all other trade.

- The actual economic and social cost so far to the nation of the '80s experiment in travel boycotts and embargoes is many multiples higher than just the loss of revenues and jobs in the travel sector. The cost is measured in the billions of dollars because travel is an indispensable input into almost all international economic transactions. Trade withers when either

travel or financial resources are denied. This was an objective of the Reagan Administration travel sanctions. The travel variable cannot be isolated, however, from other embargo measures that also suppressed non travel trade and investment.

- The largest damage by far to the United States economy of the unilaterally imposed government travel controls might run into the trillions of dollars and is yet to be experienced. This is because the travel denial policies have dramatically reduced the accumulation of knowledge about how to do business in the Soviet Union.

Now that communism has collapsed, national security is clearly more dependent on economic power than on military power. The top strategic priority must be to build and protect international communications as the fundamental condition of democracy and prosperous market economies. The CIA conducted its last study of travel markets in the early seventies during a brief period of detente. If the CIA, International Trade Commission (which still does not include travel trade data in its Congressionally mandated analyses of trade with the Soviet Union), and the Commerce, State, and Transportation Departments are still reluctant to expose the economic fall out from travel controls they espoused and administered, Congress should ask the GAO to investigate. The GAO will find a travel and tourism industry willing to assist.

STATEMENT OF INDSPEC CHEMICAL CORPORATION

Mr. Chairman, members of this committee, my name is Frank Spinola, and I am president and chief executive officer of INDSPEC CHEMICAL CORPORATION, an employee-owned company in Western Pennsylvania which for over 15 years has traded with the Soviet Union.

I am grateful for the opportunity to submit this testimony to the Senate Finance Committee as you begin your deliberations on the likely impact of the proposed U.S.-Soviet Trade Agreement and the granting of most favored nation status on American trade and investment in the Soviet Union. Closely coupled with these issues are the important questions of aid to the Soviet Union and its republics and the conditions under which such aid should be extended.

I am here today on behalf of the employees of INDSPEC who are owed over \$1.5 million by the Soviet government and its trading agency, Soyuzchimexport, for a product we made and shipped to the Soviet Union at its request and for which the Soviet government has not paid one penny.

Mr. Chairman, the U.S. Department of Commerce reports that it is aware of at least 30 U.S. companies owed over \$150 million by the Soviet government and its trading agencies. This is money owed to Americans, working people like our employees in Western Pennsylvania, who cringe at the thought of the U.S. government sending dollars to the Soviets without any effort to require the authorities in the Soviet Union and its republics to pay for the American products already sent to them.

Without doubt, we are a small part of a larger problem, but our American workers can put flesh and blood on an issue that may seem abstract to some. The Soviet Union and its successor governments, whatever its form, owes some \$65 billion in obligations to many countries, companies, and individuals around the world. We have tremendous concerns that, in an effort to begin anew in the world economy with a clean slate, the leaders of the republics and whatever economic federation they form will simply renege on these debts, blaming them on failed communist leaders and walking away from the dollars they owe to Americans. We ask the U.S. Congress not to let this happen.

Let me outline briefly what happened to us, the employee-owners of a Pennsylvania manufacturing company.

For over 15 years, we have shipped a product called resorcinol to the Soviet Union. Resorcinol is used in the manufacture of tires, primarily as an adhesive to bond steel or fiber cords to rubber or as a stiffening agent in the tire bodies and tread rubber. Soyuzchimexport, a Soviet trading agency of the Trade Ministry, purchased this product and distributed it to certain chemical plants in the Ukraine, Russia, and Estonia to make the resin which was subsequently shipped to tire manufacturers in the Soviet Union and presumably used in tires throughout the republics.

Up until 1990, the Soviet government was an excellent trading partner, always paying its bills very quickly, always within the stated terms and usually within 30 days.

Unfortunately, in early 1990 -- after we had made two shipments of resorcinol needed to make 4.1 million Soviet tires -- the Soviet government stopped its payment to us and to many others whose products they had already received but for which they had not paid. To be crystal clear, there has never been any dispute about the quality of the product we delivered. As recently as two weeks ago, we received a telex from Soyuzchimexport affirming their obligation to us and restating for the umpteenth time the Russian equivalent of "the check is in the mail."

To continue, when payment was not forthcoming in February of 1990, we and most U.S. companies who had the same experience stopped all deliveries to the Soviet Union and insisted on cash up front through letters of credit or other financial arrangements under which we were guaranteed payment. This remains the situation to date.

Why did the Soviet Union's trading agencies stop payment for goods it had already received? That's a difficult question for an American businessman outside the Soviet Union to answer. We have heard all the stories: the Soviets developed a hard currency shortage; the Soviets decided to spend their limited hard currency on defense-related products or on products that would appease their citizens (i.e., the Soviets apparently spent \$400 million last year to buy cigarettes instead of using the money to pay off old debts); the Soviet central bank took all the hard currency away from its trading agencies, leaving them without resources to pay outstanding debts.

Whatever the explanation, the bottom line is the same: American companies and their workers are owed millions of dollars. I understand that some smaller U.S. companies have teetered on bankruptcy, while others have expended thousands of hours and dollars in an effort to obtain what is rightfully theirs.

In the process, the Soviet Union has earned a reputation as "uncreditworthy" -- a country or federation of countries where U.S. businesses cannot trust the assurances of governmental trade representatives that payment will be made for American products shipped.

The consequences of this sad truth are far-reaching. First, it discourages U.S. companies from wanting to do business in the Soviet Union, unless the company has so much excess cash that it will risk the dollars expended. INDSPEC wants to trade with the republics of the Soviet Union, but we must insist on cash up front, something we would not do if we were dealing with a government with a history of prompt payment and debt satisfaction.

Second, the failure of the Soviet government to pay its debts to U.S. companies calls in question the safety and security of loaning U.S. tax dollars to the Soviets. This subcommittee is no doubt well aware that the "uncreditworthiness" of the Soviet Union has even led U.S. banks to resist loans associated with the agricultural credits extended to the Soviet Union by President Bush and backed by the full faith and credit of the U.S. government.

Finally, the failure of the Soviets to pay these debts calls in question their commitment to establishing a sound international trading relationship with the rest of the world. Even if the Soviet Union and its republics had no interest in a free market economy, they cannot long engage in international trade with a reputation as a scowlaw. And, if they do choose to

adopt a free market system, somebody had better tell them that the first rule of capitalism is that you pay for the products you contract to buy, receive, and use.

Failing to insist that these debts to Americans be honored sends a loud message from the United States that we are willing to let the leaders of the Soviet Union and the republics get away with ignoring their obligations to Americans.

What can Congress do about the millions of dollars owed by the Soviet Union and its trading agencies to U.S. companies and their employees?

Let me give you my thoughts, recognizing that you and your staffs have a better idea of how to accomplish these things legislatively than I do.

First, let's recognize upfront the problem. Mr. Chairman, as far as we can learn, to date, in all the meetings and contacts with Soviet President Mikhail Gorbachev, the Administration has not stressed the importance of the Soviets paying their debts to Americans and U.S. companies. While we have received encouraging words from Commerce Secretary Robert Mosbacher and some Commerce officials have raised our problem with their counterparts in Moscow, we have not really seen the full-court press on behalf of Americans harmed by the Soviet failure to pay.

The Congress, too, needs to speak out on the urgency for the Soviet government, its trading agencies, and their successors in the republics to "wipe the slate clean" with American companies. With the rubles they have saved by the dismantling of the KGB alone, there should be currency available to pay debts. Mr. chairman, you deserve special praise for being the first to take up this issue, and let me encourage you to give Congressional recognition, legislatively, to the fact that the Soviet government and its successors have outstanding debts to Americans for products already delivered and that the Congress expects such debts to be satisfied.

Second, I believe that it states the obvious to say that the failure of the Soviets to pay these U.S. debts affects the credit-worthiness of the Soviet Union and its republics. When Congress considers the extension of loans and credits to that region, it ought to recognize, legislatively, that the failure to pay debts to U.S. companies is an important factor in judging whether the Soviet Union and the republics are worthy credit risks for loans and credits backed by the U.S. taxpayer.

I should also add here that every time the U.S. government extends loans or credits to the Soviet Union, we suspect that we fall further down on the Soviet list to be repaid. Put simply, the Soviets have greater incentive to pay off U.S.-backed loans than to pay back their debts to private companies, especially small employee-owned companies like ours.

In short, every time the United States extends loans and credits to the Soviets and its republics, American companies fall to the end of the line for repayment. And, if the United States government makes no counterbalancing effort on behalf of American companies, the Soviets are free to push U.S. companies even further behind debts owed to the companies of other nations with whom we are in competition.

Third, a strong approach which INDSPEC would certainly urge would be to condition the extension of most favored nation status and loans and credits on the payment of the undisputed outstanding debts to U.S. companies, as certified by the U.S. Department of Commerce.

Fourth, perhaps an approach more amenable to all parties, there is an interesting debt reduction effort recently used by the Germans, Japanese, and Italians with respect to Soviet debts owed to their companies. In designing their economic aid packages, these countries under certain circumstances are requiring that the first deutchmarks, yen, or lira loaned to the Soviets be used by the Soviets to pay the outstanding debts owed to German, Japanese, and Italian companies.

This approach "clears the slate" for the individual business, returns a small part of the aid assistance back to the economy of the home country, and makes the Soviet debt one that is now owed to the government, an entity far more likely to be repaid than a small company.

These are my suggestions, and I am sure that you may have others. My principal concern is that the Congress not permit the Soviet Union or its successor republics to "walk away" from the obligations they have incurred to U.S. companies.

The adoption of MFN or the extension of loans and credits without any reference to these debts owed to Americans or without any effort made to require repayment only rewards the Soviet Union for its bad conduct. We do not oppose humanitarian aid to prevent starvation in the winter ahead. That only adds to the suffering of people who had no hand in the disastrous economic policies of their non-elected leaders. But, as a general proposition, U.S. economic aid and trade policies must not victimize American companies and their employees by failing to insist that the Soviets and the republics must pay for products made by American workers and already delivered to them.

Mr. Chairman and members of this subcommittee, the Russians have an old saying, "pofarennya mat uchenya" -- "repetition is the mother of learning."

By their repeated failure -- for 18 months in the case of INDSPEC -- to pay for American products which they contracted to buy, which were delivered to them, and which they have used, the Soviet government has taught us that they are an unreliable trading partner, unworthy of taxpayer-backed U.S. credits and loans, and unreliable as a place for American companies to do business. Hopefully, the republics will not follow this same course of conduct.

One thing is certain. The United States failure to stand up to this misconduct only teaches the leaders of the Soviet Union and the republics that they can safely ignore, without fear of sanction, their international obligations to us and others.

I urge this committee and the Congress to help teach the leaders of the Soviet Union and its republics, through constant repetition if necessary, that the United States believes that debts to Americans must be paid and that the failure to repay these debts will be a stumbling block on the road to good trading relations with the United States.

Thank you for this opportunity to share my views.

Business

TUESDAY, SEPTEMBER 24, 1991

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Soviet aid must have strings, witnesses say

By Harry Stoffer

Post-Gazette Washington Bureau

WASHINGTON — If the United States is going to help teach the Soviet republics the basics of capitalism, it ought to start with the importance of paying their bills, a Pittsburgh businessman told a congressional panel yesterday.

Frank Spinola, president of INDSPEC Chemical Corp., said the experience of his small, employee-owned firm should serve as a warning before the United States provides direct aid to the Soviets or makes a trade agreement with them.

The firm, which has offices Downtown and a plant in Petrolia, Butler County, has been providing a chemical used in tire making to the Soviet Union for 15 years, but payments stopped almost two years ago.

The current balance due is about \$1.5 million, Spinola told the trade subcommittee of the House Ways and Means Committee. The figure represents almost \$4,000 for each of the firm's 390 employees.

Spinola said his chief concern was that Soviet leaders would renege on the debts and simply blame the deposed communists.

Spinola and attorney Jon Delano later said outside the hearing that the Commerce Department acknowledged that at least 30 U.S. companies were owed more than \$150 million, but they had evidence that the unpaid bills might be several times that amount.

"We know we are a small part of a larger problem," said Spinola in urging lawmakers to attach strings to any aid or trade measures.

Other Western nations are requiring that some of their aid to the Soviets be used to pay

back their companies with outstanding bills, and the United States could do the same, he said.

Subcommittee chairman Sam Gibbons, D-Fla., did not respond immediately to the suggestions. The panel is considering a proposed trade agreement with what remains of central government in Moscow, as well as separate bills to grant most-favored-nation trading status to the Baltic states.

Most of the witnesses at yesterday's hearing were administration officials and business leaders who favor the proposed trade agreement and support steps by the U.S. government to encourage and protect new enterprises in Russia and the other republics.

Kempton Jenkins of the U.S. Council for International Business said approval of the trade agreement could open the door for

solving other problems, such as the money owed to INDSPEC and other companies.

But another witness, Frank Gaffney Jr., director of a conservative organization called the Center for Security Policy, said help for the Soviets could be worse than "money down a black hole."

Gaffney, a Shadyside native and former Pentagon official, said aid — especially in the form of loan guarantees — could benefit people who supported Soviet totalitarianism, and that the United States could face another "fiscal fiasco" like the savings and loan bailout.

Spinola said INDSPEC is continuing to supply the tire-making chemical to the Soviets, but now only in exchange for letters of credit assuring that funds have been deposited in European banks for payments.

STATEMENT OF THE NATIONAL ASSOCIATION OF MANUFACTURERS

The National Association of Manufacturers believes that the commercial relationship between the United States and the Soviet Union may in the future be an important determinant of America's economic success and international competitiveness. At this time, there is a need to move quickly to institute new agreements, laws, and policies that reflect this reality and to eliminate existing, unnecessary impediments to U.S.-Soviet commerce.

GENERAL OBJECTIVES

Changes in U.S. policy affecting U.S. commercial relations with the Soviet Union should be consistent with the following objectives:

- Maximum freedom for American companies to participate in the economic life of the Soviet Union, including the ability to export products to the Soviet Union, to import products from the Soviet, and to invest in the Soviet Union on terms no less favorable than those available to Soviet domestic enterprises and/or third-country nationals;
- A U.S. legal environment that is supportive of these activities and that implicitly and/or explicitly recognizes the need for American firms to be competitive against strong international rivals;
- Continued movement in the Soviet Union toward a strong, market-oriented economy; a legal system which protects the rights of all parties, foreign and domestic, in commercial transactions; and, at the appropriate stage, full participation by the Soviet Union in the GATT and other international economic organizations; and
- Adequate remedies for those U.S. interests that may be adversely affected by transitional developments, e.g., export surges from subsidized or protected Soviet industries.

DETAILED OBJECTIVES

Implementation of the Trade Agreement. The NAM fully supports The Agreement on Trade Relations Between the United States and the Union of Soviet Socialist Republics, and the side letters thereto, which Presidents Bush and Gorbachev signed on June 1, 1990, and which President Bush forwarded to the U.S. House and Senate on August 2, 1991. The Agreement provides for the reciprocal extension of most-favored-nation treatment between the United States and the Soviet Union. It also contains a number of other helpful provisions relating to the conduct of business in the Soviet Union. U.S. companies will soon find themselves at a serious competitive disadvantage in their dealings with the Soviet Union if this agreement is not implemented.

We urge the Congress to approve this agreement as soon as possible. In general, America's economic goals with respect to the Soviet Union can be more easily attained against the background of such an agreement than in the absence of one.

Repeal of the Jackson-Vanik Amendment. The provisions of Title IV of the 1974 Trade Act are increasingly less relevant to contemporary conditions. Further, the continued application of the requirements of this title magnifies the uncertainties associated with U.S. business ventures involving the Soviet Union. Under the circumstance, NAM believes that Title IV of the 1974 Trade Act, the Jackson-Vanik Amendment, should be repealed.

Conclusion of a Bilateral Investment Treaty. U.S. firms already have significant investments in the Soviet Union. These investments, unfortunately, do not enjoy the benefits and protections of a bilateral investment treaty. The absence of an investment treaty unnecessarily increases the uncertainties associated with such investments. NAM believes it is in the interest of both countries to conclude such an agreement as soon as possible and urges the two governments to give significant priority to this effort.

We note that the treatment of the repatriation of profits is the principal outstanding issue in these negotiations. This is an extremely important issue for American companies. NAM could not support an investment agreement that did not provide for unrestricted transfers of corporate funds.

Conclusion of a Bilateral Tax Treaty. In the absence of such an agreement, U.S. companies run unnecessary financial risks which will, inevitably, make them less competitive. We urge the expeditious conclusion of a bilateral tax treaty.

Cutback of Export Controls. Export controls in excess of those clearly dictated by the security needs of the United States jeopardize important American objectives, namely, a) the competitiveness of American firms and b) the development and modernization of the Soviet economy with maximum American input. This is an especially acute problem because American policy has relied heavily on export controls throughout the post-World War II period.

NAM urges the Administration and the Congress to streamline these controls as quickly as possible. Their success in doing so will be an important test of America's ability to adapt to new and demanding international realities.

Repeal the Stevenson and Byrd Amendments. The 1974 Byrd Amendment effectively bans all agencies of the U.S. Government other than the Commodity Credit Corporation from extending loans or loan guarantees to the Soviet Union. The Stevenson Amendment of 1975 places a limit of \$300 million on official credits and credit guarantees that are available from the Export-Import Bank of the United States to support U.S. exports to the Soviet Union. The same amendment bans all such credits for fossil fuel production, processing and distribution in the Soviet Union, and it places a \$40 million limit on EximBank's ability to support fossil fuel research and exploration projects in the Soviet Union. These restrictions are counterproductive and should be removed.

Dedicated EximBank Program. Repeal of the Stevenson and Byrd amendments is important but would not by itself adequately address the export financing problems that U.S. firms will encounter in the Soviet market. EximBank would still continue to maintain country limits for its own valid reasons. If Congress and the Executive Branch conclude that it is in fact in our national interest to encourage U.S. investment in connection with opportunities in the Soviet Union, then they will need to do much more. Specifically, they will need to provide a dedicated program of loans and loan guarantees for the Soviet Union that is significantly larger than what is currently allowed and more appropriate to the demand.

Export Facilitation Program, OPIC and TDP. Current law prohibits the Overseas Private Investment Corporation (OPIC) and the Trade and Development Program (TDP) from providing insurance protection, project financing, and funding for feasibility studies for U.S. companies' projects in the Soviet Union. This prohibition puts American firms at a disadvantage in the Soviet Union relative to their foreign counterparts and tends to discourage U.S. investment in the USSR.

There is, however, authority under the law for the Executive Branch to waive these restrictions, and it is our understanding that the appropriate waivers have been signed. This will make it possible for OPIC and other foreign assistance programs to be used in connection with business in the Soviet Union. This is a welcome development, but it is only temporary. For that reason, we urge the Congress to remove the underlying statutory prohibitions on OPIC's and TDP's support for American projects in the Soviet Union.

Government Support of Business Activities. The U.S. government should provide a system of support for American business activities in the Soviet Union that is sufficient to the needs of U.S. firms doing business in the Soviet Union and comparable to the support provided by other governments and available to the foreign competitors of U.S. private companies. At a minimum, this will mean an increase in the number of U.S. commercial officers in the Soviet Union and the number of U.S. government specialists on U.S.-Soviet trade working in the United States.

Payment for Goods. Recognizing the special problems besetting the Soviet Union, we urge both governments to do all that they can to ensure that contracts between American and Soviet persons, both public and private, are fully honored, that every effort is made to ensure that goods received are paid for in full.

Review of Soviet Pricing. The Soviet Union's ability to move successful towards a market economy will depend, *inter alia*, on its ability to allow prices to guide the allocation of resources. Moreover, until such time as a true market economy has been established in the Soviet Union, the prices of Soviet exports are likely to be challenged as artificial or unfair. NAM believes that the U.S. Administration should address this problem now by conducting a review of the pricing of Soviet exports and by working with the Soviet Union and others to ensure that the products of non-market economies are introduced into the global trading system in a manner that does not adversely affect traditional, market-based pricing mechanisms.

Pursuit of Sectoral Projects. The NAM encourage U.S.-Soviet bilateral projects in specific sectors, including technical assistance, where such projects can be beneficial to the firms in those sectors from both countries. In this context, NAM endorses the U.S.-Soviet cooperation in the energy sector that was inaugurated in Moscow in July, 1991. Similar efforts in other sectors could be rewarding for American firms and should promote Soviet development. These sectors include, but are not limited to, transportation, telecommunications, environmental protection, including nuclear safety equipment, printing and publishing, health care, and sectors associated with Soviet efforts to convert from defense to civilian oriented production.

Ruble Convertibility. It is unfortunate but true that commerce with the Soviet Union will continue to be both inefficient and artificial until such time as the ruble itself is a "hard" currency. It will be inefficient because barter and other alternatives to currency-based trade are inherently less efficient than the exchange of goods for money. It will be artificial, first, because market considerations will continue to be overshadowed by government policies, e.g., Soviet policies respecting the allocation of hard currency, and, second, because so long as the ruble is not convertible, U.S. exporters will be at a disadvantage vis-a-vis their Soviet counterparts.

NAM believes that the U.S. Government should continue to urge the Soviet Union to make the ruble convertible as soon as possible and, in conjunction with other industrialized nations, should offer assistance to this end if and when such assistance becomes appropriate.

Status of the Baltics. The recently declared and recognized independence of Latvia, Lithuania and Estonia alters the U.S. legal basis for establishing normal trading relations with them. Under the circumstances, NAM supports legislative proposals, such as H.R. 3313, to grant MFN to these countries directly and without reference to Title IV of the Trade Act of 1974.

NAM believes, however, that all parties -- the Baltic states and American business -- would be better off if trade between the United States and the Baltics had the benefit of understandings similar to those contained in the the U.S.-Soviet trade agreement now before Congress. From the language on intellectual property rights to the business facilitation

provisions, that agreement establishes conditions that minimize the likelihood of serious conflict and enhance the prospects for successful business dealings between the United States and entities that have been functioning as part of the Soviet Union.

Thus, whatever technique is adopted for granting most-favored-nation trade status to the Baltics, we urge the U.S. and Baltic governments to extend benefits similar to those in the pending agreement to the citizens of all four countries. This might be done either by leaving the pending agreement open for signature by the Baltic states as well as the Soviet Union or, alternatively, by means of one or more new agreements between the United States and Latvia, Lithuania and Estonia.

The National Association of Manufacturers
September 25, 1991

STATEMENT OF THE RADSEC INTERNATIONAL CORP., USA

Dear Chairman Bentsen: During the 1980, and following the military occupation of Afghanistan. I was urged by the United States government to take a fact finding mission to Pakistan, in order to find ways to ameliorate empathy between our two nations.

This mission was carried out and thereafter, I founded THE UNITED STATES-PAKISTAN ALLIANCE, a lofty organization to help Pakistan establish civil rule; encourage and foster good economic, commercial, strategic, cultural, and industrial relations between the private sectors of the United States of America and the Islamic Republic of Pakistan.

In compliance with the mission objectives of the Alliance, I had the honor to interface with a number of foreign leaders. Among our list of contacts were the (former) Union of Soviet Socialist Republics, USSR. During a number of discussions with the Soviet leaders. I strongly registered my opposition to the continued military occupation of Afghanistan by the Soviet troops, which we all know resulted in such a bloodshed and destruction; millions of Afghans were exposed to sartorial grotesqueness of the refugee camp life, human suffering, a decade long struggle to free Afghanistan left behind unmarked graves stretched out in the catacombs of the Afghan mountain range.

With this background creating a somber attitude and silent wasteland, bombed out cities and the countryside. There were heavy losses for both the Mujahideen and the Soviet troops.

For the sake of humanity, I repeatedly urged the Soviet leaders to withdraw the troops and seek peaceful and friendly means to develop trade and industrial relations with Pakistan, Irar, Iraq, and the gulf countries. In fact, I spent my own resources in time and money to draw a set of guidelines both for the U.S. and the U.S.S.R. Foreign Policy Planning during the 1988-1992 time frame.

These guidelines were presented to both governments shortly, after the historic commemorations of the signing of INF Treaty and the Soviet Troops withdrawal from Afghanistan. For the sake of record, recommended guidelines were compiled as a foreign policy monograph, entitled—BEYOND THE CONFLICT—published February 20, 1988 Washington, D.C.

Pushing aside the political differences hardened by the wars in the Southwest Asia and the Middle East. I had made recommendations to Pakistan to open the shortest land route to the Soviet Union to facilitate trade and benefit both the Soviet Union and the Republic of Pakistan. I had asked of President Bush, Chairman Gorbachev and President Gulam Ishaq Khan of Pakistan to aspire to the hopes of millions of people in the gulf and Southwest Asia and develop good economic, commercial, cultural and industrial relations between the (former) U.S.S.R. and the United States of America. It appeared that Pakistan may be willing to open its border to Soviet Trade if both superpowers agree to joint venture commercial activities.

Shortly, after the presentation of "[BEYOND THE CONFLICT]" recommendations. President George Bush and Chairman Gorbachev, at the Malta Summit agreed to support the objectives of the "perestroika" and promote "glosnost" to

assist the U.S. and U.S.S.R. private sector develop working relationship with regard to trade and industry and transfer of such technology that will facilitate production of consumer products to enhance Soviet entry in the free market economy.

Among the possessions and capabilities most likely to boost (former) U.S.S.R.'s entry in the free marketplace, are the Soviet's vast natural and man-made resources. In view of these factors, I asked, RADSEC INTERNATIONAL CORPORATION, a company which was established by me during early 1980 to undertake an in-depth study of the (former) U.S.S.R.'s timber reserves which consists of vast forests stretching thousands of miles to the Soviet Far East. These are the world's largest coniferous forests containing some of the most beautiful timber ideal for building construction and other wood products.

An arduous research under the most difficult political environment was concluded during late 1989. A comprehensive feasibility study including a far reaching research and an inventory of the Soviet Forests was copyrighted and produced in limited number of copies. It is entitled "THE TIMBER PROPOSAL—A U.S. U.S.S.R. JOINT VENTURE MANUFACTURING PROJECT" March 3, 1990.

RADSEC has focused on the establishment of new mills and conversion of old mills in the All Union, U.S.S.R. which are by and large, independent republics now. Our interest is to enable the Russian Republic, RSFSR [the largest republic in the (former) U.S.S.R. and the location of almost all of the timber forests, iron, steel, glass and allied resources most useful in the manufacturing of building material for residential and commercial use] to work in close cooperation with the RADSEC and its international builders consortium. This cooperation will foster the promotion of series of joint venture between the private sectors of the RSFSR, The United States of America and a number of other nations whose industries are part of the RADSEC consortium.

Based on our calculations, the RSFSR has the possessions and capabilities to become the world's largest producer nation of prefabricated-premanufactured homes. We proudly, refer to this anticipated production as "[HOMES FOR HUMANITY]."

RADSEC consider that mobilization of private sector talents from member countries will promote the dissemination of appropriate technology to the "grassroots" of the (former) U.S.S.R.'s private sector. Furthermore, this vital activity will promote better understanding between the republics and facilitate inter-republic trade of building material and allied products most common to the home buyers and producers of so-called "turn-key" homes.

HOMES FOR HUMANITY, has received widespread attention in the United States of America and countries in East Europe, Asia, Africa, Middle East, and China. Among the homes we envision will be the homes made from galvanized steel frames and homes from the Russian timber produced dimensional lumber. Steel frame homes are needed for countries most prone to such natural disasters as periodic earthquakes, hurricanes and floods. In short the market for the "MADE IN RUSSIA" homes and allied building products is most likely to become the single most important source for the (former) U.S.S.R.'s entry in the hard currency marketplace.

This historic objective must be accomplished in close cooperation and harmonious working environment between the U.S. and the RSFSR private sector. To assure our good relations and sound economic cooperation, RADSEC INTERNATIONAL CORPORATION, strongly recommends that the United States Congress approve the Trade Agreement submitted by the Bush administration.

However, the issue of adverse affects that have resulted from past Most Favored Nation, (MFN) Trade Statuses granted to Japan and to a number of countries in Europe and Asia, is an issue that must be carefully measured in terms of normalizing trade relations without exposing the United States to additional unemployment and economic downside resulting from the serial shutdown of domestic industries. Japan has been a "case in point" of sufficient debate in the United States.

Every responsible American realizes that it is in our best interest to develop commercial relations with the Soviet Union and the Baltic in an effort to laying the foundation for a mutually beneficial economic relationship.

This was the same theme that was stated when we came to grant Japan and other nations a similar trade status. I have given this question considerable thought and did in-depth research on the concept of so-called "commercial relationship." I have come to the conclusion that any trade and economic relationship between the United States and foreign country, must have its origin in the RADSEC concept entitled "[TECHNOLOGY TRANSFER EQUITY SHARING]." This sound plan was first discussed in my report "BEYOND THE CONFLICT" and thereafter, at times brought to the attention of House and Senate committees on Finance.

Technology transfer equity sharing is an insurance policy and game-plan that foster long-term U.S. foreign nation joint ventures prior any technology transfer is authorized or being considered by an entity from the United States of America's private sector. Equity sharing is transformation of initial business relationship into a 99 year source of participation and sharing of income and property by the U.S. private sector.

There are many benefits to technology transfer equity sharing concept. For example, (former) U.S.S.R. would have the assurance of lifetime participation of American Industry long past the turn of the century with gentle guidance to bring the (former) U.S.S.R. at the centre stage of the democracy with appropriate American management and stewardship to coach the counterpart Soviets in the art of free market economy and development of goods and services that will only enhance the Soviet entry into the most complex world of free enterprise system and competition.

Were we to grant the (former) U.S.S.R. a most favored nation's trade status without the technology transfer equity sharing concept.

We are liable to open the flood gates of foreign speculators and technocrats to enter the land of vast natural and man-made resources without specific advantages granted, facilitated, protected, and negotiated for the U.S. businesses either small or large.

In the case of small American businesses. We note that the (former) U.S.S.R. despite the joint proclamation made by President Bush and President Gorbachev, copies of which are impressively displayed at the reception hall of the office of U.S. USSR Economic Council, Moscow and New York. This noble document failed to foster small business relationships between our two people. RADSEC was among the businesses that were ignored due to the fact that as a small business, we were unable to pay the high cost membership fee.

The point being made is that the Congress must establish guidelines that will protect the U.S. businesses against the dumping of products in the United States from the (former) U.S.S.R. such products that are manufactured in the Soviet Union and the Baltic States by Non-American foreign producers. We realize of course, that the grant of Most Favored Nation Trade Status to the (former) U.S.S.R. will enable that country to repeat the same history that made Japan world's largest industrial nation in Asia and perhaps the most dominant force in the free market.

But the United States of America, was unprotected. There were no TECHNOLOGY TRANSFER EQUITY SHARING measures introduced as prerequisite means to protect the U.S. domestic market. Following the Second World War. U.S. technology transfer were made to Japan and number of other nations. These transfers enabled the recipient nations to enter the U.S. Marketplace at the cost of shutting down of our own mills and production facilities. U.S. export declined and to date we continue to face trade deficits and unemployment. RADSEC encourage the Congress to approve the MFN Status for the Soviet. But, safeguards must be required of the administration to facilitate to the extent possible, U.S. Joint Ventures in the (former) U.S.S.R. with equity sharing.

This safeguard will not only improve the American chances to share in the equity resulting from the MFN Trade Status. But, more importantly protect the (former) U.S.S.R. from the possible abuses by those unregulated businesses and organizations that will enter the Soviet labor market from other industrialized nations on the back of United States grant of Most Favored Nation Trade Status (MFN) to the (former) U.S.S.R.

This back door entry will enhance their chances to enter the United States of America's consumer marketplace while taking full advantage of the trade status granted to the Soviet people. Already, we see signs of entry by United Kingdom, France, Sweden, Germany and a host of other nations into the (former) U.S.S.R.'s telecommunication marketplace. AT&T has protested strongly for being held back by the administration on the grounds of threat to our national security. We believe, not to allow the American businesses in the field of modern communication technology to take a proactive and commanding role in the former communist republics, would pose far greater threat to our national security. The market in the (former) U.S.S.R. will soon be dominated by Non-American businesses. Another example is the aggressive entry of Non-American businesses in the Re-Construction of Kuwait, following the Gulf War in which a number of our young men and women died. While, Kuwait had promised to give major share of reconstruction projects to the Americans. Other nations are everywhere in the business offices of Kuwaiti government and in the private sector centers of business exchange receiving contracts and winning tenders.

The point we wish to make is that the administration has done little or nothing to advocate the opportunities for American businesses. But, other governments have

done a far better job to get the lion's share of Kuwaiti business. These are examples that point to the need for greater Congressional guidelines for the administration to follow.

Mr Chairman, our report and our study of the (former) U.S.S.R. has convinced us beyond any doubt that the United States of America must take the major step forward to set-up series of mills and wood working factories to take advantage of the New Soviet Union's and Baltic States need to merchandise in the worldwide home building industry. Lest, the Americans come to realize that the time is here and now. This opportunity would be lost to other industrialized nations. If this were to happen, American participation in the Soviet republics would be reduced only to casual tourism with no back bone hands on role-play in the (former) U.S.S.R. of tomorrow.

Warming of the earth, environmental constraints, (former) U.S.S.R.'s dire need to thin the Green Siberia and to retrieve the precious timber from the river beds will clearly focus the international attention to the vast timber resources available in RSFSR. While, almost all of the industrialized nations are now required to limit the deforestation to protect the environment.

United States alone has restricted deforestation at a cost of great pain to our people whose livelihood depended upon logging access to the American timberland. Granting of Most Favored Nation Trade Status to the Supreme RSFSR, Soviet should be seen as opening a door wide open to Russian Wood and wood products for the American marketplace. This will have impact on whatever the jobs that we have left over subsequent to the congressional restrictions on logging and deforestation. We believe, that this is another reason why the concept of TECHNOLOGY TRANSFER EQUITY SHARING is critically needed to safeguard American market and its labor. RSFSR's timber resources also require a number of other American activities. Such as, giving a hand in the Forest Management of the Green Siberia. RADSEC held a number of discussions with the Administrator of the U.S. Forest Service and his senior specialists in the field of forestry. We believe, American entry in the (former) U.S.S.R.'s housing industry will result in significant utilization of Siberian timber as it did during the turn of century in these United States of America. Production of premanufactured and prefabricated houses with wood as material of choice has shown us all that unless there is extensive forest management and deployment of most aggressive reforestation techniques, damage to the forest and to the environment may become irreversible.

Granting of Most Favored Nation Trade Status to the (former) U.S.S.R. without the benefit of the U.S. Forest Service advise and guidance to the Russians (RSFSR) would amount to giving the child a glass object to play with. They often cut themselves with the broken glass if not carefully supervised.

RADSEC believe, that global environment is as fragile as a glass object if not more. Congress must mandate that under the MFN Status. United States would encourage or require that the (former) U.S.S.R. must work in close cooperation with the U.S. Forest Service. In this regards, RADSEC is pleased to submit that we have already generated new discussions with the U.S. Department of Housing and Urban Development, signatory to the housing construction cooperation between the (former) U.S.S.R. and the United States of America, as well as the U.S. Forest Service and the U.S. Department of Commerce. RADSEC objectives are to protect the Green Siberia and at the same time use the vast reserves of Green Siberia as a means to bring the (former) U.S.S.R. into the worldwide housing and turn-key housing market that command billions of dollars of revenue yet un-earned by the former communist republics.

Finally, Mr. Chairman, RADSEC strongly recommend that the U.S. Congress approve the Most Favored Nation's Trade Status for the republics of the (former) U.S.S.R. and the Baltic State. RADSEC hope that our humble observations will be noted and if possible, implemented as part of the approved Bill.

Telephone: (212) 362-1404



*St. Sergius
High School*

*9 West 32nd Street
New York, N.Y. 10024*

September 18th, 1991

Mr. Wayne Hosier
U.S. SENATE
Committee on Finance
Washington, D.C. 20510

Dear Mr. Hosier,

As an only of its kind school in the United States, a Russian-American high school, we are well aware of tremendous needs of peoples of the U.S.S.R.

For this reason, we wholeheartedly support the executive initiative to provide Most Favored Nation Status to the U.S.S.R. and specifically to provide food to the Russian people.

We hope for a favorable decision.

Very sincerely yours,

ARCHIMANDRITE ANTHONY GRABBE
PRINCIPAL

STATEMENT OF THOMPSON & MITCHELL

This statement is submitted on behalf of Thompson & Mitchell, a St. Louis-based law firm, and our numerous clients who, like countless other taxpayers nationwide, have been injured by the operation of what is now recognized as a flawed estate tax provision. While we are pleased with the apparent widespread acceptance of section 502 of S. 1394, the tax simplification bill, one further task must be undertaken: this section of the bill must be made to apply retroactively. Retroactive application of this amendment is a critical step in effectuating Congress' objective of preventing section 2035 from working hardships on the nation's taxpayers.

Present Law and S. 1394:

The current operation of Section 2035(d)(2) arbitrarily penalizes gifts made from revocable trusts by including in the decedent's estate the value of an interest transferred from a revocable trust if made within 3 years of decedent's death. However, direct gifts of less than \$10,000 per year are non-taxable and are not included in the decedent's estate. This creates an oddity whereby a \$10,000 gift made directly by the decedent as a donor is not includable in the estate, while a \$10,000 gift made by the decedent as the trustee of a revocable trust is includable in the estate. As currently drafted, section 502 of the bill would correct this problem prospectively.

Retroactive Amendment:

Since 1981, section 2035 has created a minefield in both tax planning and IRS enforcement. In that year, Congress enacted the Economic Recovery Act of 1981 (P.L. 97-34, Sec. 424), (as amended by the Technical Corrections Act of 1982 (P.L. 97-448, Sec. 104)) which amended 2035 to its present form. The policy of the 1981 Act was that small gifts made within three years of the decedent's death generally should not be included in the decedent's estate; thus, the estate tax law would be consistent with the income tax law under which gifts

up to \$10,000 are not taxable. In addition, the amendment was intended to eliminate inconsistent rulings regarding gifts made in contemplation of death. In fact, the legislative history of the Economic Recovery Tax Act of 1981 reflects the congressional policy of promoting the use of bright line rules and minimizing speculation on the parts of both tax planners and the IRS with respect to this provision. See generally S. Rep. No. 97-144, 97th Cong., 1st Sess. 230-39 (1981). An additional goal articulated was modification of the tax system to promote greater personal savings. Id. at 120.

Section 2035 has been a trap for estate planners. In spite of the general policy in favor of excluding small gifts from the estate, a minor and narrow exception exists for gifts made from a common estate-planning device, the revocable trust. To overcome this narrow exception, estate planners and taxpayers must perform somewhat contorted transactions to make a small gift that is not includable in the estate. A deviation from these unnecessary requirements generally renders the gift, otherwise untaxable, taxable.

The widespread support for section 502 of S. 1394 illustrates that Section 2035(d)(2) is appropriately viewed as a provision yielding inconsistent and seemingly arbitrary interpretations and consequences. For example, the IRS has held that gifts from revocable trusts are not included in the gross estate and not taxable where the trustee transfers the gift back to the grantor and the grantor then makes the gift. Priv. Ltr. Rul. 90-10-005 (Nov. 17, 1989). The IRS has also ruled that some gifts from revocable trusts are not includable in the estate if the trust instrument only authorizes transfers to the grantor, yet a transfer is made directly to third persons in contravention of the instrument. Priv. Ltr. Rul. 90-10-004 (Nov. 17, 1989). One can only speculate as to the mental gymnastics plaguing estate tax planners and taxpayers in their concerted efforts to comply with murky Section 2035 rules. Added to this are the inequitable tax consequences resulting from this provision. Such considerations, taken together, have undoubtedly fueled the decision to amend Section 2035.

Clearly, this amendment is corrective in nature, and, fortunately, will operate to prevent future inequities. However, as with many amendments, correction can only be complete by retroactive application. While the effect upon the federal budget of such retroactive application will likely be de minimis, the effect upon taxpayers nationwide who have been impacted in the past will be quite substantial.

STATEMENT OF THE UNITED STATES TOUR OPERATORS ASSOCIATION

The United States Tour Operators Association is a group of US-based, mostly independent tour operators which account for a large portion of this country's outbound and inbound package tours. Because travelers often visit a country the first time on an inclusive tour, tour operators play a principal role in developing destinations. U.S. travel to the U.S.S.R. in the next decade will continue to be composed mostly of group tours. Tour operators are also involved in large business group movements to meetings and conventions and operate incentive tours. Tour operators specialized in the politically volatile Soviet destination arrange individual business itineraries for America's travel agencies.

- USTOA supports prompt implementation of the trade agreement with its pioneering side letter on travel and tourism.
- A crisis exists in two way travel and tourism flows between the United States and the Soviet Union which the agreement will help resolve. A tenfold increase in bilateral travel is required to support normalization of other trade and cultural relations.

U.S. visits to the USSR in 1991 at only 190,000 and Soviet visits and immigration to the USA at about 110,000, a total movement of 300,000, are at the low level of travel between second rate developing nations rather than major economic and cultural powers. For perspective, overall travel between the United States and Europe will be more than 15 million this year. Travel is a good trade indicator. A strong relationship exists between the amount of visits and the volume of overall trade and investment.

For a good idea about the relative U.S. influence on the Soviet economy, one out of every seven visitors in the U.S.S.R. is a German while one in fifty is an American.

From this information on current travel flows alone, it is possible to predict continued failure for the rest of U.S. trade and investment with the Soviet Union this year and next. This is so because visits for business and pleasure are the principal way nation states communicate. Travel companies move around and sustain overseas the business and cultural elites who conduct the nation's business. All other economic and social relations depend on in person, cross border, face to face communication.

Travel data indicate a profound knowledge gulf between the United States and one of the most populous, educated, and natural resource rich nations in the world. The gap in knowing from personal observation and communication is cumulative. During the 1980's, fewer than one million Americans visited the USSR compared to about 15 million Western Europeans. Fewer Americans traveled to the U.S.S.R. on business and pleasure during that period than to the mini island nation of Haiti. In other words, a generation of Americans are largely ignorant of the Soviet Union compared to the hands on knowledge of West Europeans.

This enormous knowledge advantage of Europeans is a critical trade disadvantage for the United States that urgently needs to be overcome. However much we would like, the United States has not accumulated sufficient intellectual capital to expect that it

will have an economic and cultural superpower role in building democratic capitalism in the USSR. At billions of dollars of expense, American military experts have accumulated detailed knowledge about how to destroy every brick in the Soviet economy, but American business people are naive about how to trade and invest there. Economic and military warfare expertise is not transferable to the business sector. That separate knowledge base requires in-person travel to understand a Soviet Union which is very different from Japan and Germany.

Both business and pleasure travel need to increase tenfold to provide even a barely adequate bridge for the in-person information exchange called for by the collapse of communism and the stirrings of democratic capitalism. Even at this tenfold increase in personal communication, it will take ten years to create a generation as knowledgeable as Western Europe was in 1990. Without a dramatic turnaround in U.S. travel and tourism policy, Europe and Japan will manage the peace in the Eurasian heartland and benefit most from its ultimate prosperity.

The travel related knowledge gap is a result of deliberate U.S. policy. The 1980's were a decade of severe unilateral U.S. travel sanctions. For example, the 1980 Moscow Olympic travel boycott and transportation embargo reduced travel to one fifth the already low late 1970 level. Following that devastation, three of the seven economic sanctions imposed by President Reagan against the USSR in 1981 were additional controls on travel. These and others were intended to punish the Soviet Union economically and politically for its aggression in Afghanistan, for its repression of Solidarity in Poland, and for shooting down a Korean airliner. The overall policy to limit human contacts by unilateral United States travel embargoes, boycotts, and exhortations to avoid the Evil Empire was spectacularly successful in the limited economic warfare sense of reducing in-person communication. The attached chart presented by Trans World Airlines in the 1990 US-USSR Aviation Route Allocation Hearings of the Department of Transportation, graphically illustrates the devastating impact of U.S. travel denial policy during the 1980's.

USTOA testimony before the House foreign affairs committee in 1982 during the height of the US travel sanctions warned of this dramatic policy failure in what has become a classic of embargo literature. The President's Export Council featured the testimony in its study on the impact of trade controls on the American economy. Banning visits, like banning finance, drastically reduces all trade.

Totalitarianism maintained itself by controlling information. Alone of all the capitalist democracies, the United States in the 1980's also limited the ability of its citizens to inform themselves in person about the Soviet Union and other communist countries. The nation is only beginning to bear the cost of this war against understanding. Unilateral U.S. travel embargoes still exist for travel to Cuba and Vietnam long after it has become even remotely possible to consider these nations a threat⁺ American security.

The most important way Soviet and other communist rulers controlled information was to limit the travel abroad of their subjects. The Soviet ruling elite, however, traveled continuously during the Cold War as the ultimate privilege and as a necessity for the Soviet state to know and operate in the larger outside world. In the last 20 years, millions of Soviet citizens traveled annually for work and pleasure to Western Europe. However, only tens of thousands came to the USA during this

period because of the greater cost of a U.S. trip and because of Soviet tit for tat reaction to severe U.S. government controls on U.S. citizens visiting the Soviet Union.

Every other democratic nation rejected United States' repeated efforts during the early eighties to embargo transportation and otherwise prevent Westerners from visiting the Soviet Union. The premise of Germany's and Europe's "Ostpolitik" in the 1980's was to build bridges of in person communication, whereas the U.S. policy was to tear them down.

The Tourism Side Letter to the US-USSR Trade Agreement is a necessary step in rebuilding the bridges. We are grateful for the United States Trade Representative testimony presented on September 11 by Katz, who spoke directly to most of the travel and tourism industry concerns and explains the content of the important side letter on tourism.

In Commerce Department testimony on before this committee on September 11, Assistant Secretary Thomas Duesterberg identified Tourism as being among the few industry sectors with special promise for immediate development. Indicative that old habits die hard, however, he did not include data on bilateral US-USSR travel trade among the numerous other trade statistics in his testimony. This lapse is indicative of the huge problem facing the nation in rebuilding its knowledge base on the Soviet Union that is a prerequisite to intelligent policy making. The previous administration stopped collecting and publishing data on bilateral US-USSR travel flows as a component of its overall policy to limit them: out of sight is out of mind. Now that policy has changed and the data is once more being collected, the problem persists that the U.S. bureaucrats who were promoted in the eighties to restrict travel and other trade are simply not alert to the need in peacetime for policy makers and the public to know that the travel base is inadequate to support normalization in trade and investment.

The picture that we present above is gloomy. Mr. Duesterberg states that lack of finance is the main obstacle to the development of a healthy trade and investment relationship. If he is right, the absence of normal travel flows for so long is obstacle number two.

OPEN BORDERS POLICY

Heightened U.S. controls on travel to the USSR in the early 1980's made the United States travel industry aware for the first time that it had to become more politically active to promote an Open Borders Travel and Tourism Policy for the United States and other countries. USTOA has espoused one since 1983 as a necessary condition for healthy democratic market societies. We recommend that governments keep one eye on the traveler and strive to facilitate as free movement across international borders as is possible to facilitate international communication and understanding. We ask governments to keep a second policy eye on the conditions for travel companies to provide travel services across borders. These conditions are best met when government policy considers travel a human right and promotes free information flows and free and fair trade.

Thirty three of the nation's politically most active travel trade organizations adopted an Open Borders Travel and Tourism Policy at the annual meeting February 7, 1990 of the Travel and

Tourism Government Affairs Council. The nation's largest export industry is united that the principles of free travel flows and fair trade should inform economic, cultural, and political agreements with the Soviet Union and Eastern Europe.

"The Travel and Tourism Government Affairs Council supports the goal of "Open Borders" for travel and tourism among all nations. Peace, prosperity and democracy are advanced by policies that enable people to exercise their fundamental right to travel.

For the United States, an "Open Borders Travel and Tourism Policy" should encompass a realistic balancing of economic interests and public policy objectives that will maximize the ability and desire of citizens to travel freely and efficiently in other countries, and allow travel companies to operate effectively at home and abroad.

All governments should strive to facilitate and encourage two-way travel flows across international borders and the transnational operations of travel companies. The ability of a people to travel to another country should only be limited under the most extraordinary circumstances."

Because of the central importance of travel services as infrastructure for all trade and investment and its large size and good prospects, the travel and tourism sector should be prominently included in comprehensive economic and business agreements with the USSR and Eastern European countries. The tourism agreements hastily negotiated in 1989 as political signalling devices with Poland and Hungary do not include systematic travel industry input and do not reflect our most basic needs. Neither do the recent consular, exchanges, and civil air pacts with the Soviet Union, though their common purpose is to facilitate travel flows. U.S. manipulation of travel flows via these agreements during the period of strained relations was mostly calculated to depress travel, so the lack of travel industry participation in establishing new agreements is unsatisfactory.

In contrast, Administration policy officials met several times with representatives of travel trade associations in 1989 and 90 to discuss how the travel and tourism sector will fit comprehensive economic and trade agreements with the Soviet Union, Poland, Hungary, and the other European socialist countries that are moving in the direction of market economies. The Soviet trade agreement before you, which includes a side letter on tourism, is a model of industry/government cooperation.

SUMMARY OF SPECIFIC POLICY RECOMMENDATIONS

Several ideas that apply equally to the Soviet and East Europe negotiations on trade and investment pacts were submitted in advance in writing and discussed during negotiations with Commerce Department trade policy officials. They can be summarized as follows:

Comprehensive Economic and Business Agreements with the USSR, Poland, Hungary, and other East European countries need to include Tourism Annexes or Side Letters to make certain they refer to the non airline travel and tourism industry which is not adequately covered in bilateral aviation, maritime, consular, and exchanges agreements.

Tourism Agreements with Poland and Hungary that were signed in 1989 were negotiated without travel sector input. They are inadequate and need to be substantially revised. The proposed USSR agreement, on the other hand, fully reflects travel industry input.....

Freedom of Travel - should be recognized in comprehensive trade and economic agreement as a human right that can be realized only when adequate travel services are provided. Given the dismal records of both sides during the containment period of strained relations, governments must pledge to uphold that right in major agreements that govern economic and political relations.....

Reasonably Free Conversion of Currency by travel companies and travelers needs to be assured in the transition era by a mechanism defined in the economic agreement.....

Commercial Access of US firms to acquire and provide travel services on the territory of the other country can best be assured by including a mechanism to enforce reciprocity.....

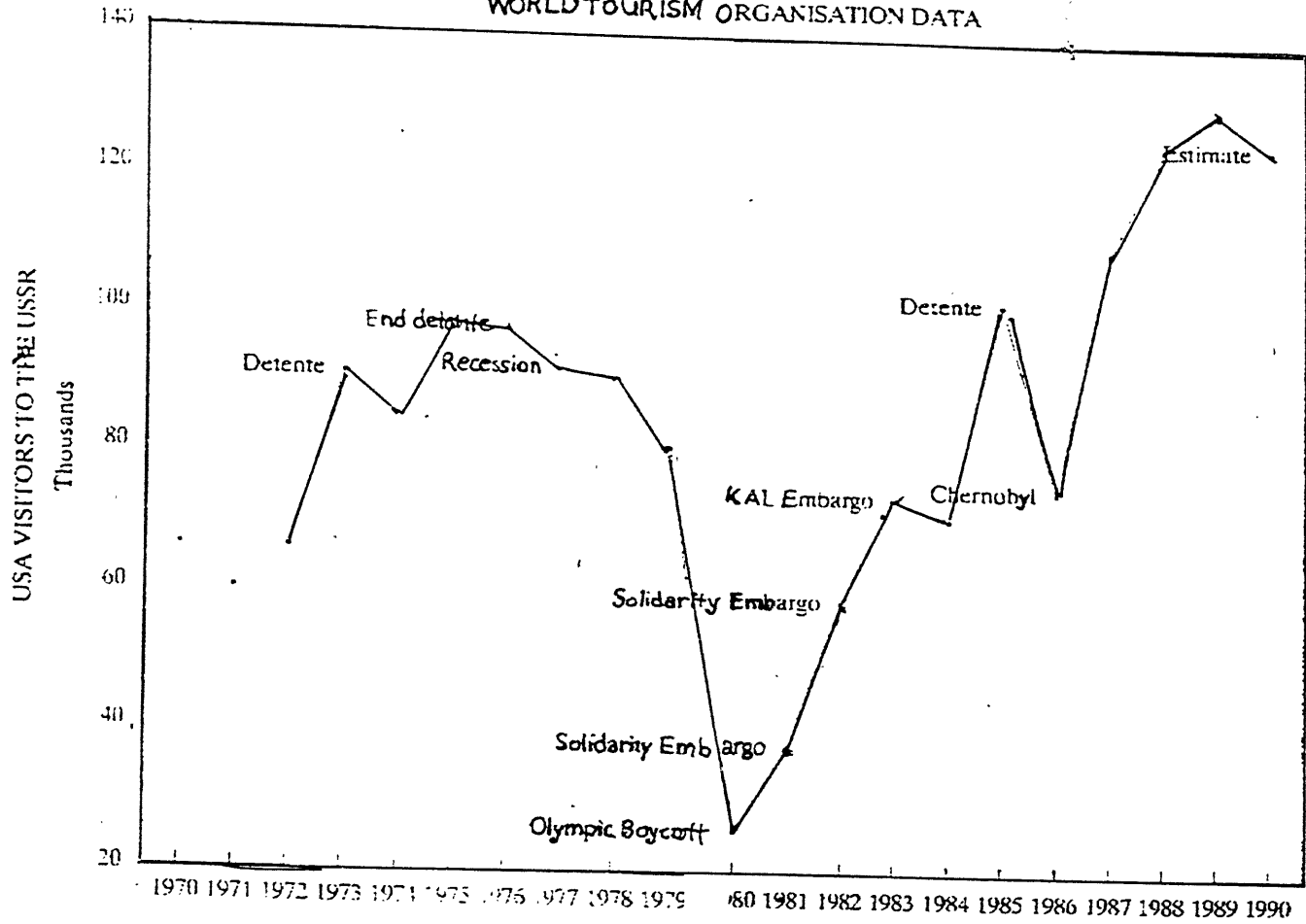
A Bridge to Aviation Bilaterals is necessary and provision for resolving conflicts between air and land travel services needs to be included in the general economic and business agreement.....

National Tourist Promotion Offices The existing tourism agreements do not address the main problem that conflict of interest makes commercial firms unfit to serve as the information offices of National Tourist Offices.

The Administration listened to these concerns and featured travel and tourism sector needs as a central concern in a side letter to this comprehensive economic and business agreement.

USA ARRIVALS IN THE USSR

WORLD TOURISM ORGANISATION DATA





THE PROFILE OF TRAVELERS TO EASTERN EUROPE VARIES SIGNIFICANTLY
FROM THOSE OF TRAVELERS TO WESTERN EUROPE

CHARACTERISTIC	U.S. PASSENGERS TO:	
	WESTERN EUROPE	EASTERN EUROPE
BUSINESS/CONVENTION	37%	25%
VACATION	56%	70%
BOOKED BY TRAVEL AGENT	65%	75%
ECONOMY CLASS	72%	84%
PACKAGE TOUR	19%	53%
MEAN AGE	45 YRS	54 YRS
MEDIAN AGE	44	58
RETIRED	11%	29%

SOURCE: U.S. TRAVEL AND TOURISM ADMINISTRATION. INFLIGHT SURVEY,
OVERSEAS TRAVEL BY U.S. RESIDENTS, 1989.

STATEMENT OF CHARLES A. VANIK

Mr. Chairman:

In the past twenty-five years, I have been visiting the Soviet Union periodically urging humanitarian policies which would permit the immigration of minorities and others who sought that privilege. In 1979, when immigration levels reached over 50,500 per year, I suggested that it was time to consider a Jackson-Vanik Waiver and move toward trade normalization. However, the war in Afghanistan and the reduction in immigration in the ensuing years halted that effort.

In 1989 and 1990, the development of glasnost and perestroika under the Soviet Union President Mikhail Gorbachev and the increasing tide of Soviet immigration set in motion a reconsideration of the issue. In June 1990 when immigration levels began to soar, I stated that the Jackson-Vanik Waiver was in order and urged President Bush to send it to the Congress even though a Soviet immigration code was not yet adopted. I argued that the deed spoke louder than the statute which had become a new requirement.

Today, I urge that the U.S. Senate and the House approve the U.S. Soviet Trade Agreement and extend most favored nations treatment to the Soviet Union.

However, circumstances have drastically changed. The Baltic States have become independent nations. Other former Soviet Republics have made comparable declarations. In Yugoslavia, Slovenia has declared its independence while the Croations and Serbs are involved in violent civil war against each other.

Since the Baltic States and the independent Soviet Republics are no longer part of the Soviet Union, they are not included in this legislation and must be treated as separate, independent countries. A separate trade agreement must be negotiated between the United States and these independent nations and republics.

It is my expectation that this will be an accelerated process so that we can also normalize trade relationships with these new emancipated states.

However, in some positive way, I hope that the United States and the nations of the west will make it clear by declaration that new countries must ensure that the rights and privileges of all minorities will be respected. Citizens and residents in these places must not suffer discrimination and the humiliation of compulsory return to their ethnic state.

Today, almost 70 million Soviets live outside of their ethnic state. Many millions have been born out of their ethnic place and have a birthright to remain where they are -- equal to the bloodright of others to return to their ethnic place. The doctrine of free choice must prevail. Citizens should not be removed from their homes because of the difference in their blood. They should be allowed to remain on an equal status with their neighbors, having equal rights to education, a job and a home!

America and the west should never countenance the mandatory shuffling of residents from their existing home, school or job on the basis of their blood, color or religious difference. The emerging democracies which struggled for existence and independence should understand the inhumanity and oppression of minorities in their midst. The right to be free and live in peace is the entitlement of every citizen and it should never depend on race, color, sex, or blood.

The new independent ethnic states of Eastern Europe must be made to understand that the discrimination which they suffered in the past provides no right to impose it on others in the future. Their own bitter experiences must not be repeated.

Trade normalization and benefits should be denied or revoked from countries which fail to comprehend their obligation to minorities in their midst.

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