

HEARINGS
BEFORE THE
COMMISSION ON SECURITY AND
COOPERATION IN EUROPE
NINETY-FIFTH CONGRESS
FIRST SESSION
ON
BASKET II—HELSINKI FINAL ACT
EAST-WEST ECONOMIC COOPERATION



JANUARY 13 AND 14, 1977

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¹ Resigned from the Commission in January 1977.

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IMPLEMENTATION OF HELSINKI ACCORDS

THURSDAY, JANUARY 13, 1977

CONGRESS OF THE UNITED STATES,
COMMISSION ON SECURITY AND COOPERATION IN EUROPE,
Washington, D.C.

The Commission on Security and Cooperation in Europe met at 2 p.m., pursuant to notice, in room 6202, Dirksen Senate Office Building, Hon. Dante B. Fascell, chairman, presiding.

Present: Commissioners Fascell, Simon, Fenwick, Buchanan; Pell, Leahy, Case, Leigh and Poor; R. Spencer Oliver, staff director; Alfred Friendly, Jr., deputy staff director.

Chairman FASCELL. The Commission will come to order.

Fellow Commissioners, ladies and gentlemen, the CSCE Commission today begins hearings on compliance with the Helsinki Final Act and preparations for the Belgrade follow-up meeting this fall. Our inquiry is a proper forum for expert opinions on how CSCE states interpret their obligation to give life to the Helsinki accords. We will also explore the paramount issue today confronting the Helsinki signatories: what must be discussed and resolved when the 35 governments sit down at Belgrade?

In its brief but active history, the CSCE Commission has become sensitive to another important question, how to convince the signatory governments that it is in the interest of them all to take seriously the challenge of implementing the provisions of every Basket. Such a task is complicated by the attitudes of several CSCE states whose sensitivities to interference in domestic affairs have been highlighted by debate over the meaning of the Final Act.

Our immediate business is to look at Basket II, whose scope is greater than mere questions of trade and commerce, because in many ways politics is economics. Basket II was designed to enhance economic cooperation among CSCE states in a way to loosen restraints inhibiting dealings between the Soviet bloc and the West.

It spells out ways to remove obstacles to increased Socialist country trade with the West, mutual provisions for industrial and commercial cooperation, an expanded East-West dialog between sellers and buyers, and sophisticated proposals for information exchange and visits back and forth between scientists and technicians. There is even a detailed sanction for East European and Soviet tourists to drive West for a vacation and then return home without getting into trouble.

It takes people to do all this, together with governments. Thus, in many respects these Basket II features are matters of human rights as much as economics. They suggest government initiatives to pave the way for increased contacts between people whose activities beforehand

were circumscribed by government restrictions. They mirror the widely-shared opinion in the West that the Helsinki provisions were meant to reiterate and insure human freedoms by setting down a standard for government behavior not only with other states but their own populations as well. The witnesses invited by the Commission to testify on Basket II have been asked to address this broad aspect of human rights and freedoms as they describe their direct experience in matters affecting East-West economics, trade, and scientific cooperation.

Our witnesses are Secretary of Commerce Elliot Richardson, Deputy Secretary of State Charles Robinson, Assistant Secretary of State Gerald Parsky; Donald Kendall, Chairman of the U.S.-U.S.S.R. Trade Council; Milton Rosenthal, Chairman of the United States-Romanian Economic Council; Edward Wilson, Executive Secretary, United States-Hungary Economic Council; and Dr. John Hardt, Library of Congress Specialist in Soviet Affairs. Each of these distinguished persons is prepared to share past experiences in government and private enterprise. They will offer suggestions on resolving problems of trade with eastern CSCE states. They know how the U.S. Government deals with Basket II problems and how it can improve the overall trade picture by exploiting Basket II provisions and they will share their thoughts on the proper, practical relationship between trade initiatives and/or Government-stated obligations to assure that the Helsinki call on all signatory states to respect human rights is fully heeded.

Do any of my fellow Commissioners care to make a remark at this point?

Representative SIMON. I do not.

Chairman FASCELL. We have a statement from Senator Pell who is cochairman, who unfortunately could not be here because of conflicts. I believe he has a Rules Committee meeting of the Senate. He has a short statement which he would like to have me read.

Senator Pell's statement follows [reading]:

Like Basket I and III, Basket II sets down benchmarks for governments to follow as they take unilateral, bilateral and multilateral steps to increase the economic well-being of all European states, the U.S. and Canada. It is quite a broad spectrum of ideas.

The theory behind Basket II, I think, was that promoting economic cooperation and sharing the benefits of man's knowledge and industry might lead us from the political tensions which still seem to pit blocs of states against each other.

Baskets I, II and III together have this potential, but these hearings are bound to produce differing opinions on how best to apply these provisions. Still, we should try to find a consensus view of what opportunities Helsinki offers us and how best to take advantage of them. This endeavor will certainly be helpful to us and to the new Administration.

As we noted in the Commission study mission report, Europeans have placed emphasis on probing Eastern Europe and the U.S.S.R. on possibilities for trade improvement, more so than perhaps the U.S. has been able to do. Our initiatives have been circumscribed, say many observers, by how the 1974 Trade Bill affects our overall trade and commercial relationships with the Soviet bloc.

So perhaps we should take this opportunity to ask whether we might overcome the Trade Bill impasse without compromising our own priorities on human rights. Our interest in human rights is strong, as it should and must be. It is inextricably a part of the Carter Administration's foreign policy. Guaranteeing human freedoms, and the specific obligation of governments to do this, are an integral part of the Final Act. Our hearings may be the opportunity for finding the right formula for expanding economic relationships while seeing to it that states give due priority to underwriting respect for human rights.

We have to do this, for the United States Government seems not to have agreed within itself on what to do at Belgrade. On the other hand, there are strong Soviet signals that the Communist countries want the Belgrade follow-up meeting limited to uncontentious discussion by each country of what it has done to comply with the Final Act, no more. Do we want to go along with this concept? Should we be prepared to table initiatives of our own at Belgrade, or even now with our closest allies? What Basket II proposals can we make without compromising our foreign policy interests, and how should we answer the Soviet Basket II challenge for European conferences on transportation, the environment and energy?

These are among the important questions, it seems to me, that require our careful analysis even before we sit down in June at the Belgrade preparatory meeting. As for future Commission hearings, I hope they will examine Basket I and especially Basket III very closely. They are not only the most ambitious parts of the Helsinki Final Act but the ones most likely to cause the greatest stir at Belgrade.

So ends Senator Pell's statement. I will say that we do have plans for additional hearings to follow up what we commence here today.

Our first witness today is the distinguished gentleman who is the Senior Specialist in Soviet Affairs with the Library of Congress, Dr. John Hardt.

Dr. Hardt, in the record prior to your testimony, we will place a summary of your biographical background so that everybody will have knowledge of your vast years of experience in the area which you are discussing.

I know you have a prepared statement. We will be delighted to hear from you.

[The biographical background follows:]

JOHN PEARCE HARDT—SENIOR SPECIALIST, CONGRESSIONAL RESEARCH SERVICE
LIBRARY OF CONGRESS (1971-PRESENT)

PROFESSIONAL LECTURER IN ECONOMICS, INSTITUTE OF SINO-SOVIET STUDIES,
GEORGE WASHINGTON UNIVERSITY (1966-PRESENT)

Prior professional activity:

1959-71—Various positions with Research Analysis Corporation; and Operations Research Office, Johns Hopkins University, including Head, Strategic Studies Division.

1958—Editor, Association for Comparative Economic Studies *Bulletin*. ACES arranges a panel for each American Economic Association meeting published in AEA.

1972-74—President of Washington Chapter of American Association for Advancement of Slavic Studies (AAASS).

1968—Consultant to Secretary of Defense, Clark Clifford on U.S. Base Study ("Wood Study").

1956-65—Lecturer, Economics, University College (Pentagon Program), University of Maryland.

1956-59—Staff Specialist on Soviet Economy, specializing in electronic power and nuclear energy matters, CEIR, Inc., Washington, D.C.

1953-55—Air University Fellow and Consultant on Soviet Economy, Air University, Maxwell AFB, Montgomery, Alabama.

1951-52—Consultant, Research Program on the USSR, Ford Foundation.

1946-48—Associate in Economics, University of Washington.

1942-46—Captain. U.S. Army.

Education:

Ph.D. Columbia University, 1955, Dissertation: Economics of Soviet Electric Power Industry.

Certificate, Russian Institute, Columbia 1950.

A.M. Columbia, 1950.

M.A. University of Washington, 1948.

B.A. University of Washington, 1945.

Travel:

Congressional Delegation to U.S.S.R., Poland, FRG, U.K., Nov.-Dec. 1972. (Sen. Humphrey D.-Minn.) Sen. Bellmon (R.-Okla.) Cong. Reuss (D.-Wis).
State USIA Distinguished Lecturer: Turkey, Afghanistan, Pakistan, Dec.-Jan. 1971-72.

Congressional Delegation to U.K., Hungary, Yugoslavia, Italy to participate in World Economic Congress (Budapest) and CESES Meeting (Venice) 1974. (With John R. Stark, Joint Economic Committee.)

East-West Initiatives Meeting in Vienna, Austria, November 1974. U.S. delegation headed by George Ball of Lehman Brothers; Soviet delegation headed by Dzherman Gvishiani.

Congressional Delegation to International Economic Association Meeting in Stockholm, Sweden, August 1974 (headed by Senator Humphrey).

Military service: France, Germany, Philippines, Japan, (1942-45).

Memberships and honors:

Charter member Association of Students of Soviet-Type Economics (ASTE), and member, American Economic Association, American Association for Advancement of Slavic Studies. (Charter member, Washington, D.C. Chapter). Association for Comparative Economic Studies.

Cosmos Club, Delta Upsilon Social Fraternity.

STATEMENT OF JOHN HARDT, SENIOR SPECIALIST IN SOVIET AFFAIRS, LIBRARY OF CONGRESS

Mr. HARDT. Thank you, Mr. Chairman and members of the Commission, my name is John P. Hardt.

As a staff member of Congressional Research Service I should explicitly note the legislative and policy constraints under which we operate. We are required to be objective and nonpartisan. My remarks will therefore be largely technical in nature.

With your permission I shall not read my statement but select from it things that I think might be more pertinent.

Chairman FASCELL. Without objection, your entire statement will appear in the record and you may summarize as you wish.

TESTIMONY TO AND ANSWERS TO QUESTIONS FROM THE COMMISSION ON SECURITY AND COOPERATION IN EUROPE, CONGRESS OF THE UNITED STATES

INTRODUCTORY REMARKS

My name is John P. Hardt. As a staff member of Congressional Research Service I should explicitly note the legislative and policy constraints under which we operate. We are required to be objective and nonpartisan. My remarks will therefore be largely technical in nature.

The purpose of these hearings is several fold based on my impression of the Commission's charter:

1. Assess means for monitoring and taking advantage of the *Final Act* agreed to at Helsinki in August 1975.

2. Respond to official documents related to the Helsinki agreement subsequent to the *Final Act* adoption including the Warsaw Pact declaration of November 26, 1976 "For Fresh Advances in International Relations, for Consolidation of Security and Development of Cooperation in Europe"; the proposal for a draft treaty for the Helsinki *Final Act* signatory nations from the same Warsaw Pact meeting in Bucharest in November 1976; the first semi annual report submitted by President Ford to the Commission on December 3, 1976; the report of the Study Mission to Europe to the Commission on December 2, 1976.

3. Prepare for the next meeting of the Helsinki signatory countries in Belgrade scheduled for June 1977.

I bring to this commentary the perspective of an economist who has long been a student of the societies of East and Central Europe, including the Soviet Union. I have also been privileged to have been on congressional delegations to the International Economic Association (IAE) for three successive years to

meetings in Hungary, Sweden, and the German Democratic Republic. The last meeting in Dresden focused on the Helsinki agreement. During that trip I was also able to attend other meetings and conduct many interviews in depth with economists and officials of the Eastern signatory countries on subjects related to the *Final Act*. As Senator Humphrey and John R. Stark, Executive Director of the Joint Economic Committee, did not attend the last and most recent IEA meeting on the Helsinki agreement. I reported in some detail on those sessions to the Joint Economic Committee. I shall draw on those observations for this assessment.

COMPLIANCE WITH "BASKET 2" OF FINAL ACT

In evaluating the issue of compliance with "Basket Two" in the Semi-Annual Report I should like to comment selectively on business contracts and facilities, economic and commercial information, industrial cooperation, and legal and institutional arrangements such as arbitration.¹ Before commenting on each of these areas it seems important to place this period in a political context.

Political climate from Helsinki to Carter election August 1975 to November 1976

Although the Helsinki *Final Act* was signed by 35 nations I would suggest that two—the Soviet Union and the United States—are the pacesetters—especially in economic policy. If we may liken the relationship of the two powers to a joint airflight, this Helsinki period might be likened to a "holding pattern." After the Trade Act and the Export Import Bank Act amendments had been passed by Congress and signed by the President in January 1975, MFN status was offered to the USSR in fulfillment of the commercial agreement arrangements. The Soviet Union did not accept the conditions of the Jackson-Vanik amendment and the treaty did not then go in force. However most of the arrangements on business facilities (i.e., the Trade Center in Moscow), exchange of information, third country arbitration, terms of settlement of Lend Lease debts, anti-dumping and market disruption understandings continued without rupture. But the political propulsion was lacking for change in the areas of agreement and was absent at the time the *Final Act* went into force in August 1975. The impetus for change resulting from adoption of the *Final Act* thus had to rely on the incentives below the superpower and governmental level. The governments of many of the signatory nations in Western and Eastern Europe were relatively more active than the United States and the Soviet Union during this period in fostering economic and commercial relations. The private and public commercial interests in the participating nations were similarly more active than their government counterparts.

Likewise the lack of a Federal policy (an agreed Executive and Congressional position) and a national consensus in the United States joining government, private industry, labor, the banking community and other groups in a common position created a climate of uncertainty which reinforced the lack of momentum.² This divisiveness was recently illustrated by presentations made by official and quasi-official US representatives to the meeting of the US-USSR Trade and Economic Council in Moscow in November 1976. A number of these US representatives took a critical posture on the established US position on tariffs and credits as signed into law by President Ford in January 1975. Moreover, some chose to explain US resistance to granting MFN to the USSR, without human rights conditions, to certain special interest groups in terms of US domestic politics. For Eastern observers not understanding our constitutional processes and our democratic procedures, these explanations may have been confusing. This may have been especially difficult for a Soviet audience attempting to evaluate likely changes under a new US Congress and a new President.

Assuming that uncertainty discourages expansion of commercial relations and further assuming that most of the changes called for in "Basket Two" involve changes that require institutional and political change, the climate of the initial Helsinki period was neither conducive to change nor representative of the likely future climate. Nonetheless, as the first Semi-Annual Report indicates, there was considerable compliance and no major non compliance or retrogression in accordance with the provisions of "Basket Two."³

¹ *First Semi-Annual Report to the Commission on Security and Cooperation*. Transmitted by President Ford to Chairman Fancell, Dec. 3, 1976. (Hereafter, Semi-Annual Report.)

² My testimony to the Senate Commerce Committee, Feb. 4, 1976.

³ Semi-Annual Report, pp. 68-118.

Business contacts and facilities

The quantity and quality of contracts has increased more rapidly than the trade turnover between the nations of East and West. Governmental commissions, chambers of commerce, accreditation and in-country facilities (including trade centers), have all moved forward. The number of specialists on various aspects of East-West commercial relationships has experienced a quantum jump. To date there have been few, if any, major backward steps. Whereas rumors abound that one or another major company may pull out of Eastern trade or that Eastern countries will begin to write off some Western nations in their future plans, little withdrawal has occurred. Perhaps we are now in a critical time for such decisions.

Economic and commercial information

There has been modest improvement in the data available, including that from the Soviet Union in the 16 months assessed in the Semi-Annual Report. According to the report:

"There have been no significant changes since Helsinki in the quantity, quality and timeliness of statistics and other economic-commercial information published within the Soviet Union. There have, however, been some small improvements, for example the publication of quarterly trade statistics by country and the provision to the United States bilaterally, under the US-USSR Agricultural Agreement, of slightly better agricultural data.

"Provision of statistics concerning production, national income, budget, consumption and productivity continue to be largely unsatisfactory, and no change has been detected in the Soviet manner of reporting these statistics since Helsinki. Balance-of-payments statistics are especially meager. No data on debt, debt service or reserves are published. The Soviets still do not include output figures for some industrial products, including non-ferrous metals, ships, aircraft, many chemicals, some machines, as well as military weapons. Statistics on the labor force in particular industries are not given in any detail, nor is there any detailed information on average pay in different industries. Since many statistics, especially those regarding growth, are given as indices, problems are created by changes in bases as well as by lack of definitions and other explanatory details. Budgetary information appears only as generalized figures, lacking details. With regard to timeliness of publication, the one comprehensive source of Soviet economic information, the 'Statistical Handbook of the USSR National Economy,' is normally published nine to ten months following the close of the calendar year which it is reporting. There has been no change in the publication of generally available public information on food and agricultural matters since Helsinki. On the other hand, as noted above, there is continuing minor improvement in the provision of such economic information on a bilateral basis to the United States under the terms of the 1973 US-USSR Agricultural Agreement. For example, in the fall of 1975 it was agreed that additional food and agricultural products data would be furnished to the US, and the current list of US-requested data under the agreement has now reached 18 separate items. The major problem with Soviet data in the food and agricultural area, taking into consideration both public information and that which is furnished the United States under the bilateral agreement, is qualitative and not quantitative. Further, the qualitative difficulty pertains mainly to timeliness of data rather than to its reliability. Most authorities accept the basic accuracy of the majority of published Soviet statistics.

"However, Western governments and markets require current crop and live-stock production data, which the Soviets have not yet made available with sufficient timeliness. For example, planted grain acreage is not provided to the United States until August, and no official crop production estimates are released during the growing season. Furthermore, the USSR has not always submitted required data on schedule. The major data deficiency is the lack of current crop reports. It is possible that although the Soviet Government has more information available than is released publicly or bilaterally, it lacks a crop reporting system as reliable as that in the United States. . .

"In sum, then, the Soviet Union's record since Helsinki in the provision of useful economic and commercial information has improved, but only very modestly."⁴

⁴ *Ibid.*, pp. 67-71, p. 77.

There has been some improvement in the availability of data on food and agricultural goods; timeliness, detail and reliability of foreign trade data. Other Eastern nations provide mixed records—some better, than the USSR, some worse. Some improvement is said to be in direct response to CSCE provisions, i.e., detailed economic data in a recent speech by Romanian President Ceausescu.⁵

Industrial Cooperation

Trade of goods and services is clearly not enough to bridge the gap and meet the needs of Eastern and Western economies. Many hundreds of industrial cooperation agreements have been developed in recent years. The number varies with definition and size. Several common problems seem to dictate the need for new forms, problems such as facilitating technology transfer flows, establishing new forms of financing, and providing for institutional conditions which would encourage stable trade relations between East and West. Technology transfer problems and the need to further develop a long term relationship between the East and West led to agreements on technological exchange as well as long term contracts such as the Fiat agreement now in its second decade. Balance of payments problems have encouraged compensation agreements that tie financing to the export of products from the new enterprise. A myriad of less formal arrangements tend to encourage the established relationships which expand existing agreements rather than develop new ones. Western companies with "beach-heads" in Eastern economies tend to be the vehicles for future development.

Arbitration and Other Institutional Arrangements

The acceptance of third country arbitration and accommodation of Eastern legal and institutional practices to Western modes has relieved some uncertainty, cost and time in developing commercial relationships.⁶

At the same time, acceptance by Eastern traders of Western applications of quotas, anti-dumping procedures, and market disruption criteria has raised levels of uncertainty in Eastern plans for the expansion of East-West trade. The unexpected embargo of Eastern meat in the Common Market, the setback in the United States in the Polish golf cart case, are examples of these Western market uncertainties.

RESTATEMENT OF PRINCIPLES AND PROBLEMS OF IMPLEMENTATION

A number of principles have been stated and accepted in the *Final Act* and subsequent documents. One overarching principle as yet unsettled relates to the definition of the general criteria for change: Is change to take place in the economic and commercial practices of all countries on the basis of common interest and benefit? or, Are the Eastern countries to change toward Western principles and institutions? It is important to clarify this principle especially if, as I perceive it, the Eastern signatory countries adhere to the former interpretation and some of the Western nations—including the United States—adhere to the latter.

These differences are illustrated by official statements released in Bucharest in November 1976 and Washington in December 1976.

EASTERN VIEW

The states which participated in the All-European conference decided that they each will build relations with other participating states on the basis of the following principles: sovereign equality, respect of the rights inherent in sovereignty; non-use of force or the threat of force; inviolability of frontiers; territorial integrity of states; peaceful settlement of disputes; non-intervention into internal affairs; respect of human rights and fundamental freedoms; equality and the right of peoples to settle their own destinies; cooperation between states; and a good neighbor policy of fulfilling obligations under international law. *The trends and forms of development of mutually-advantageous cooperation were defined and concerted.*⁷

⁵ *Ibid.*, p. 84.

⁶ M. Baumer and Dieter-Jabobsen, "Institutional Aspects of East-West Economic Relations," *Journal of World Trade Law*, August-September 1976, pp. 434-452.

⁷ Warsaw Pact, p. 2. (Italic added.)

The *Final Act* has not transformed the behavior of signatory nations overnight, but it has committed the national leaders who signed it to standards of behavior which are compatible with Western thoughts about the relationship of people to their governments. *With its profoundly Western orientation*, the *Final Act* reflects the great importance that the West attaches to human rights and the self determination of peoples. As stated in greater detail in the accompanying report, the United States rejected in the negotiations and rejects in principle the concept of hegemony.⁸

The terms "mutually advantageous cooperation" and "profoundly Western orientation" seem to connote the difference in basic perspectives, even though the latter phrase is directed specifically to "Basket Three." There is no question that the structure of government in the Eastern and Western nations is different and that these differences influence the attainment of the goals of the *Final Act*. Clarifying this concept is important. If the changes in institutions are primarily or solely on the part of the Eastern nations, then their motivations will be different for compliance than if the required changes are to be reciprocal.

Even assuming reciprocal change, the costs of change will have to be assessed in each case as less than the expected benefits. The exchange rate in these dynamic calculations would seem to differ from country to country in both East and West. Perhaps a useful guiding principle for all participating nations would be concentrating on those areas for change where the net benefits are perceived as greatest in both East and West. One example might be the provision of detailed planning data by Eastern nations in the interest of obtaining Western credits at world market rates. The cost to Eastern leaders might be a more relaxed disclosure policy than is traditional or deemed desirable, and a greater exposure of their economies to the involvement of Western decision-makers. The Western banks and commercial interests may, in turn, have to accommodate to the uncertainty and cost of operation in unfamiliar Eastern environments and/or possibly longer or more risky patterns of repayment. Each side presumably would benefit more than the perceived cost of change if the accommodations were made. Western nations would benefit by obtaining a greater understanding of Eastern economies which could result in the opening up of new markets and Eastern countries would benefit by obtaining valuable, and much needed Western credits. At the same time benefits in economic affairs, in tariff and credit across the board, and changes in emigration and other policies of concern might not be as easily balanced.

A number of specific principles and areas referenced in the *Final Act* may be commented on in terms of a likely net benefit calculus:

Economic interdependence

The principle of world economic interdependence was stated in the *Final Act*: "Convinced that the growing world-wide economic interdependence calls for increasing common and effective efforts towards the solution of major world economic problems such as food, energy, commodities, monetary and financial problems, and therefore emphasizes the need for promoting stable and equitable international economic relations, thus contributing to the continuous and diversified economic development of all countries."⁹

Complementarity of resources—natural and capital—adds to production and efficiency of economic performance. Eastern nations now refer to the international division of labor. Western countries restate the notion of comparative advantage. The flow of resources restricted only by production and transportation costs is to the general economic interest of all participants in the world market. However, some advantages or disadvantages to Eastern and Western perspectives may be contrasted by reference to selected aspects of more economic interdependence. These are illustrated below:

Technology transfer

Western.—Sales of plant and equipment to Eastern nations may broaden the future sales base of technologically advanced product lines by large scale production, keep unit costs down, and research and development budgets up; however, some sales may be risky in maintaining future global competitive

⁸ Semi-Annual Report, p. VIII. (Italic added.)

⁹ *Final Act*, p. 89.

positions through patents and other contracts and risk through the technology transfer a significant contribution to the military-related production of possible adversaries.

Eastern.—Western technology effectively absorbed may be the critical margin in key sector performance, *however*, the political and institutional changes conducive to effective technology transfer may weaken the traditional Eastern system of planning and management.

IMPROVED REPORTING AND DISSEMINATION OF ECONOMIC INFORMATION

Western.—More and better economic information is the basis of expansion of economic ties. Stable markets and less risky relations are more likely to result in an economic environment in which knowledge of available economic opportunity is full and accurate. *However*, private commercial and banking information—industrial secrets, privileged market forecasts, etc.,—are critical for maintaining competitive market positions.

Eastern.—Generation of more uniform, reliable data may improve Eastern planning and management and if supplied to Western users may assure lower prices and more favorable credit terms; *however*, information control is a form of political control and a security measure. Wider, foreign dissemination of key economic data may weaken the Party control of economy, foster debate among resource claimants, and provide information to those who may use it for purposes otherwise adverse to Eastern State interests.

TRADE DEVELOPMENT

In principle most countries now favor increased trade.

Western.—Freer trade may encourage substantial long run expansion of markets in the Eastern nations and provide cheaper, better sources of raw materials and manufactured goods. *However*, a sharp change in commercial markets may lead to dislocation in the Western domestic economies in terms of employment and production, e.g., components for Western autos may be produced at lower cost in Eastern nations but the short term impact on western employment may be deemed costly.

Eastern.—Lower tariffs (MFN would especially favor Eastern industrial exports to the West), less restrictive quotas and other measures directed toward the Western principle of free trade would facilitate the expansion of East-West trade and reduce the pressures of balance of payments deficits. *However*, expanded exports of industrial products requires some domestic priority to meet world market standards and will still leave products open to unilateral determination of market disruption or dumping. Easier credit terms or extension of cooperative agreements may mean more intrusion in the domestic information and management systems than desired.

JOINING THE WORLD MARKET

Interdependence implies some acceptance of the world market.

Western.—Large scale, high technology Western enterprises require expanding markets to take advantage of economies of scale, keep costs down and stay competitive. The Eastern market appears to be the great untapped potential. *However*, the Eastern state control of trade isolates the Western seller from the user, long term stability of trade prospects appear somewhat unpredictable, costs in a highly bureaucratized and controlled Eastern market seem high and short term profits small.

Eastern.—Access to the world market may not only provide superior goods, technology, and systems, but some guide to domestic Eastern comparative advantages in establishing production priorities. *However*, the world market still has the traditional Marxist disadvantages of being anarchic, subject to cycles in demand and instability in prices. The recent Eastern exposure to Western stagflation, contributing to their balance of payments deficits brought this long term problem abruptly into current focus.

INTERRELATIONSHIP OF BASKETS

In general all issues of the *Final Act* are interrelated, but how and in what manner is under question.

Western.—Progress in economic interdependence may shift the emphasis away from security and political confrontations toward areas of mutual interest in expandable commercial and cultural relations and redirect the emphasis on military and political control. *However*, military preparations in the East and reduction in the cultural and political barriers *may not* proceed with economic improvement, e.g., resources may be released for rather than withdrawn from military programs; moderation in foreign relations may lead to more control of internal change in domestic Eastern relations.

Eastern.—There may in the short run appear to be more gain from expanding economic relationships with the West and the world market in terms of advanced technology, improved systems of management, etc.; *however* the western conditions may tie "Basket Two" to "Basket Three" and overbalance the economic gains by perceived losses in political terms. "Humanization of borders" or relaxed restrictions on emigration may lead to "brain drains," weakening of political control, and external criteria for decisions perceived to be domestic in character.

AGENDA FOR BELGRADE

Several strategies seem worth considering for the Commission in preparing for the Belgrade meeting:

- (1) Revision and Broadening of the *Final Act*.
- (2) Revision and Narrowing of the *Final Act*.
- (3) Reassessment Without Revision of the *Final Act*.

Let me say a few words about each.

1. REVISION AND BROADENING OF THE FINAL ACT

On rereading the *Final Act* it appears that the coverage is very broad and permits a variety of interpretations as it stands. Although one could consider resuming the debates that led to the final formulations of text in a number of places it does not appear likely to be fruitful either in the interest of the United States or from an Eastern perspective.

The reaffirmation of the principles established since the adoption of the *Final Act*, especially by the nations of Western and Central Europe, suggest that considerable progress may be made within the already broad framework of the *Final Act*.

Finally, the short period since its enactment (16 months) and the generally unsettled nature of the transition period suggest a wait and see attitude. As the new Carter Administration develops an Eastern policy with Congress, proceeds to negotiate with the Soviet leadership and the leaders of other Eastern nations, and engages in consultation with Western governments a new basis for progress within the framework of the *Final Act* may be attained.

2. REVISION AND NARROWING OF THE FINAL ACT

In addition to the reservations about broadening the *Act*, attempts to narrow portions of the *Act* at this time might place the *Act* as a whole in jeopardy. If it is deemed desirable to make a dead letter of the *Act*, then restricting it and thereby reducing the spirit of support of the *Act* would severely reduce its potential for bringing changes. As the United States does not consider the *Act* a legally binding document its force comes from the spirit of compliance by which it is supported. Thus, a simple way to make the *Final Act* ineffective would be to treat it solely as rhetoric and broad statement of principles without impact on Eastern or Western policy.

3. REASSESSMENT WITHOUT REVISION OF THE FINAL ACT

If the two alternatives for revision are fraught with problems, then a reassessment of principles of the agreement would seem to be in order. From this we may provide the following lines of approach:

(a) *Establishing mutual benefit as primary focus.*—On the wide ranges of choice among differences in security, economic and cultural approaches, an establishment or rank ordering of issues of difference by benefit and cost would assist in identifying the optimum conditions for both sides (those which would maximize benefits and minimize costs) and therefore the prospects for future changes.

(b) *Economic and commercial area as primary area of focus.*—Applying the broad East-West minimax principle one would probably conclude that progress in economic and commercial relations ("Basket Two") is most likely. If Eastern nations accept world market conditions it may be as much to their advantage as to Western nations. Security changes are more likely to come from the perceived need of relieving the domestic defense burden, likely foreign threat or opportunities to change the global power balance. Cultural and institutional changes may likewise be less likely than changes in commercial policies or societal openings of institutions. An acceptance of the Lockian principles of "consent of the governed" will not soon replace the Leninist concept of "democratic centralism" which is so central to the changes envisaged in "Basket Three." In short it would appear that progress on "Basket Two" might be greater in the common interest of all signatory nations. It might also be the most effective route for progress on Baskets "One" and "Three."

(c) *Improved public awareness and communications.*—In order to elicit participation of relevant government agencies, business and other commercial interests, labor and other economic institutions, and better acquaint them with the contents of the *Final Act*, the role of the Commission, and the possible agenda for Belgrade, some follow up activities to these Hearings might be explored: Material for discussion of issues might be prepared and released, discussion forums might be encouraged, speakers from the Commission or representing it might be made available to interested audiences.

(d) *Record of Western compliance for Belgrade discussions.*—Relevant US government agencies and private commercial groups might be encouraged to prepare a record of Western, especially US, compliance with the provisions of the *Final Act* to strengthen the hand of US representatives at Belgrade in seeking greater compliance from other signatory nations.

INFORMATION AND VIEWS ON SPECIFIC QUESTIONS

(1) *Have American businesses acted to exploit the opportunities afforded them by the provisions of "Basket Two"?*

Yes and No. Most businesses and banks dealing with the signatory nations in Eastern Europe have successfully attempted to get more information from their Eastern partners, improved business facilities, generally more productive relationships. The effect has been some specific compliance with the "Basket Two" requirements.

However, there is a difference between general and public information and specific information available for preferred Western connections. Accredited and favored companies seem to obtain better information and facilities than the general Western community. Information—like classified information in the West—is provided on a "need to know" basis. Facilities are rationed to preferred "chosen instruments" or preferred Western connections.

Some businesses have exploited the opportunities of the agreement for narrow interests not coincident with our national interests or those of the Western community as a whole.

(2) *What is your evaluation of U.S. interests with regard to economic cooperation with the USSR and Eastern Europe, the current status of such cooperation, the obstacles and how to overcome them?*

There are bases for mutual interest in the development of economic cooperation. Our businesses may gain from a profitable and expanding market. In higher technology exports we may gain by economies of scale in large scale production for an expanding market. This may mean lower per unit cost in our domestic market, a more competitive position in the world market, and more profits to fund research and other capital programs. Expanding markets and production may also generate more employment.

On the import side we may find a lower cost source for raw materials and industrial products. This has all the usual benefits of comparative advantage.

However, some problems arise in current arrangements or may under arrangements being discussed:

Compensation agreements.—Payment out of the production of facilities resulting from imports of plant and equipment from the West may be delayed in availability, questionable as to quality, unfairly competitive to domestic production. Sharp shifts in production patterns, e.g., in automotive components, may result in structural unemployment.

Long term government credit financial prospects.—Large scale projects such as the much discussed, proposed "North Star" natural gas project might be too risky politically and therefore not creditworthy.

(3) *How can the provisions of "Basket Two" help serve our interests and overcome the obstacles?*

Better knowledge of the Eastern market, improved facilities and other conditions that reduce our risk and lower our costs of operation in the Eastern market tend to foster a beneficial environment. Opening the Trade Center on time in Moscow, obtaining improved data on agricultural output may be facilitated by representatives within the Helsinki framework. If so they represent concrete benefits in themselves, and excellent precedents for beneficial changes in commercial relations with other nations.

(4) *Among the important provisions of "Basket Two" are those calling for the free flow of substantive economic and commercial information; improved working conditions for foreign businessmen including better access to end-users and favorable examination of requests for establishment of permanent offices; and encouragement of joint projects in industry and energy/raw materials development. Has there been any real progress in these areas since Helsinki?*

As the Semi-Annual Report notes, progress with the Soviet Union was modest. However, it would be well to dwell on the pattern of change with other nations during the same time period. Although uneven in each of the categories noted in the question, Poland and Hungary were especially responsive by world market norms. In terms of the starting point the relative change in Romania was noteworthy.

If we ask why the variations in conformity, I would suggest that differences in the mutual interests of each country in change is an initial, and perhaps major explanation. The desire for western trade, credit and markets with the reciprocal interest in expanding trade with Eastern economies by the Western countries is a significant, if not complete, explanation.

(5) *In what ways can the next Congress and Administration act to promote further implementation of "Basket Two" provisions both by Eastern countries and by the U.S. itself?*

Most of my testimony is directed toward developing an improved U.S. and Western strategy based on mutual benefit maximization. Divining the pattern of maximum net benefit for all signatory nations is the best formula for stimulating change. This pattern, in my view, begins and is largely to be found in the elements of "Basket Two."

In general the Commission may have a communications problem. Many know a little about the *Final Act* and compliance with it. Selected aspects of the agreement tend to dominate the general impression of its content. If, indeed, "Basket Two" holds promise for most progress it seems ironic that it is least known or understood.

Likewise participation in the provisions of the *Act* is governmental, and private pursuits seems to have limited knowledge of their opportunities and obligations.

All this problem of recognition and understanding of the Helsinki agreement or the Commission is not surprising as they are both now unique, and unevenly publicized.

(6) *Based on your experience, to what extent has progress in East-West economic relations been accompanied by progress in humanitarian questions? In what ways do you believe that progress in the economic sphere can be linked to progress in the human sphere in the future?*

Progress in the human sphere, by our lights, is most likely to come with other—especially commercial—relations. To ask an Eastern, socialist, controlled or planned society to adopt the system or patterns of behavior of a Western, capitalistic, private enterprise or pluralistic society by force of logic does not seem to be a fruitful course of action. However, it seems reasonable to suggest that any society that wishes to use the best and latest technology, will expand its trade with the western industrial nations. If this move toward interdependence is reasonable, then it also entails adhering to the provisions of "Basket Two."

The adherence to "Basket Two" provisions, in turn, fosters adherence to "Basket Three." Moreover, benefits potentially to be gained from "Basket Two" may be linked to progress in "Basket Three." The problem is not linkage but the manner of linkage and the expectation of short term change.

Mr. HARDT. The purpose of these hearings is severalfold: To assess the means for monitoring and taking advantage of the *Final Act*.

To respond to the official documents related to the Helsinki agreement subsequent to the Final Act: Including those that were recently released at Bucharest in the Warsaw Pact meeting, as well as the Study Mission Report of this Commission in its recent trip, and the semi-annual report submitted to the Commission. Finally, to prepare for the next meeting of the Helsinki signatory countries.

I bring to this commentary the perspective of an economist who has worked a good many years in the study of economies of Eastern Europe and I have been privileged in the last several years to attend the successive meetings of the International Economic Association in Hungary, Sweden, and most recently the German Democratic Republic. In the Dresden meeting the issue of the Helsinki agreement was the central feature.

In reference to the question of compliance, in evaluating the issue of compliance with Basket II in the semiannual report I would like to comment selectively on business contracts and facilities, economic and commercial information, industrial cooperation, and legal and institutional arrangements such as arbitration.

Before commenting on these specific areas it seems important to place this period of the Helsinki agreement in a political context.

Although the Helsinki Final Act was signed by 35 nations, I would suggest that two, the Soviet Union and the United States, are the pace setters, especially in economic policy. If we may liken the relationship of the two powers to a joint air flight, this Helsinki period might be likened to a holding pattern.

After the Trade Act and the Export-Import Bank Act Amendments had been passed by Congress and signed by the President in January 1975, MFN status was offered to the U.S.S.R. in fulfillment of the commercial agreement arrangements. The Soviet Union did not accept the conditions of the Jackson-Vanik amendment and the treaty did not, then, go into force. However, most of the arrangements on business facilities, such as the Trade Center in Moscow, exchange of information, third country arbitration, the terms of the settlement of lend-lease debts, antidumping and market disruption understanding continued without rupture. But the political propulsion was lacking for change in the areas of agreement.

The impetus for change resulting from the adoption of the Final Act thus had to rely on the incentives below the superpower and the governmental level. The governments of many of the signatory nations in Western and Eastern Europe were relatively more active than the United States and the Soviet Union during this period in fostering economic and commercial relations. The private and public commercial interests in the participating nations were similarly more active than their government counterparts.

Likewise, the lack of a Federal policy, an agreed Executive and congressional position, and a national consensus in the United States joining Government, private industry, labor, the banking community and other groups in a common position, created a climate of uncertainty which reinforced the lack of momentum.

This divisiveness was recently illustrated by presentations made by officials and quasi-official U.S. representatives to the meeting of the

U.S.-U.S.S.R. Trade and Economic Council in Moscow in November 1976.

A number of these U.S. representatives took a critical posture on the established U.S. position on tariffs and credits as signed into law by President Ford in January 1975. Moreover, some chose to explain U.S. resistance to granting MFN to the U.S.S.R., without human rights conditions, to certain special interest groups in terms of U.S. domestic politics. To foreign observers, not understanding our constitutional processes and our democratic procedures, these explanations may have been confusing. This may have been especially difficult for a Soviet audience attempting to evaluate likely changes under a new U.S. Congress and a new President.

Assuming that uncertainty discourages expansion of commercial relations and further assuming that most of the changes called for in Basket II involve changes that require institutional and political changes, the climate of the initial Helsinki period was neither conducive to change nor representative of the likely further climate.

Nonetheless, as the first semiannual report indicates, there was considerable compliance and no major noncompliance or retrogression in accordance with the provisions of Basket II.

On business contacts and facilities, the quantity and quality of contacts has increased more rapidly than the trade turnover. Government commissions, chambers of commerce, accreditation and in-country facilities have all moved forward.

The number of specialists in all signatory nations on various aspects of East-West commercial relationships has experienced a quantum jump. To date there have been few, if any, major backward steps. Whereas rumors abound that one or another major company may pull out of the Eastern trade or that Eastern countries will begin to write off some Western nations in their future plans, little withdrawal has occurred.

Perhaps we are now in a critical time, however, for such decisions. Mr. Chairman, I would underline that I do believe this is a very critical time between now and Belgrade for the Helsinki agreement.

On economic and commercial information there has been modest improvement in the data available, including that from the Soviet Union in the 16 months assessed. I quoted in my testimony some of the key sections from the semiannual report. They end by noting that the Soviet Union's record since Helsinki in the provision of useful economic and commercial information has improved, but only very modestly. I think that sums it up reasonably well.

There have been some improvements in the availability of data on food and agricultural goods, timeliness, detail and reliability of foreign trade data. Other Eastern nations provided mixed records, some better than the U.S.S.R., some worse. Some improvement is said to be in direct response to the CSCE. An example given in the semiannual report was the economic data provided in the recent speech by the Romanian President Ceausescu.

On industrial cooperation, the trade of goods and services is clearly not enough to bridge the gap and meet the needs of Eastern and Western economies. Many hundreds of industrial cooperative agreements have been developed in recent years. Common problems seem to dictate the need for new forms such as those for facilitating technology

transfer flows, establishing new forms of financing and providing institutional conditions which would encourage stable trade relations between East and West. Technology transfer and balance-of-payments problems are certainly critical in the development of this new form of industrial cooperation.

On arbitration and other institutional arrangements, the acceptance of third country arbitration and the accommodation of Eastern legal and institutional practices to Western modes has relieved some uncertainty, cost and time in developing commercial relationships.

At the same time, acceptance by Eastern traders of Western applications of quotas, antidumping procedures and market disruption criteria has raised levels of uncertainty in Eastern plans for the expansion of East-West trade. The unexpected embargo of eastern meat in the common market, the setback in the United States in the Polish golf cart case, are examples of these Western market uncertainties.

Moving to the second section of my prepared statement, Mr. Chairman, I think it is important to restate the principles and problems inherent in the implementation of the Final Act.

A number of principles have been stated and accepted in the Final Act and subsequent documents. One overarching principle, as yet unsettled, relates to the definition of the general accepted criteria for change. Is change to take place in the economic and commercial practices of all countries on the basis of common interest and benefit? Or, are the Eastern countries to change toward Western principles and institutions? It is important to clarify this principle, especially if the eastern signatory countries adhere to the former interpretation and some of the Western nations, including perhaps the United States, adhere to the latter.

I have provided two quotations to illustrate this difference of view. One of the documents agreed to recently at Bucharest ends with the quotation "the trends and forms of development of mutually advantageous cooperation were defined and concerted."

The accompanying letter of transmittal from President Ford to you had the verbiage "With its profoundly Western orientation the Final Act reflects" and so on. The terms "mutually advantageous cooperation" and "profoundly Western orientation" seem to connote a difference in basic perspectives.

There is no question that the structure of government in the Eastern and Western nations is different and that these differences influence the attainment of the goals of the Final Act.

Clarifying this concept is important. If the changes in institutions are primarily or solely on the part of the Eastern nations, then their motivation will be different for compliance than if the required changes are to be reciprocal.

Even assuming reciprocal change, the costs of change will have to be assessed in each case as less than the expected benefits. This is an element, I submit, in the logic of political interaction.

The exchange rate in these dynamic calculations would seem to differ from country to country in both East and West. Perhaps a useful guiding principle for all participating nations would be concentrating on those areas for change where the net benefits are perceived as greatest in both East and West.

One example might be the provision of detailed planning data by Eastern nations in the interest of obtaining Western credits at world market rates. The cost to Eastern leaders might be a more relaxed economic information disclosure policy than is tradition or deemed desirable, and a greater exposure of their economies to the involvement of Western decisionmakers.

The Western banks and commercial interests may in turn have to accommodate to the uncertainty and cost of operation in unfamiliar Eastern environments and/or possibly longer or more risky patterns of repayment. Each side presumably would benefit more than the perceived cost of change if the accommodations were made. Western countries would benefit by obtaining a greater understanding of Eastern economies which could result in opening up of new markets and Eastern countries would benefit by obtaining valuable, much needed Western credits.

At the same time, benefit in economic affairs, in tariffs and credit across the board and changes in emigration and other policies of concern, might not be easily balanced but may indeed be related.

A number of specific principles and areas referenced in the Final Act may be commented on in terms of this likely net benefit calculus.

May I start with the reference to economic interdependence, a principle which is articulated in the Final Act very explicitly and often referred to.

The statement of a principle of economic interdependence is much easier to make than its application in specific terms. So, I have tried to relate it to some of the specific aspects of economic interdependence that are referenced in the act starting with the area of technology transfer. In each case I have tried to indicate the complexity of assessing net cost and benefits.

On the question of technology transfer there are indeed benefits to the West and East. There are likewise costs to both for the Western and Eastern countries.

In the case of the Western countries, sale of plant and equipment to Eastern countries may broaden the future sales base of technologically advanced product lines by large-scale production, keep unit costs down and research and development budgets up. However, some sales may be risky in maintaining future global competitive positions through flow of patented information and other privileged information. Risk through technology transfer may result in a significant contribution to military related production of possible adversaries.

On the Eastern side, Western technology may be a critical margin in the development of key sectors in their economy. However, effective absorption in the technology may also involve political and institutional changes which are adverse to the traditional Eastern systems of planning, management and control.

In terms of economic reporting and dissemination of economic information, more and better information is the basis of expansion of economic ties, stable market and less risky relations are more likely to result in an economic environment in which knowledge of available economic opportunities is full and accurate. However, private commercial and banking information, industrial secrets, privileged market forecasts, et cetera, are critical for maintaining competitive market positions.

In the Eastern case, the generation of more uniform, reliable data, again required by the Final Act, may improve Eastern planning and management and if supplied to Western nations may assure lower prices and more favorable credit terms.

However, information control is a form of political control and is an element of security. Wider foreign dissemination of key economic data may weaken party control of the economy, foster debate among resource climates and provide information to those who may use it for purposes otherwise adverse to Eastern State interests.

Trade development is the principle most countries now favor. However, for the Western countries where freer trade may encourage substantial long-run expansion of markets in Eastern nations, provide cheaper and better sources of raw materials and manufactured goods, it may also lead to a sharp change in commercial markets leading to dislocation in Western domestic economies in terms of employment and production.

For example, components for western autos may be produced at lower costs in Eastern nations but with a short-term impact on Western employment which may be deemed costly. The shift, for example, of General Motors' production from the United Kingdom to Poland might be advantageous in terms of cost and in quality, but for the United Kingdom this represents a potential shift of employment and the British are understandably disturbed about this.

Polski-Fiat is producing parts for sale in Italy. This moves employment out of Turin and away from Fiat production. Italian unions are disturbed about this. I think I don't need to draw the parallel to other countries.

Lower tariffs: MFN would especially favor Eastern industrial exports to the West. Less restrictive quotas and other measures directed toward the Western principle of free trade, would facilitate the expansion of East-West trade and reduce the pressures of balance-of-payments deficits.

However, expanded exports of industrial products requires some domestic priority to meet world market standards, and will still leave products open to unilateral determination of market disruption or dumping.

For example, if hydrofoils are produced in greater numbers, high quality, and offered for sale by the Soviet Union in the U.S. market, they may find it difficult to enter into the U.S. market for a variety of reasons, including some tariff barriers.

Easier credit terms or expansion of cooperative agreements may mean more intrusion in the domestic information and management systems than desired.

I could continue on this line, as I have with my statement with other examples, but one final note in the reference to the joining of the Western market is the problem that has recently been experienced by the Eastern countries, and that is the problem of stagflation. By joining the Western market the Eastern countries have been able to avail themselves of Western technology, of Western credit, but at the same time they have found themselves subject to Western inflation and subject to the sharply contracting markets that have occurred because of the reduction in levels of production in Western Europe, Japan, and the United States.

Western stagflation has come into the East along with technology and credits and it has been an unwelcome companion. These are all problems that are inherent in implementing the specific verbiage of the Final Act. These are problems in which some calculus of net benefit needs to be thought through.

Beyond the Basket II, Mr. Chairman, in terms of the interrelationship of Baskets, in general, all issues of the Final Act are interrelated. The question primarily is how and in what manner the Baskets are linked.

In the Western context, progress on economic interdependence may shift the emphasis away from security and political confrontations toward areas of mutual interest in expanding commercial and cultural relations and redirect the emphasis toward military and political control.

However, military preparations in the East and reductions in the cultural and political barriers may not proceed apace with economic improvement. Resources may be released for, rather than withdrawn from, military programs. This proposal needs to be carefully assessed.

Moderation in foreign relations may lead to more control of internal change in domestic Eastern country relations. We appear to be operating on the former assumption that the improvements in each of the Baskets, particularly Basket II, will encourage improvement in Basket I and Basket III. I think there is evidence to support this notion. But it must be examined very carefully to make a considered assessment on the nature of linkage.

In the Eastern context, there may, in the short run, appear to be more gain from expanding economic relations with the West and the world market in terms of advanced technology, improved systems of management, et cetera. However, Western conditions may tie Basket II to Basket III and in the perception of the Eastern countries, overbalance the economic gains by perceived losses in political terms.

"Humanization of borders" or relaxed restrictions on emigration may lead to what is perceived by the East as brain drains, weakening of political control, external intervention in decisions perceived to be domestic in character. These costs and benefits are indeed interrelated. How interrelated and what part and to what net benefit?

In reference to the agenda for Belgrade, there are several strategies which seem worth considering for the Commission in preparing for this important meeting yet just a few months away. The first might be a revision and broadening of the Final Act.

The second, a revision and narrowing of the Final Act.

A third, a reassessment without revision of the text of the Final Act.

The first two, the revision and broadening or narrowing, I would suggest are less attractive in terms of the logic developed in the earlier part of this statement. The major reservation on the broadening of the act is that it has been in force only a relatively short period of time. It has not been given a full test. Broadening it at this juncture might be considered premature. Indeed, on reading the act it does seem to be very broadly stated and to broaden it yet further does seem to be unnecessary until the present potential is fully explored.

Revision of the act and narrowing it might raise the possibility, as I suggest in the statement, by restrictive change that the force of

the act would be undercut. At this time some narrowing might suggest that the act were being treated as rhetoric and not a broad statement of principles which had full signatory nation support.

If this general view is accurate, then we might proceed to the third alternative, reassessment without revision of the Final Act at this time.

From this point of departure we may provide the following lines of approach in preparing for Belgrade:

First, establish mutual benefit as a primary focus, as suggested earlier in this statement. On the ranges of choice of emphasis on various sections of the Final Act a rank ordering of issues by relative benefits and cost would assist in identifying the optimum conditions for both sides, that is, those which would collectively maximize benefits and minimize costs, and, therefore, improve the prospects for conformance to the spirit of the Final Act and maximize prospects of future change.

Second, to develop from this rank ordering in the economic and commercial relations, areas of primary focus. It is assumed that applying the broad East-West minimax principle would support the conclusion that the progress in economic and commercial relations—Basket II—is most likely.

For example if Eastern nations were to accept world market conditions it might be as much to their advantage as to Western nations. Or to put it another way, in Basket II there seems to be the widest area of common interest among all the signatory countries. Moreover change in other Baskets may result from accommodations in Basket II. Security changes are more likely to come from the perceived need of relieving the domestic defense burden or the reduced foreign threat or opportunities to change the global power balance. Such developments are outside the Final Act, but may be favorably effected by Basket II.

Cultural and institutional change may likewise be less likely than changes in commercial policies or societal openings of institutions in a direct sense. Acceptance of the Anglo-Saxon Lockian principle of consent of the governed will not soon replace the Eastern Leninist concept of democratic centralism. This change, however, appears to be central to the direct changes envisaged in Basket III.

In short, it would appear that the progress in Basket II might be greater in the common interest of all signatory nations. It might also be the most effective route for indirect progress on Baskets I and III.

The third point in preparation for Belgrade might be improved public awareness and communications. In order to elicit participation of relevant government agencies, business and other commercial interests, labor and other economic institutions, and better acquaint them with the contents of the Final Act, the role of the Commission, and the possible agenda for Belgrade, some followup activities to these hearings might be explored. Material for discussion of issues might be prepared and released, discussion forums might be encouraged, speakers from the Commission or representing it might be made available to interested audiences.

I might note parenthetically, that I have made a number of copies of the Final Act. Since returning from the Dresden meeting I have asked numerous people, if they have seen or read the text of the Final

Act? I have found very few who even knew what it was and many fewer who have read it and still fewer, I would submit, who understand it.

Fourth, a record of Western compliance for the Belgrade discussions might be useful. Relevant U.S. Government agencies and private commercial groups might be encouraged to prepare a record of Western, especially U.S., compliance with the provisions of the Final Act to strengthen the hand of the U.S. representatives at Belgrade in seeking greater compliance from other signatory nations. This record would prepare us to have a strong position of effectively moving toward insistence on compliance by other countries.

Sir, I would like to close my formal statement on that note.

Chairman FASCELL. Thank you very much, Dr. Hardt, for that excellent overview and summarizing of your statement.

Mr. Simon.

Representative SIMON. Dr. Hardt, I have three questions very briefly.

First, on page 20, at the bottom, you say "Some businesses have exploited the opportunities of the agreement for narrow interests not coincident with our national interests or those of the Western communities as a whole." Can you be more specific?

Mr. HARDT. I think I would like to be specific in more general terms than mentioning names, if I may.

Representative SIMON. Be specific in a general way then.

Mr. HARDT. In terms of entering and gaining advantage in the Eastern market it is quite an advantage to be the first accredited company or the first accredited bank. To be there first, and then to build on that advantage may work against our general principle of freedom or competitive access to Eastern markets. First companies and banks tend to take actions which reinforce their privileged position.

The first there is likely to be the one to continue in particular lines; they are oftentimes tempted themselves to compromise principles stated in the Final Act, in order to stay in their privileged position. It is an inherent problem in entering the type of market that is controlled by a monopoly and as in the case a Eastern nation state foreign trade monopoly. It is not a phenomenon that is surprising to find but I think it is one that we must given attention to and we should try to maintain the kind of competitive framework which will allow other American corporations, other banks, to get into these markets and also for small corporations to follow and get into these markets even though they may not be first in or the preferred instrument.

Representative SIMON. How do we do that?

Mr. HARDT. First of all, I think we have to go to this general concept of having a Federal policy, by that I mean an agreed policy between the Carter administration, the Congress and the relevant private commercial community. Once that coordinated policy is established there are many vehicles for compliance basis that can be resorted to before going into new legislation. I think the legislative route is the most difficult in this matter as a mechanism to insure competition.

Chairman FASCELL. Do you want to translate that?

Representative SIMON. You would want to be more specific there. What are these steps of compliance you are talking about? What are

the steps the Federal Government or an agency of the Federal Government, the Department of Commerce or some agency, can take? I will use the illustration of a bank since you mentioned it.

Mr. HART. Let me be specific about the type of availability of information. All kinds of information are available but there is a differential relationship of information available to specific companies, and economic information that is generally published. Now, what is generally published is often much less useful than that which is available to specific companies and specific banks on a periodized basis.

Representative SIMON. You are talking about the host government rather than from the U.S. Government?

Mr. HARDT. I am talking about relationship of a U.S. bank or company operating in the Eastern countries. Companies working in a particular Eastern country may ask for and receive substantially more access than other companies and other institutions that are not involved directly in the country.

Now, how this information can be more fully shared is another question. Perhaps our subsequent witnesses from the private sector may throw some more light on the specific machinery for sharing information.

Chairman FASCELL. Would the issues be, for example, whether arrangements between governments on a trade agreement will be predicated upon an agreement which an individual company entered into based on an exclusive deal?

Mr. HARDT. Yes; I think that would illustrate the type of interrelationship certainly between our Government and private interests that is involved.

Chairman FASCELL. Obviously if two states agree on some kind of trade agreement and only one person winds up with a contract, it cannot be very broad, can it?

Mr. HARDT. No; that certainly would be a negative test.

Chairman FASCELL. That is one example. The other is the exclusivity of information available to one contractor or businessman and not to all. Preferential treatment, in other words, that is what you are talking about.

Mr. HARDT. Precisely.

Representative SIMON. I have one other question and then I will yield to my colleagues on the Commission.

Criticism has been made of the Helsinki Document, that it is a fine document with highflown phrases but is, in fact, meaningless; it would have to be a legally binding document really to have some muscle. Have you found that it has less impact than a legally binding document between nations?

Mr. HARDT. No, sir; I think the mutual interest is far more important than the legally binding question. If a country is anxious to get Western credits, for example, if they are anxious to get Western product lines and technology, then there will be compliance with the kind of information which is referenced in the Basket II of the act.

In other words, when there is mutual interest, there will be compliance. Where there is not mutual interest, there are ways of getting out of compliance. In fact, as lawyers, which many of you are, you will note the verbiage of the Final Act is such that it would be very

difficult to apply precise legal standards in enforcement of the language. Therefore, I would rest on the notion that it has to be based upon mutual interest for the act to be enforceable in practice.

Chairman FASCELL, Mr. Leigh.

Mr. LEIGH. No questions, Mr. Chairman.

Chairman FASCELL. Senator Leahy.

Senator LEAHY. On page 6, referring to semiannual report, the report states, and you quote:

There have been no significant changes since Helsinki in the quantity, quality and timeliness of statistics and other economic-commercial information published within the Soviet Union. There have, however, been some small improvements, for example, the publication of quarterly trade statistics by country and the provision of the United States bilaterally, under the U.S.-U.S.S.R. Agricultural Agreement, of slightly better agricultural data.

The agricultural data I recall discussing along with Senator Humphrey in Moscow in June or July 1975 with members of the Political Bureau, members of the Agricultural Department there and with Secretary Brezhnev, pointed out the fact that there has been very little compliance with the U.S.-U.S.S.R. agricultural agreement, and we expressed our very strong concern about that. We were aware at that time, although it had not been announced publicly, that there was another Russian wheat deal. We were concerned that the Soviet Union obviously would have had an advantage if that deal went through, and that they were not living up to their agreements.

Subsequently, several committees, including one of them on which I serve—the Agricultural Committee—made some strong statements about the lack of adherence to that agreement by the Soviet Union. Secretary of Agriculture Butz also commented on it.

Subsequent to that, there was some slight improvement. As I understand, in monitoring this, there has been since then periodically some slight improvement, more as we go along.

I mention all that because I wonder to what extent that improvement and—using this as one example, and I know there are others—to what extent does that improvement occur, because it serves the economic interests of the Soviet Union solely when otherwise it may not be in a position to buy wheat or buy in the quantity it wants and to what extent it has something to do with Helsinki?

The reason I ask is that the Soviet Union has a great deal to gain by the overall Helsinki agreement. Apparently in this Basket, they have not done an awful lot. Is that a correct assessment?

Mr. HARDT. The compliance question that you are referring to is illustrative of the notion of mutual benefit that I was referring to.

Senator LEAHY. I understand. What I am saying is that whatever they might do has been done irrespective of the Helsinki agreement. It apparently is being done outside the Helsinki agreement. It would appear to me that the Soviet Union, at least is really not doing an awful lot that it would not have done whether the Helsinki agreement had been signed or not. Is that a fair assessment or is it oversimplified?

Mr. HARDT. I don't think it is quite a fair assessment.

Senator LEAHY. Why not?

Mr. HARDT. I think the Helsinki agreement is a framework for getting a variety of information much of which could not have been obtained on a bilateral case basis. However, it does seem to me that these

Helsinki principles would be applied or could have been obtained in the bilateral agreements as the agricultural information agreement which was initiated in December 1972 and agreed to at the summit in 1973.

Moreover, the Helsinki agreement provides a broader pattern for relationships than provision of specific information between the Soviet Union and the United States. Also, there is another aspect of it and that is, it provides a framework and legitimatizes the requirement for comparable information from other signatory countries in Eastern Europe.

We have, for example, received very good information on agricultural current and future crop forecasts from other East European signatory countries. These might have been obtained otherwise as well but it does fit into a pattern of relationship and I think, in that sense, Helsinki has some utility.

Senator LEAHY. Don't we still come down to the fact that, at least as far as the Soviet Union is concerned—and I am really more interested in them than some of the other signatories because I feel they have as much or more to gain from signing the Helsinki agreement than anyone else—the provision of better information reflected narrow self-interest.

Page 6 of the semiannual report states:

There have been no significant changes since Helsinki in the quantity, quality and timeliness of statistics and other economic-commercial information published within the Soviet Union.

An then it goes on to state that the U.S.-U.S.S.R. agricultural agreement produced some improvement, but there was substantial impetus other than the Helsinki agreement to get them to comply.

Mr. HARDT. I think the statement is accurate as presented and, therefore, to put the answer to your original question in another way, this should be a matter for the agenda at Belgrade. It should be a matter for considerable further discussion in terms of making more progress, not only in the agricultural area but in other areas.

Senator LEAHY. I am not suggesting limiting the discussion to agriculture. I suggested the subject only because that is one I am familiar with and it shows that there is impetus other than the Helsinki agreement. I hope in our dealings on the whole agreement that we don't ignore Basket II.

I know our chairman and other members have expressed themselves very strongly on that. I feel that one of the areas that this country spent a great deal of time on was on Basket II. I would hate to see it ignored by one of the major signatories because of the kind of precedent that would set for their own compliance with the other baskets.

Mr. HARDT. I could not agree with you more, Senator.

Senator LEAHY. Thank you very much. I appreciate the report.

Chairman FASCELL. Mr. Buchanan.

Representative BUCHANAN. No questions.

Chairman FASCELL. Mrs. Fenwick.

Representative FENWICK. Thank you, Mr. Chairman.

I have two questions. I was interested in the testimony on page 4, stating that a number of U.S. representatives at the Moscow meeting

in November 1976, presented a critical posture on the established U.S. position on most favored nation treatment for the U.S.S.R., and chose to explain U.S. resistance to granting MFN, without human rights conditions, to special interest groups. Who were these representatives—in generic terms without using names—that expressed these opinions? Are these officials of the U.S. Government or are they businessmen or what was their affiliation?

Mr. HARDT. Members of the U.S.S.R. Trade and Economic Council. Representative FENWICK. What generic type is that group?

Mr. HARDT. It is not something I would be willing to state specifically. One of the witnesses later on in the hearings is cochairman, and can explain the relationship.

Representative FENWICK. Is it somebody official or a businessman?

Chairman FASCELL. She means is the council a governmental body or private.

Mr. HARDT. I refer to it as quasi-governmental because it is a private organization. I think when it represents itself abroad it has and I am attributing to it a quasi-governmental role because it tends to represent—

Representative FENWICK. Mr. Hardt, you say official and quasi-official.

Mr. HARDT. I am referring to the Secretary of the Treasury who is also with that group.

Representative FENWICK. I am trying to find out who is talking here.

Mr. HARDT. I am referring to Mr. Simon (Secretary Simon) and to Mr. Kendall.

Representative FENWICK. Thank you.

Mr. HARDT. It is a matter of public record. It is not something I came to secretly.

Representative FENWICK. Another question.

I would like to ask you how valuable you consider the most favored nation treatment, in the eyes of the East Europeans, specifically the Soviet Union? Does that greatly increase trade? In other words, if all these countries in the Eastern bloc were granted most favored nation treatment, would that mean a great difference in trade?

Mr. HARDT. In the short run, in the case of the Soviet Union, it would not. That is not to say that it is not important. MFN and credit are very important. They are important for a variety of reasons. Some of them are political. Others are immediate and short term. Government credits have the most short-term advantage and are most economic in character. MFN may be important and in some countries would be very important, particularly the more advanced industrial countries, for example, the German Democratic Republic. They could be much more important if the country chose to take those "hard" goods, that is, those goods that it could sell for hard currencies, as soon as they could be made available to the U.S. market without the present tariffs, put them in the market and push their sale. Then MFN might have a very immediate and significant effect on their balance of payments. If, however, Eastern nations were to wait and not give priority to developing American markets over a period of time, it would probably have less impact and certainly if they

didn't get MFN on a permanent basis they might well not even tool up for the appropriate kind of effort with the idea of temporary MFN in 1 year or 18 months nothing might not be forthcoming in the way of a priority effort.

Representative FENWICK. In order to increase compliance with the Basket III provisions, I am anxious to know how powerful an element is this MFN status?

Mr. HARDT. It is certainly significant. It is a little hard to put it on the scales, but I would say if MFN and Government credits, that is, if the Export-Import Bank window were reopened to the Soviet Union, it would have a significant effect both on the climate of commercial relations and on the volume of trade.

Representative FENWICK. And on human rights also?

Mr. HARDT. If that were a part of the negotiations, and I don't doubt that it would be under present conditions and sentiment.

Representative FENWICK. Thank you.

Chairman FASCELL. Senator Case.

Senator CASE. I have no questions, thank you.

Chairman FASCELL. Dr. Hardt, I want to thank you very much for taking the time to prepare your presentation and to answer our questions. You have not only given us an overview but you have given us a benchmark against which we might now proceed, in a more orderly fashion. As I said earlier when you started out, your curriculum vitae of education and professional experience, your writings and your other credits are so extensive, that we will not include it verbatim in the record. We will summarize it. Again, thank you very much for being with us.

Mr. HARDT. Thank you, Mr. Chairman.

Chairman FASCELL. Our next witness today is Dr. Edward Wilson.

Dr. Wilson, step right up.

Dr. Wilson is at present the associate director for East-West trade of the Center for International Business Relations of the Chamber of Commerce of the United States.

I see you have a prepared statement. Before you start on that, would you like to proceed by summarizing your statement? Would that be just as easy for you?

STATEMENT OF EDWARD T. WILSON, ASSOCIATE DIRECTOR FOR EAST-WEST TRADE OF THE CENTER FOR INTERNATIONAL BUSINESS RELATIONS OF THE CHAMBER OF COMMERCE OF THE UNITED STATES

Mr. WILSON. I would like to read it in abbreviated form, if I may.

Chairman FASCELL. OK. Why don't you start out then by giving us a brief statement on your background. We will also include your curriculum vitae in the record.

CHAMBER OF COMMERCE OF THE UNITED STATES,
Washington, D.C.

DR. EDWARD T. WILSON

Dr. Edward T. Wilson is the associate director for East-West trade of the Center for International Business Relations of the Chamber of Commerce of

the United States, where he has been responsible for the establishment of the Chamber's first ties with counterpart institutions in Eastern Europe.

In this context, he has organized bilateral economic councils with Romania, Poland, Bulgaria, Hungary and Czechoslovakia, which serve as recognized and regular channels for dialogue between commercial leaders on both sides. These councils, as in the case of the successful effort of the Romania-U.S. Economic Council to obtain congressional approval of MFN for Romania, play an active role in developing and securing government policies designed to normalize and expand East-West commercial relations. Through reports of their annual meetings and special publications edited by Dr. Wilson, as well as gatherings like the "Doing Business with Poland" workshop held in May, 1976, the Councils have sought to acquaint the widest possible spectrum of the American business community with opportunities for commercial cooperation with Eastern European state enterprises.

Dr. Wilson also administers regular bilateral relations with the U.S.S.R. Chamber of Commerce and assists in the formulation of National Chamber policy on issues affecting U.S. trade with Eastern Europe. Since February, 1975, he has been assisted by Daniel H. McPhun, deputy associate director for East-West trade.

He came to the Chamber in 1973 from the U.S. Department of Commerce, where he served as trade development assistance officer with the Bureau of East-West trade. His responsibilities there included preparing official correspondence between the U.S. and Soviet Governments and advising U.S. businessmen on market opportunities in Eastern Europe and the U.S.S.R. He also organized the first "executive-level" trade mission for the U.S. Government—a group of senior U.S. corporate officers who visited Czechoslovakia in 1973.

Dr. Wilson, a native of Chicago, completed his underground work at the Woodrow Wilson School of Public and International Affairs at Princeton University. He received his graduate training in Soviet Studies and international affairs at St. Antony's College, Oxford, and the Johns Hopkins School of Advanced International Studies in Washington, D.C.

He is the author of a number of articles in the field of East-West trade and has contributed to such nationally-read periodicals as Newsweek and Nation's Business. His book, "Russia and Black Africa before World War II" (Holmes & Meier, New York, 1974), has been widely and favorably reviewed.

Mr. WILSON. Essentially I am the person who has had the primary staff responsibility at the U.S. Chamber for creating a series of bilateral relations with five Eastern European countries: Romania, Poland, Bulgaria, Hungary, Czechoslovakia.

What I would like to do with you is to share this experience and hopefully to relate it to the intent and the performance of the Helsinki agreement. I might add that although these countries still have taken positions which are in sympathy with U.S. Chamber policy in its joint relationships with Eastern European Chambers of Commerce, they are free to take independent policy positions.

So, in my testimony before you I would not like it to be considered an official submission of the U.S. Chamber.

Chairman FASCELL. Now you are talking about the center itself as an autonomous group within the U.S. Chamber. It does not submit its position to the annual meetings of the board?

Mr. WILSON. The Center for International Business Relations is an integral part of the U.S. Chamber, but the bilateral business councils are separate.

Chairman FASCELL. The positions of the bilateral councils do not necessarily reflect action either by the center board or by the U.S. board which they normally take at their annual meeting?

Mr. WILSON. That is correct.

Chairman FASCELL. You may proceed.

Mr. WILSON. In establishing the councils we had several principal objectives in mind. First, we wanted to assist the American business community in developing our most rapidly growing export market—one rich in raw materials and in resources of potential value as supplemental, non-OPEC sources of supply to U.S. energy needs (for instance, Polish coal and Romanian fuel oil exports to New England were significant during the energy crisis of 1974).

Second, we realized that in making effective contacts with this part of the world, American businesses face unusual barriers—in terms of intensive and longstanding competition from Western Europe and Japan, political and logistical constraints, and distinctly unequal bargaining power.

Finally, with the encouragement of our own Government, and I might add independent of our governmental efforts, we have sought through these relatively simple institutional arrangements to evolve regular and recognized channels of communication between enterprises on both sides—on the U.S. side, involving the broadest possible spectrum of businesses, both large and small, old and new-to-market. In this effort we feel we have provided a logical private sector complement to intergovernmental efforts to improve the climate for viable business ties and better relations in general.

For legal and other reasons we have consciously avoided any match-making role on individual East-West commercial transactions. At the same time we have sought to avoid duplicating the trade promotional efforts of U.S. Government agencies. Instead, the councils have served as useful catalysts to focus attention on problems and recommendations for solutions to the governments concerned, as in the case of our submissions to meetings of the intergovernmental joint commercial commissions with Poland and Romania.

Council activities are geared to annual plenary meetings held alternately in the United States and Eastern European capitals. These sessions have typically involved Government officials at the very highest levels on both sides—meetings with First Secretary Gierek in Poland, Zhivkov in Bulgaria, and Ceausescu in Romania. They have also involved cabinet officials. Members of Congress and staff aides. We look forward to further involvement of this kind in the future for example, at the second joint session of the Bulgarian-United States Economic Council here March 14–15 and the third joint session of the Polish-United States Economic Council in Warsaw, May 23–24. Summaries of the proceedings of these meetings have been published in every case and made available to the interested public.

Very much in keeping with the provisions of the Helsinki agreement, the chamber-sponsored councils have pressed for freer sharing of pertinent and timely commercial information. In conjunction with our meetings—and increasingly successfully as we have earned the confidence of our counterparts—we have, for example, compiled rank order lists of key Eastern European officials responsible for major economic decisions.

As the President's report quite accurately pointed out, this kind of information is usually missing from standard Eastern European publications. Our experience would also corroborate the conclusion of the President's report that a significant gap exists between published 5-

year plan information—which uses broad statistical aggregations and often describes production in terms of percentage increases rather than absolute amounts—and the more specific kinds of data companies need for their marketing plans.

We have attempted to fill this gap in our plenary meeting discussions and by publishing special interpretive reports on the draft 5-year plans, pointing out potential trade opportunity areas for U.S. firms. But much more needs to be done, possibly even in the area of analysis of 1-year plans.

Of special concern to U.S. council members has been the need for timely, impartial access to information required for bidding on major projects. Here the concept of MFN treatment could well be applied in future agreements. With more specific and reliable data forthcoming from the other side, our specialists might also be able to undertake systematic inventories of specific branches of industry where American firms could make particularly useful contributions to cooperative ventures in Eastern Europe. This approach was used successfully by our Egypt-United States Business Council.

Our joint sessions have regularly provided information for new clarifications of the conditions and criteria for establishing western offices in Eastern European capitals. But more needs to be done by Eastern European host governments to make representative offices in their capitals attractive investments for U.S. firms—including alleviation of burdensome service surcharges, as we understand the Polish Government arranged recently; pricing floor space at or below market rates prevailing in other parts of the world; and easing restrictions on the hiring and remuneration of local personnel.

Above all, the concept of a local office as a privilege conceded to the foreigner must be expanded by recognition that such offices also enhance commercial opportunities for those government enterprises. At the same time, there undoubtedly is much that the U.S. Government can do to speed the accreditation process and improve the operating conditions for Eastern European commercial offices in this country.

Without belittling the importance of the Helsinki agreement, it would be fair to say that all of these efforts to improve the conditions for doing business were undertaken independently of it—both singly by individual corporations, and collectively through the Councils. Most were initiated well before the summer of 1975, and have been pursued since then largely in ignorance of the agreement.

Although the same kinds of pressures would probably have been brought to bear on the governments of Eastern Europe in the absence of Helsinki, the provisions of Basket II do provide a useful codification of the principles American businessmen would like to see firmly established in our commercial relations with that part of the world. They might, for example, be appropriately and usefully incorporated into the texts of future bilateral commercial agreements with Eastern European countries.

With the Helsinki frame of reference, one of the outstanding achievements of our Councils has been their contribution to the two-way flow of people between the United States and Eastern Europe. It is possible to recall hundreds of visits by U.S. businessmen which might otherwise have been postponed, or not taken place at all.

Similarly, many high-level Eastern European government decisions to send delegations to this country have been based, in large measure, on the incentive provided by Council meetings and special events arranged by the U.S. sections. The latter have included speaking engagements, practical "doing business" workshops, and special receptions organized by U.S. members.

In Eastern Europe, popular familiarity with Americans as people has been enhanced by the widespread coverage our joint Council sessions have received in the local press and media. U.S. Government information organs like the Voice of America have also contributed through regular and special broadcasts of news items related to council activities.

As commercial trouble-shooting mechanisms, the Councils have enjoyed varying degrees of success. A referendum of U.S. section members, for example, produced consensus that a treaty with Hungary on the avoidance of double taxation would be a useful step, and I understand that the two governments are currently pursuing negotiations on such a treaty. Our Czechoslovak-United States Economic Council has been less successful in its persistent efforts to find a middle ground sufficient to bring the relevant government authorities to an understanding on the subject of a claims settlement.

As you undoubtedly realize, one issue overshadows all others in the East-West commercial equation. Successful resolution of the question of granting MFN to nonmarket economies could, in fact, provide the key to many other problems, both commercial and political.

The Romanian-United States Economic Council was fortunate to have been actively involved in the debate over this issue with respect to Romania. I am especially delighted that our current chairman, Mr. Milton Rosenthal, chief executive officer of Engelhard Minerals and Chemicals, can be with us here today to give you further insights into this subject and the work of the Council.

Let me summarize by suggesting that the debate over Romania was a very constructive one as it may affect deliberation in this Congress. The principal commercial lesson which can be drawn is that a 1-year period for MFN extension is simply too short a period to be practical. On the U.S. side, complex transactions frequently require 2 to 3 years to complete, and negotiators need some assurance that one key rule of the game will not be changed midstream. On the other side, Romanian authorities find it impossible to authorize meaningful marketing efforts or U.S. market-oriented production investments without similar assurance.

In effect, the Romanian MFN debate in the summer of 1975 gave responsible individuals on both sides their first practical indication of the workability of the Jackson-Vanik amendment as enacted legislation. It would be misleading, however, to suggest that there are not definite limits to the lessons of the Romanian experience.

I have every reason to believe that not a single other Eastern European country would be prepared to sign a commercial agreement under the terms of the legislation as it currently exists—with assurance requirements regarding performance on issues they regard as falling within their domestic jurisdiction. All of them, including Romania, vigorously denounced title IV of the Trade Act when it was promulgated and have subsequently confirmed this position.

In order to avoid this problem, some argue that since the concerns of the Jackson-Vanik amendment were directed primarily toward the U.S.S.R., other countries of Eastern Europe should be granted separate treatment. In this context, for example, they cite Hungary's comparatively liberal treatment of requests for tourists visas to Western Europe, its comparatively favorable conditions for the practice of Judaism, and its essentially economically motivated emigration restrictions. But for Congress to single out various countries in this manner through legislation would be to draw it into the dangerous game of playing favorites, as well as to underestimate the considerable degree of Eastern European governmental solidarity which exists on this emotional issue.

What might be done instead—and this is only a personal thought—would be to find some formula which reminds the world of our basic dedication to human rights and insert it into the unacceptable portions of title IV. Perhaps language could be borrowed from the Helsinki agreement, which is after all a document already signed by all the governments concerned and which enjoys bipartisan support in this country. Certainly there are a number of other options for breaking the logjam. In any event, there is reason to expect the new administration to take initiatives in this area this year and to expect—the key leaders of Congress to support it.

The fundamental assumption underlying everything the U.S. Chamber has done with Eastern Europe over the last 3½ years has been that over time the growth of stable commercial relationships with countries of very different social and economic systems will do far more to promote respect for the basic human values we cherish than an absence or stagnation of such relationships. We are now seeing stagnation in some of these relationships. This belief requires a willingness to be exposed to alien thoughts and problem-solving, a non-combative approach to human relations, and, most important, a basic confidence in our own system.

As a matter of personal conviction, I believe it is possible to see in the process of increased East-West commercial interaction a real linkage with the development of greater respect for human rights. But it cannot be a tight or direct linkage, tied to any set of numbers, structured to insult the national pride of foreign Governments, or aimed at fairly short-term timetables with specific performance standards in mind.

Surely we can debate and refine standards of respect for human rights around the world, but we risk destruction of a rational non-interventionist foreign policy if we fix them in U.S. legislation. In the final analysis, I believe the best way we can contribute to the cause of human rights abroad is to continue to improve the record of implication here in our own country.

Looking at it more positively, our commercially oriented experience has meant much in human terms. As individuals, we have been tremendously impressed by the steadily increasing confidence responsible Eastern European officials have shown toward us. Perhaps this comes from a latent desire to see Americans as friends, perhaps from respect for the reputation of our businessmen as managers and decision-makers, perhaps simply from a natural human capacity for understanding based on frequent working contact. Whatever the cause, there

is an almost quantifiable inventory of positive personal travel impressions, friendships established between influential individuals of radically different social backgrounds and political convictions, and confidence earned. This is a credit that cannot be erased; it is also one that can be drawn upon in the future.

Chairman FASCELL. Thank you very much, Dr. Wilson.

What is your experience with respect to the international section of the Department of Commerce?

Mr. WILSON. We have found them to be very supportive. We have consistently tried to avoid duplicating their efforts. We think that their appropriations might well be increased and enhanced in certain areas such as for trade shows in various parts of Eastern Europe which are important ways for American firms to make their goods known to the other side.

Chairman FASCELL. Are there trade offices in Eastern and Western European countries run by the Department of Commerce?

Mr. WILSON. There is a commercial office in Moscow maintained by the Department of Commerce. There is a trade development and information office in Warsaw. There is a special section of the U.S. Embassy in Vienna which helps American businessmen in this area and soon one will be established in Bucharest.

Chairman FASCELL. What is your general understanding of the reputation of those offices as being of any value?

Mr. WILSON. I think American businessmen have found that they have been very valuable. It is very useful to be able to find a place where you can show your slides using your own electric current outlets, to have a Xerox machine that is working properly, et cetera. I think by and large the experience has been very good. I think the only complaint would be that there are not enough of them and they are not large enough.

Chairman FASCELL. How do you respond to the citizen who says that it is a waste of taxpayers' money for Government to be subsidizing American businessmen abroad?

Mr. WILSON. I think it would be possible to refer to the argument that you have undoubtedly heard many times in the past about the employment effect of exports. There is a whole series of very positive arguments that can be made in that regard.

Chairman FASCELL. In other words, the bulk of the effort is private but you do need reasonable governmental assistance?

Mr. WILSON. That is correct.

Chairman FASCELL. And the payoff is worth it, that is what you are saying?

Mr. WILSON. The Government share is really very small when you count the investments that the companies have made to fly their people to Eastern Europe to undertake some of the startup costs involved in Eastern European-based operations. They are considerable.

Chairman FASCELL. What part does the State Department play in all of this and what is your experience generally or your observation generally about the State Department's role?

Mr. WILSON. The State Department has encouraged us in these relationships for overriding considerations of foreign policy in which they feel the private sector can, does, and should play a role. At the same time, I think their concern quite often falls into the area of political

relations, which is an area which we as businessmen generally try to stay out of. One of the great advantages we have enjoyed in these relationships with Government officials on the other side responsible for economic decisions is that we have been regarded as nonpolitical representatives of the United States.

Chairman FASCELL. Is there a general feeling expressed in your Center or at least in your particular group, East-West Trade, that there is not sufficient recognition of the fact that American business is greeted as a flag carrier as far as U.S. policies are concerned; that it is the best advocate of what our system is all about, and if everybody got out of the way, meaning the U.S. Government, they would have a lot less trouble and do a better job?

Mr. WILSON. I am sure Mr. Rosenthal would like to add his thoughts to this testimony, but . . .

Chairman FASCELL. Yes; but he is just the chairman; you are the Executive Director.

Mr. WILSON. I am not sure U.S. businessmen would like to be out in front waving the flag. I think the basic directions have been established by Federal Government policy when it is possible to refer to such. Unfortunately, we have been too often perplexed concerning what American policy is. I don't think the average businessman would like to be explaining our policy on a variety of issues that don't concern his business.

Chairman FASCELL. He would just like to know what it is?

Mr. WILSON. Yes. In informal and personal terms, however, I think there is an awful lot that American businessmen can do to represent this country and we like to refer to it with the phrase "business diplomacy." We think American executives do often make very good diplomats and get through to the other side.

Chairman FASCELL. They are not all ugly Americans, they are good guys?

Mr. WILSON. That is what I meant.

Chairman FASCELL. Senator Case.

Senator CASE. Thank you, Mr. Chairman.

I wonder if you could elaborate a little bit about how the contacts of the sort that your organization promotes are going to help improve human relations in countries of Eastern Europe, just by example? I am getting down to the point some make that there ought not to be any linkage between our willingness to trade and people, or between commercial relationships with them and our insistence on their performance of certain obligations that we think are basic in the question of treatment of human beings. What statutes can be used for the kind of linkage that is represented—and I am not now urging it—by the Jackson-Vanik amendment or by withholding trade or things that they want from us?

I know the standard arguments that we must not insult people, they are proud and so forth. First, before you answer that generally would you say in this regard if you think there is a difference between the treatment of human beings by the Eastern European countries other than Russia?

Mr. WILSON. I think there are basic similarities that you are undoubtedly familiar with in the political systems of most of the countries of Eastern Europe, including the Soviet Union. We like to think

of our achievements and again it is not the direct kind of linkage that can be established but in terms of the kinds of icebreaking contacts that do win confidence on the other side. I would like to mention one anecdote which may demonstrate some of the things we are trying to do and describe how they have been successful.

In nearly a generation as the chief executive of the Government and Party of the People's Republic of Bulgaria Todor Zhivkov had never met, to my knowledge, with a group of Americans. When we were there with 12 senior American businessmen in September 1974 he called us into his office and had a really hair down session. If you had been in that room you could have felt the ice breaking.

It was a political barrier that was somehow being overcome in human terms. He saw face-to-face that we were reasonable people. He referred with considerable enthusiasm to the fact that he had met our President and our Secretary of State at Helsinki. This was the kind of encounter that I think might have been difficult to establish had there not been some informal mechanism of the kind that we are talking about, with a country which had been so long isolated from us.

I might say also that these agreements that we have signed with the Eastern European chambers of commerce providing for the establishment of the bilateral councils have often, as in the case of Bulgaria, been the very first agreements of any kind of a nongovernmental nature that have been reached between institutions of the two countries.

Senator CASE. You say nongovernmental nature. That is as far as we are concerned. It is not true as far as the Eastern European countries are concerned, is it?

Mr. WILSON. We recognize the significant governmental content in the representation on the other side. We have, however, very often in the sessions concerning things like antidumping legislation without involving it at all in the crucial decision-making process. So there is a basic dichotomy. That is correct.

Senator CASE. That has seemed to me on many occasions and in many ways, of course, a position of having the bad end of the deal; that we must not restrict importation of foreign goods. Yet we are dealing with a foreign trade which is controlled by governments.

I am thinking now, and this may be a little bit off the track, but since I am not a representative of a farm State—that is a State that sells soybeans and wheat—it does not seem to me as unreasonable as to one who does represent such constituents, that we might use the bargaining power we have in our agricultural surpluses as a means of obtaining somewhat more equal treatment from the other side; using its leverage in making any kind of political deal that we want to. Have you any comment on the general proposition apart from the traditional abhorrence by the Chamber of Commerce and business generally of any kind of Government restriction, which is understandable. You can see how that gives a dictatorial country, a totalitarian country, an advantage in a free market and leaves us helpless to respond in the same kind.

Mr. WILSON. I am not sure it would be accurate to use the word "helpless," but I get the thrust of your suggestion. It seems to me that the American agricultural prowess is widely recognized in Eastern

Europe, particularly in countries which have adopted some of our agricultural methods, such as is the case in Hungary, where they have adopted a system for producing corn. I think this area gives us a lot of leverage in world affairs and could be explored in the future, but not as a weapon.

Senator CASE. Do you really mean that or is it just something nice to think about? You say it gives us a lot of prowess or recognition or something of that kind. That is a nice thing; it is like something you take your hat off to. What does it really mean?

Mr. WILSON. I think it means bargaining leverage in dollars and cents.

Senator CASE. Dollars and cents, how do you mean that?

Mr. WILSON. In terms of the net balance-of-trade with a particular country, particularly given periods of relatively difficult crop conditions, comparative inefficiencies in the agricultural system on the other side, et cetera.

I think that our whole structure of relationships with Poland, for example, has been substantially affected by our ability to act as a regular supplier of wheat and feed grains to the Polish People's Republic.

Senator CASE. I am being, in a sense, the devil's advocate here, and I am really not trying to be harassing in any way. But I often share the frustrations that a great many people have, that we in this country are getting a bad deal because of our adherence to these so-called principles of free and unrestricted trade when that means only free and unrestricted for the other side, and submission by our traders and our country to every governmental control that seems to be in the interest of the other side.

It troubles me very much. I don't think for a moment that our farmers ought to take the whole burden of suffering from an embargo that we might impose on the shipment of grain abroad. No single group of Americans ought to be asked to do this. I can't see any reason why we have to let our farmers sell every ounce of grain that a foreign country wants to buy from this country without any restriction and yet be subject to the participation by the Soviet Union in supporting the oil embargo. I don't see why the grain in this country, surplus to our domestic use, cannot be bought by the Government of the United States and used as a bargaining chip in the kind of international politics that everyone plays against us. It would be bought at a fair price so that the farmer of this country does not bear any kind of undue burden through the use of this great asset we have. Is there a good reason why this should not be done?

Mr. WILSON. I really don't feel qualified to respond to that question. I agree with a lot of what you say. I am not sure that we have allowed the Eastern Europeans to buy everything that they might have wanted to.

Senator CASE. I would not question for a moment that our whole philosophy is against, up to now, the kind of process that I am suggesting.

Would you object to the suggestion that the farmers of this country are adamantly against any kind of restriction which to them would seem to be putting on their backs an unfair part of the burden, and I agree with the unfair part, but I don't agree there is anything

sacrosanct for the farmer to have the right to raise anything he wants and sell abroad all that he wants. I really protest against that kind of thing and against the the idea that there is some kind of law written up, you know, one of the 10 commandments or equivalent that says free trade is an absolute good. It is an absolute good to the other side when the other side does not believe in it.

Mr. Chairman, I am sorry. I have taken much too much time. I have a very deep feeling that what I am talking about makes an awful lot of sense. Wouldn't the oil embargo, I ask my distinguished counselor here, be as from time immemorial in English law the kind of illegal activity if conducted within a single country which would not be permitted in that country? Competitors cannot gang up on the public in this fashion.

Chairman FASCELL. Maybe we need an exemption to the antitrust concept, Senator.

Senator CASE. I don't think we need that. I think what we ought to do is enforce it internationally as we have at home. This has been a crime in common law. And we have accepted the proposition that because we are not willing to go to war, we have no remedy whatever.

Our remedy lies within our grasp if we are willing to make the effort to do it. Again, I don't say that the farmers ought to be penalized. They should not. We should provide some kind of system, something like the Canadian Wheat Board, that would make it possible for us to use this great asset which the world needs, and should have, but only if they act as members of a civilized world community.

Chairman FASCELL. Senator, there is no question that you have articulated the feelings of a great many Members of the House and I am sure of the Senate on this issue. Raising the issues serves a very useful purpose.

Senator CASE. I appreciate that, Mr. Chairman. I apologize for breaking in in the middle of the afternoon with something of this kind but I thought it would be desirable to do it. This thing usually comes up in terms of, whether or not in a Presidential campaign, President Ford or Governor Carter is going to be better for the farmers, whether Secretary Kissinger was right when he imposed a temporary embargo or not.

It should not come up in those terms because those things. I think, were unexpected by the American farmer. They bore unfairly on the American farmer but not because the Soviets had any right to buy our grain or our farmers had any right to have a Soviet market. We could have provided mechanisms if we took the time to do it. We still can do it in the future, a mechanism which will make it possible for us to use this great resource of ours, the thing that the world needs more than anything else from America except perhaps our technology and I think I would say something about the same thing as far as our technology goes, too, why should we not use that in intelligent ways to make the world a more civilized place for everybody. I think the American businessman and the American farmer would profit in the long run.

Chairman FASCELL. Frustration has been expressed in all kinds of action in the House and Senate.

Representative BUCHANAN. I would like to say "hear, hear."

Chairman FASCELL. Dr. Wilson, has the Chamber taken a position on any kinds of U.S. trading corporations?

Mr. WILSON. Not to my knowledge. I think that is a very difficult course to pursue. We have looked with concern at some of the inhibitions provided by current antitrust legislation as it pertains to—

Chairman FASCELL. That might be a good subject to consider within the normal framework of the way the chamber considers its position on other matters, to look at the pros and cons of that. I am not suggesting that the Chamber take a position but study it. Maybe they already have.

Mr. Leigh.

Mr. LEIGH. Thank you, Mr. Chairman.

I have a couple of questions I would like to ask Dr. Wilson.

First, Dr. Wilson, I remember being in Moscow a year ago and talking with American businessmen there. There was still a very strong feeling that the Russian Government was not doing as much as it should to enable them to acquire on a commercial basis office space so that they could conduct their trading activities in Moscow and in Russia generally. Do you consider that there is any obligation under Basket II for the U.S.S.R. to do more to facilitate buying office space for American companies?

Mr. WILSON. I think in a general sense that principle is certainly firmly established and can be referred to in other countries. We must, though, keep in mind the dilemma of the local officials with responsibility for this decision who are faced with requests from domestic enterprises and organizations to get facilities at least equal to those being granted to the foreigners. Very often the U.S. firms have gotten better office space than many local enterprises in Eastern Europe with a much longer standing call on these recourses than the West has.

I think you might find the situation changed vis-a-vis a year ago in the sense that some sentiment in the business community suggests there has been an overextension of the current office space in Moscow.

Mr. LEIGH. Could I ask just one more question, taking up again the Jackson-Vanik amendment, the general issue that Senator Case has raised. Is it your view that by virtue of the general undertakings of Basket II the United States is required to reconsider or perhaps even repeal the Jackson-Vanik amendment?

Mr. WILSON. There is specific language as you know indicating the advisability of MFN status in the Helsinki agreement. I think the Eastern European governments hope this could happen in the context of Helsinki. We do not regard it as any kind of obligation in this context, however.

Mr. LEIGH. Do they specifically invoke Basket II as a basis for asking for the repeal?

Mr. WILSON. They have to our Government.

Mr. LEIGH. In your conversations with business people and industrial leaders of the governmental variety in Eastern Europe?

Mr. WILSON. They transmit the [MFN] message in a variety of ways, frequently and in the strongest language, but not usually in reference to Helsinki.

Mr. LEIGH. Thank you.

Chairman FASCELL. Mr. Poor.

Mr. POOR. No questions.

Chairman FASCELL. Mr. Buchanan.

Representative BUCHANAN. Dr. Wilson, I am a Republican Member of the Congress. I vote 90 percent of the time with the U.S. Chamber of Commerce's stated position because I believe in the free enterprise system, the Bill of Rights and our wonderful system of liberty under law in the United States. I want you to understand both the tone and content of my question arising from what I am coming from.

Were I, instead of what I am, the editor of a Communist publication in the Soviet Union and were I able to quote your statement on page 9, paragraph 1, "In the final analysis I believe the best way we can contribute to the cause of human rights abroad is to continue to improve the record of implementation here in our own country," I would feel this was a gold mine for me as a commissar of the closed press in the Soviet Union or some other Iron Curtain country to say here is an American business spokesman saying to an arm of his own Government, let us get our own house in order and that is how we can best speak for human rights.

I want to ask you sir, are you saying that there is a rough comparison between the human rights situation in the United States and that in the Soviet Union?

Mr. WILSON. I was intending to draw no analogies whatsoever, sir. I was speaking, as I hope I indicated, in a personal capacity, not in any official capacity, with regard to that personal conviction. The thrust of the thought was simply that teaching by example can often be more impactful.

Representative BUCHANAN. You are implying there is something wrong here. Can you tell me what that is?

Mr. WILSON. I don't think it is possible to draw comparisons between our system which I again personally believe is far superior in almost all respects to those of other countries of the world. But there are undoubtedly a lot of things that we can do to improve the human rights situation in this country. I would not like to engage in a debate on that subject but I am referring to things like busing and the recognition of minority opportunity rights.

Representative BUCHANAN. This would in your view be comparable to the repression of Soviet Jewry, of all means of religious expression in the Soviet Union, political imprisonment.

Mr. WILSON. I was not trying to make a comparison.

Representative BUCHANAN. Restriction on emigration, other violations of human rights in the Soviet Union. So if we do better in busing we will somehow better combat those problems in the world?

Mr. WILSON. By no means. I was not intending to make any kind of comparison.

Representative BUCHANAN. OK. To me that is like saying to a teenage girl if you do something about your pimples that is the best way you can combat such problems as prostitution and murder in the world. I really find that an astounding statement.

Now, let me turn to another statement, if I may. I want to know exactly what you mean on page 8 of your statement when you are talking about Jackson-Vanik and talking about a substitution of language:

"What might be done instead—and this is only a personal thought—would be to find some formula which reminds the world of our basic

dedication to human rights and insert it into the unacceptable portions of title IV."

Do I understand this is to remove the teeth of title IV with pious sentiment? Is that what you are proposing?

Mr. WILSON. Well, it is a matter of political fact that there are portions of title IV which are now and for the foreseeable future totally unacceptable in the eyes of the Eastern European governments. They pertain to assurances, et cetera. If you describe them as teeth, then that would be a tooth that would have to be removed.

Representative BUCHANAN. There are some aspects of human rights such as emigration policy that we now agree are subject to the Helsinki agreement. Would not what you propose use Helsinki against itself? Should the language of the Helsinki agreement be used to say that the substance, the heart, the whole thrust of the Helsinki agreement has no meaning if it applies to some domestic policy?

It is my understanding of Helsinki that there are some issues of human rights although if they pertain to domestic policy of individual countries were agreed to be a part of these commitments and the signers were saying these are rights we recognize and honor in our domestic policy.

Mr. WILSON. Hopefully we could get that kind of honor and recognition from the other side by using the vehicle of Helsinki rather than some other vehicle.

Representative BUCHANAN. I would say with Thomas Jefferson that we must bind men by the chains of law.

Thank you.

Chairman FASCELL. Mrs. Fenwick.

Representative FENWICK. That was one of my questions. On page 8 of your testimony, I understand that you advise substituting other language of title IV which is found unacceptable or unpleasant. It seems to me that that is sad because in title IV there is precise language which is addressed to certain acts concerning human rights and what I understand you to advocate is the substitution of less precise language. This is, I think, understood. I would like to ask one question.

When you speak on page 3 of publishing these reports concerning Basket II what publishing have you done? The Swiss have a very good booklet which explains the provisions and is widely circulated by mail to firms doing overseas business. Have you done comparable things in the chamber of commerce?

Mr. WILSON. No, we haven't. Perhaps we could because, as Dr. Hardt suggested, there is a basic lack of familiarity with this document.

Representative FENWICK. How is it published then?

Mr. WILSON. We have published, as I mentioned, the records of our meetings. We have published special reports on the 5-year plan and disseminated them.

Representative FENWICK. To whom do they go and how widely?

Mr. WILSON. They go automatically to members of the Councils, and to other members of the American business community primarily upon request per advertisements in our periodicals.

Representative FENWICK. Those reports, you tell us, do not contain reference to Basket II provisions which would encourage them to take advantage of it; is that correct?

Mr. WILSON. That is correct. Many of them were prepared before the signature of the Helsinki agreement.

Representative FENWICK. I would like to, if I may, taking for granted I share my colleagues' distress about page 8, refer to page 9 in your testimony. "Looking at it more positively, our commercially oriented experience has meant much in human terms."

You spoke glowingly of the Bulgarian meeting. There is a difference in human terms between the meeting of a few businessmen and some very secure government officials and a meeting with people who haven't any protection. That is what the whole Helsinki agreement was supposed to be about, not the powerful who sit, intransigent, in governmental positions or those who come with valid reasons and great knowledge and technique.

This is what is troubling us here, Mr. Wilson. There is a sort of gap between what we are up to when we send our President halfway round the world to sign documents in behalf of human rights and what seems to be going on the rest of the time.

Mr. WILSON. The tragedy of the dilemma in human terms is perhaps that we have to deal in a system of recognized governments with those governments as they do with us.

Representative FENWICK. As the Senator pointed out, we don't do it. They deal with us in their way and we deal with them in ours.

Senator CASE. That is the most eloquent statement I have heard in years.

Representative FENWICK. Thank you.

Chairman FASCELL. Dr. Wilson, let me thank you very much for taking the time to prepare your material and also to answer and participate with us in discussions. It has been very useful as you can see. We have a broad interest in this whole matter. I think we have a great deal of common ground despite the parameters of the discussion that have flowed from your presentation. There is nothing wrong with moral suasion. After all, that is the whole concept of Helsinki. This is what you are advocating. If you want no legislative strictures then moral suasion becomes your tool, it is the only one.

If you are not going to wheel and deal and use leverage, then you have to use the power of the intellect. That is what Helsinki is all about. The Chamber of course is very useful and helpful in using its own position, its own knowledge in helping out in a variety of ways.

Certainly the International Center and its bilateral groupings are extremely helpful. The thought occurs to me that rather than take a position to take the restrictions out of legislation and not use that route, the Chamber might consider going one step beyond where it is now in terms of its moral suasion. You may wish to consider the suggestions Mrs. Fenwick has made to review Helsinki in context of your own works and give it the impetus in moral suasion in economic terms that would be useful or helpful. Such an affirmative response by the chamber would be most helpful in carrying out Helsinki and preparing for Belgrade.

Assessment obviously is essential. We need facts, we need to know what we are talking about. In Basket II we have to come to the people who are on the frontline trenches.

If we are going to seriously follow up what you are talking about, this great effort, and by great effort I mean the heads of states of 35

countries coming together to agree on Helsinki. These accords are a great moral suasion in the world; tremendous principles which ought to be implemented in every way possible.

I know in other areas the U.S. Chamber has responded vigorously, for example, in making publications available, and in giving them the widest possible dissemination. The Chamber might take a look at Helsinki in some kind of publication that would be broadly based, specifically articulated for Basket II, specifically articulated for Basket III, and completely interrelated.

Mr. WILSON. We would like to consider that thought most seriously.

Chairman FASCELL. Thank you very much again. We appreciate it.

Our next witness is Mr. Milton F. Rosenthal who is Chairman of the U.S. section of the Romanian-United States Economic Council, and President of Engelhard Minerals & Chemicals Corp.

Mr. Rosenthal, you have been very patient. I know you have a grasp of what has already happened here since you heard it all. I know you have a prepared statement. We are delighted that you have taken the time to be with us.

Senator CASE. Mr. Chairman, may I say a word? We are very proud of Mr. Rosenthal and his work. He is a New Jersey product. My only deep regret is that I took so long in questioning the other witness that now I have to go before I can hear you. But, believe me, your message will come loud and clear through your paper and I shall read it.

I thank you, Mr. Chairman, for permitting me to pay my respects and also to state my regrets that I can't stay to hear your statement here.

STATEMENT OF MILTON F. ROSENTHAL, CHAIRMAN OF THE U.S. SECTION OF THE ROMANIAN-UNITED STATES ECONOMIC COUNCIL AND PRESIDENT, ENGELHARD MINERALS AND CHEMICALS CORP.

Mr. ROSENTHAL. Thank you very much, Senator. I had hoped you might have stayed and you would have been prepared to make the same statement at the conclusion of my testimony that you made at the inception.

Senator CASE. Maybe I had better get it in now.

Chairman FASCELL. Thank you, Senator Case.

Mr. Rosenthal, we will include prior to your testimony your curriculum vitae indicating your broad experience professionally in business and otherwise. And you may proceed. You may go through it all or summarize it as you see fit. In either event, we will include in the record your entire statement.

Biography—Milton F. Rosenthal (President and Chief Executive Officer of Engelhard Minerals & Chemicals Corporation)

Born in New York City, November 24, 1913.

Education: College of the City of New York, B.A. 1932 (Phi Beta Kappa). Columbia University, LL.B. 1935. Admitted to the Bar of the State of New York, 1935. Member of the Association of the Bar of the City of New York, Chicago Bar Association and Judge Advocate's Association.

Military service: U.S. Army, April 1942–December 1945, 1st Lt. Judge Advocate General's Department.

Business background:

September 1967 to date, President, Engelhard Minerals & Chemicals Corporation, New York.

July 1964 to September 1967, President, Minerals & Chemicals Philipp Corporation, New York.

1946–July 1964, President, Hugo Stinnes Corporation from 1949–1964; Executive Vice-President and Treasurer, 1948–1949; Secretary-Treasurer, 1946–1948.

1940–1942, Associate Attorney, Leve, Hecht & Hadfield, New York.

1937–1940, Law Secretary, Federal Judge William Bondy, U.S. District Court, Southern District of New York.

1935–1937, Research Assistant, New York State Law Revision Commission.

Member of the Board of Directors (apart from Engelhard Minerals & Chemicals Corporation), European-American Banking Corporation, European-American Bank & Trust Company, Ferro Corporation, Midlantic Banks, Inc., Schering-Plough Corporation, Foreign Policy Association, Romanian-U.S. Economic Council, Chairman, U.S. Section, U.S.-U.S.S.R. Trade and Economic Council, Inc.

Marital status: Married, one daughter.

Home: Woodlands Road, Harrison, New York.

Office: 299 Park Avenue, New York, New York.

Mr. ROSENTHAL. I tried to make my statement brief so as to leave some time for questioning.

The letter to me from your chairman, Congressman Fascell, inviting my appearance here today, posed seven questions to which I will endeavor to respond. This response is based on my experience since May 1975 as the Chairman of the American section of the Romanian-United States Economic Council and my status as an American director of the U.S.-U.S.S.R. Trade and Economic Council, since the formation of that Council in September 1973, as well as my principal occupation as the president of Engelhard Minerals & Chemicals Corp. This is an industrial company which does a substantial volume of business throughout the world, including the countries of Eastern Europe, and I have been president of that company and of its predecessor since 1964. For the prior 16 years I was president of another public corporation doing an extensive international business.

I testified before committees of the Senate and the House in September 1976 in support of the United States-Romanian agreement on trade relations. A copy of the statement I then submitted to the House subcommittee is attached to this statement.

I will now proceed to respond to each of the seven questions.

First, during my tenure as chairman of the American section of the Romanian-United States Economic Council, MFN status was extended to Romania. It obviously evoked considerable satisfaction on the part of the Romanians as well as a spurt of activity on their part to take advantage of the opening of the U.S. market for Romanian goods. It also whetted the interest of American companies in doing business with Romanian enterprises. I have personally had a number of meetings with the principal officials of that country, including President Ceausescu and Minister of Foreign Trade Patan, during which a good deal of enthusiasm for a substantial two-way expansion of trade between the two countries was expressed.

My opposite number on the Romanian side of the Council is Vasile Voloseniuc, who is chairman of the Romanian Bank for Foreign Trade. He has given every evidence of wholehearted support for this same principle. The same is true of the Romanian Ambassador to the United States, Nicolae Nicolae, and his predecessor, Corneliu Bogdan.

I believe, therefore, that the atmosphere exists for growth of this commerce in the future. The Romanians, I am sure, will try their best to increase their sales to our market. It is up to American companies to take advantage of the access to the Romanian market which I feel exists. In this connection, it should be noted that Romania is the only Eastern European country that trades more with the industrialized West than with its Socialist neighbors. Romania is not an affluent country and American companies must be sharply competitive to succeed, since they have no preferential status vis-a-vis their competition in such countries as Western Germany, Britain, France, and Japan.

Our Council sessions with the Romanians have been productive. We have arranged a conciliation procedure to try to avoid time-consuming arbitrations. We are proceeding with the drafting of uniform commercial terminology to be employed in contracts. We are explaining the problems we face in dealing with Romanian state enterprises. We are explaining our laws and regulations and the characteristics of our market-oriented economy. We are employing a "brass tacks" approach to doing business without excessive redtape and with flexibility. In my opinion, our Council has the potential to play an important role in the area of business facilitation and, above all, to create and maintain an atmosphere of mutual good will.

Second, I doubt that it can be said that the actions of American businessmen in seeking economic data in Eastern European countries have been influenced by the provisions of Basket II. American firms have for many years been pressing the Eastern countries for more comprehensive commercial information, access to end users and many of the other provisions enumerated in Basket II. They would continue to do so with or without the Helsinki accord.

It is interesting, however, to compare Basket II with the provisions of the United States-Romanian Long-Term Agreement on Economic, Industrial and Technical Cooperation signed in Bucharest at the end of November 1976, by Secretary of Commerce Richardson and Romanian Minister of Foreign Trade Patan. These provisions track many of the provisions of Basket II.

Our Economic Council should be able to make a contribution in this area. I am now gathering experience of American businessmen in dealings with Romania and intend to convey a summary of my findings to the Romanians. Our American Council members are interested in real business and not in flowery communiques. I think the same is true of the Romanians.

Third, concerning the current status of economic cooperation between U.S. interests, the U.S.S.R. and Eastern Europe generally it would be wrong to characterize that status as satisfactory from the point of view of either side. This is because the United States still plays such a small part in the total foreign trade of that group of countries, compared with the other industrialized countries.

The reasons for this state of affairs are obvious. Unless countries have nondiscriminatory access to each other's markets, their total trade with each other will reflect that fact.

You have asked me to define the "obstacles." The roots are political and not economic.

You have asked me my opinion on how to overcome these obstacles. I have little guidance to offer here. It is the American administration and the Congress which have the responsibility to define and implement the international political objectives of the country. Businessmen can only report the results they observe in areas which concern them.

Fourth, can provisions of Basket II help serve our interests and overcome the obstacles? I think the answer to the first of these questions is "yes" and to the second "Perhaps, but probably no."

Basket II essentially provides for improvement in working relationships and conditions, access to economic data and the like. I cannot see how parallel compliance with these principles by both our country and the Eastern countries can hurt our interests and believe that it certainly should tend to help them. It is in the interest of the United States to encourage a greater participation on the part of the Soviet Union and Eastern Europe in the international economic community. Such participation fosters commercial cooperation and economic stability. These international organizations include: GATT, the IMF and the World Bank. Such developments, it should be noted, may be the precursor for easing political tensions and their economic consequences, all of which inhibit trade, but they will not by themselves overcome the real obstacles.

To avoid talking only in generalities, let me give the illustration of absence of Export-Import Bank credits for trade with the U.S.S.R. The nonavailability derives from a political decision. Basket II cannot itself reverse that decision.

Fifth, has there been progress on various Basket II objectives since Helsinki? Yes, but frankly I do not think it is because of the Helsinki accord. If you addressed this same question to businessmen or political scientists in other industrialized countries, I think you would get the same response. In my opinion, nations move forward in these areas not because they have signed accords, but because they discern that their essential interests are benefitted by such action.

This is especially true of countries with nonmarket oriented economies, because there the distinction between politics and economics often is a difficult line to find. In centralized economy nations, political leaders frequently understand as much about the operations and equipment of their principal production facilities as senior executives of American corporations do about their own plants. I know this from my personal experience. This probably gives the Communist officials an advantage in dealing with their Western counterparts, who observe the differentiation between their public and private sectors.

I am not suggesting that our legislators and administration officials be ex-businessmen, but hopefully, one day they will be provided with the opportunity to obtain greater personal experience in the practical workings of the private sector, just as we seek to develop programs in reverse.

As far as the American business community is concerned, it can be counted on to pursue aggressively the objectives of Basket II. If you can help by intergovernmental prodding and support, so much the better.

Sixth, I think it apparent that achievement of Basket II objectives will only become meaningful if the new administration and Congress reach the underlying political accords with the Eastern countries that are the sine qua non for effective economic relations. I would hope that this is fully understood. I would not presume to offer my own political judgments on the many complex issues involved.

One thing I can urge, however, and that is, wherever possible, the linkage between political and commercial decisions be separated. My own firm has prospered greatly over the years in increasing its international business with countries with widely varying ideologies precisely because we are apolitical in the conduct of our business. We observe the rules but we are not an instrument of political policy.

The seventh question concerns my experience with the linkage between progress in East-West economic relations and progress in humanitarian questions. I am a poor reporter on such matters. Here you must turn to those with better professional qualifications, who have accumulated and analyzed the relevant data. For my part, I have tried to explain to officials in Eastern countries with whom I have had contact and who have raised these matters for discussion, that preoccupation with humanitarian considerations is not a recent American development.

Perhaps it is because I am by nature an optimist but, in response to your last query, I do believe that progress in relations in any area tends to beget progress in others.

I will be glad to respond to your questions.

Thank you.

Chairman FASCELL. Thank you very much, Mr. Rosenthal, for being that specific and precise. You raise a lot of interesting points which have been discussed in and out of the Congress as long as I have been here. I would like to suggest as usual there are areas of agreement and disagreement even when you agree on a broad statement of principles. I have a hard time making the distinction that you make so easily about political, business, or economic decisions. You make a clear distinction, for example, in the East they are one and the same because it is a central government, authoritarian government, and that the persons who make them are very able because they have the technical knowledge. But they are not operating a profit oriented business—so they have a big advantage. That is one business difference.

They understand the policy, governmentally speaking, and economics involved so they can talk to you with two hats at the same time and you can't. But to say that a business action taken by an American businessman is not a political decision is really not quite that simple.

We struggle in the Congress with all kinds of the problems of the "normal" activities of business abroad which we all support and want to encourage, as having the most profound political repercussions in the United States. I don't see how you can divorce them. We have spent an inordinate amount of time on this issue as long as I have been in the Congress of the United States. I don't think they are separate. There is a separation of the private sector and public sector in the United States. But it is very difficult to indicate a real, clear line between economic and political decisions in this country.

Mr. ROSENTHAL. Let me try to explain my statement, Mr. Chairman.

I am not pretending to propose to Congress what its political philosophy ought to be in this area. That is for Congress and the administration.

Chairman FASCELL. And I am not pretending to tell you how to run your business.

Mr. ROSENTHAL. But there is a linkage.

Chairman FASCELL. Yes; we are operating under the same rules. That is one. I can name a whole host of others.

Mr. ROSENTHAL. We will obey without question all the rules of the U.S. Government. I don't think that the American business community in and of itself possesses the essential political wisdom to make these decisions by itself. It can report to the Congress, it can report to the administration what its findings are, what its concerns are, but the final arbiter in the political area must necessarily be those who are entrusted with political responsibility.

Chairman FASCELL. I understand that. We have no question there. That is not what I am talking about. I am talking about when you make a move and you are the head of a company and you go into 110 countries and I am trying to run a policy on something else, I can't sit back here and say what Rosenthal does does not affect me. He is a good businessman, his company is prospering, he is following the rules. His stockholders think he is a hero and I can ignore what he is doing in the 110 countries.

Mr. ROSENTHAL. I am not asking you to. Even if I asked you would refuse.

Chairman FASCELL. You might try me.

Mr. ROSENTHAL. I would not ask you because I don't think it is right under the way we run our system in this country.

Chairman FASCELL. That means I will have to sit down and have a head-to-head talk with you once in a while.

Mr. ROSENTHAL. I think that is very desirable. I think it is desirable that businessmen have an understanding of the way our political system works by becoming involved in it and I think it also desirable that our administration officials and our Congress have an understanding of how and why and when our economic system works and when it does not work. That is all I am saying.

Chairman FASCELL. I would like to have an opportunity to accept your offer to work with your company at double the salary I am now making and give myself an opportunity to prove that I can earn it.

Mr. ROSENTHAL. Let us talk about that.

Chairman FASCELL. No; but your suggestion, of course, is a good one. We have a problem of communication even here in Government. For example, it is so easy to pick on the State Department. But those people work hard, they have tremendous responsibilities and many of us here who have our problems with one agency or another simply lack the knowledge of the management problems that they have, much less the issues, and so you have an arms-length dialogue at all times. It is like talking about apples and oranges.

Mr. ROSENTHAL. I would like to make something clear, Congressman. I did not suggest that you let the business community loose throughout the world to do exactly what they wanted.

Chairman FASCELL. That is not my understanding. Let me draw down on your practical experience, though, to deal with a political

problem in human terms. After all, you have to grapple with that if you are going to be successful in any country. You have to know how to deal with people and accomplish your objective and solve your problems.

We are all problem-oriented. So here is a Commission on Helsinki and its implementation. We are trying to get on track, the administration, the Congress, the American people, and American business and everybody else is trying to get a consensus; trying to evolve a position and decide on what to do about a major international accomplishment—Helsinki accords.

We as Commission members and our staff and whatnot in all good faith had gone around to get educated. We want to go see our colleagues who have the same responsibilities in Europe, Eastern Europe and the U.S.S.R. and whatnot. And, the U.S.S.R. and Eastern European countries slam the door in our faces, saying, "No, you are not going to come around and talk to us."

All we want to do at this point is talk. We don't have the power to negotiate. We can't do anything, even make a deal. You can. We can't. All we want to do is get educated. The U.S.S.R. and the Eastern European countries would not admit us. How do you think we ought to respond to that?

MR. ROSENTHAL. In the first place, Congressman, I read this booklet which was prepared by your staff which describes this accord and the pertinent questions which arise under it and I was struck by the fact that it is replete with evidence of its legal ineffectuality as a binding document.

CHAIRMAN FASCELL. It is not a binding document, you are right. It is so broad everybody can take his own position on it. But that is the beauty of an international agreement.

MR. ROSENTHAL. If you will permit me to dissent from that last remark I will go on. I have a feeling that international agreements ought to be much more precise although obviously like any constitutional document, perhaps they need a certain amount of flexibility in interpretation as conditions change. If one executes an accord which by very definition is not binding, then you are laying the foundation for rejection of your request for admission to other countries with a view toward monitoring compliance with a noneffectual document.

So I think the first thing, the first prerequisite for a state of affairs in which there is some claim of right, not only to exacting compliance by others with a set of principles but also to monitoring that compliance, is to achieve their legal agreement to the observation of those principles, and I mean legal agreement.

CHAIRMAN FASCELL. I think we need to straighten out the context there. The term "monitoring" from a U.S. standpoint means monitoring the United States. As it applies to other countries there is no way we can "monitor" unless they want to give us some information voluntarily. We have no power of enforcement, we have no power of entry, we have no right of inspection. We don't intend to do that. Anybody who looks at this Commission or understands our system, immediately knows that. You don't have to ask anybody. You don't need a lawyer to figure that out. I quite agree with you, for example, if you are going to go into the U.S.S.R. and check out their missile sites you had better

get an agreement or you are going to get shot. But all we want to do is talk. I have a hard time equating conversation with shooting a missile.

Mr. ROSENTHAL. Congressman, if it were up to me I would be delighted to issue all the appropriate visas.

Chairman FASCELL. The difference is you don't have any problem to get in because you are going to do business. You have something they want and they have something you want and you have a mutual interest.

Mr. ROSENTHAL. Accord.

Chairman FASCELL. The Helsinki accord is an accord. That is all I am saying. Even scholars have a right to inquire.

Mr. ROSENTHAL. The journey of a thousand miles still begins with a single step.

Chairman FASCELL. Exactly. I am not asking you to talk to your good friends, believe me. You have enough problems. I don't want you to even mention it to them. I don't want you to say a word because we believe that through the powers of persuasion and when they understand who we are and what not, perhaps at some point before Belgrade we will have a opportunity to talk. I am sure they would like to tell us a lot of things and we would like to tell them and that is all there is to it.

Mr. Buchanan.

Representative BUCHANAN. Thank you, Mr. Chairman.

Mr. Rosenthal, first of all, in our House Committee on International Relations we have learned to have proper respect for a person named Rosenthal. I don't know whether you are a relation or not.

Chairman FASCELL. That is an inside joke, I am afraid.

Mr. ROSENTHAL. It is outside, too.

Chairman FASCELL. Touché, Mr. Rosenthal. You are not related by any chance?

Mr. ROSENTHAL. Not at all. That is a factual statement.

Representative BUCHANAN. I really think that since we have to make decisions managing a multibillion dollar budget it would be good if we had a better understanding of how business works.

Since our whole country has been built on a free enterprise system, it would certainly be in order if our Government had a more positive attitude toward business generally and business problems. I think I would share some of the sentiments you have expressed in your statement.

I would accept the distinctions you make between your responsibility and our responsibility but I would hope you do really understand that the bottom line for us does have to be such things as the national interest of the United States or human rights, you do understand that?

Mr. ROSENTHAL. I certainly do.

Representative BUCHANAN. Therefore, we are coming from a slightly different place obviously. I think that you make a really substantially good point on page 7 of your statement, the answer to the fifth question as to whether there has been progress on those objectives since Helsinki.

You say, "yes" you generally think so, not because of Helsinki accords and as others like you would probably agree, nations move for-

ward in these areas not because they sign accords but because they discern that their essential interests are benefited by such action.

Frankly, Mr. Chairman, I think that makes profound good sense to me, but what I would ask for Mr. Rosenthal to respond to is that this is a part of the whole concept of the Congress, for example, when it passes something like the controversial amendment we were discussing a few moments ago. It was perhaps the assumption of the Congress that the Russians really need us more than we need them, therefore, if we really want them to do something in the area of human rights pertaining to emigration that what we have to do is reach them in some way that meets a vital interest of theirs which is in our power to meet. Just an agreement on paper saying we all believe in truth and justice is not the way to get it but the way to get it is to say "OK, we will do business with you in this way that really means something to you, if you will do this thing that may seem to you internal or may puzzle you as to why it is of a special interest to us, if you will do this thing, then we will do with you that which we think will mean a great deal more to you than it would to us."

I wish you would respond because as far as I am concerned that is the theory behind the whole Jackson-Vanik amendment.

Mr. ROSENTHAL. I think nations for centuries have been dealing with each other on the basis of quid pro quo. But here again, it is a question of Congress and the administration jointly and cooperatively deciding upon what the appropriate quid pro quos are in each individual instance.

What I am saying is that in effect an American businessman has one basic mission. It is to produce and sell the largest quantity of goods and services on the basis of honorable profit to the company for which he is working.

Now, I would hope that American businessmen would not lag behind any other segment of our community in their basic patriotism. I would certainly fight any intimation that I am lacking in this respect.

All we, however, can do is provide our input to Congress and the administration as to what actually has happened in the world in which we operate. What I am saying to you is that despite the MFN conditions that have been imposed by this amendment, you have here somebody who is in frequent communication with representatives of the Eastern countries saying that in his opinion they are not going to budge on this subject.

Now, as I see things throughout the world, and, believe me we operate throughout the entire world, I have tried to evaluate what are the alternatives? I always look at the downside risk in a situation. What are the alternatives? What alternatives do the Eastern countries have to dealing with us?

Well, if they don't deal with us by observing these conditions that have been laid down, they do not have the access to our markets for their goods. But since in the main our economy is much more highly technologically oriented than theirs as a group, they are not so greatly disadvantaged by the nonavailability of our market for the sale of their goods as in fact we might be for the sale correlatively of our manufactured products and technically oriented services to them,

especially when you come down to the underlying jobs that the sale of these goods and services might produce.

Second, they have access to other areas of the world that produce these very types of goods and services and make them available to them without the insertion of these conditions. Japan, Britain, West Germany, France, the Netherlands. I assure you that the manufacture of a turbine or generator is not an American monopoly. It can be found on the part of very respectable and financially capable organizations in other countries as well.

What we can do as businessmen is to apprise you of this data for you to sift it and analyze it and come to your own conclusion.

As I said in my statement, I do not want to color my statement with political pronouncements because I feel they are beyond the proper jurisdiction which I have as a businessman and this narrow capacity in which I am testifying before you. That does not mean that I do not have feelings, I do.

Chairman FASCELL. Mrs. Fenwick.

Representative FENWICK. I want to ask you whether or not you are able to get in touch with end users. When we went under our chairman to Europe the businessmen there spoke to us about an increasing ability which to them was immensely valuable, of access directly to the users. They mentioned this as true in Poland specifically and also in Romania. Have you noticed that access to users is increasingly allowed?

Mr. ROSENTHAL. Somewhat. Let me try to explain the background against which you must evaluate this. If you analyze the method in which these centralized economies function, it is generally based upon a plan which carries forward for a period of years.

Representative FENWICK. I understand the background.

Mr. ROSENTHAL. They also have what they call trading companies or organizations which generally are under their Ministry of Foreign Trade which have the commitment and obligation and the jurisdiction to handle imports and exports of raw materials, goods and services. They do not like to disturb that pattern.

Therefore, when an American engineer says "I would like to go see that plant and talk to the plant manager about that machine I am supposed to put in there to find out if that will jibe with the other widgets to which it is going to connect or whether it will be too large, or too small," there is reluctance on the part of this purchase organization to allow the penetration to their clients behind them. I have found that in almost every purchasing organization for every large corporation in the United States as well.

But over a period of time the technical people here begin to talk with each other. But please let us remember that we have had decades for this to take place in this country. Today a General Motors Corp. will realize that it must speak with its suppliers not only on the basis of purchasing department to supplier, but on the basis of technical service, engineering, research and the like, so as to be apprised at all levels of what is going on.

I think in time the same thing will happen with respect to the Eastern European countries precisely because they will determine it is in their own interest to do so.

Representative FENWICK. Do they speak to you about title IV?

Mr. ROSENTHAL. When they do speak they speak about MFN and about the irrelevancy of the conditions which have been imposed by the Jackson-Vanik amendment. I am quoting their description of it.

Representative FENWICK. Do they speak of Helsinki, too?

Mr. ROSENTHAL. I have never heard it mentioned.

Representative FENWICK. I have just one observation. I was very happy to see this on page 10 of your testimony:

For my part, I have tried to explain to officials in Eastern countries with whom I have had contact and who have raised these matters for discussion, that preoccupation with humanitarian considerations is not a recent American development.

I think that is what businessmen can convey: The question of human rights is not some obsession, or something that we are suddenly undertaking for political reasons. This has been true in the United States for many years. Herbert Hoover went with food to Russia when it was already a Communist government and long before that also, America responded to various human needs.

This is not some new fancy development. It is something basic in America's character.

Mr. ROSENTHAL. It is at least 200 years old.

Representative FENWICK. Yes. The fact that you convey that to people with whom you do business is very important, I think. That is the heart of the matter.

Mr. ROSENTHAL. Yes, but I would caution, however, I do not want an improper implication to be drawn from my statement, there was a condition that I mentioned, "Who have raised these matters for discussion." It is not often raised for discussion.

Representative BUCHANAN. I do think the role of American business is and can be very important in terms of the more we can build these relationships the stronger base there is for peace and stability and for our being in a position.

Mr. ROSENTHAL. I very much agree.

Chairman FASCELL. Mr. Leigh.

Mr. LEIGH. No questions, Mr. Chairman.

Representative FENWICK. It is important that they know we are united on this. They already know that certainly you are interested in doing business. That is what you are there for. That is the whole point. But if they find, when they question you on human rights this is what you think, that is an important point. It conveys what is true about our country, what we all care about.

Mr. ROSENTHAL. I would like you to believe, because I believe it when American businessmen speak to people in other countries and try to do business there they do not abandon their own ideals in the process.

Chairman FASCELL. I think American business has been unfairly criticized, Mr. Rosenthal, in a great many cases. All of us have had the opportunity to make the case for American business particularly in the international arena where it is often so easy to overlook the very difficult problems that American business has had and yet it has not only survived, it has expanded and it has done extremely well.

So, somebody must be doing something right. There is no question about that. I think we can and should draw a great many lessons

and understanding from their ability to operate because they run into all the same problems that any Government official has to run into. They have their advantages for doing that, they have have their disadvantages.

In government you can't marry the boss's daughter. You can't necessarily take your flag off the front fender of the car if you are an ambassador. Beyond that there is a great deal that we need to discuss in coming times and it is not irrelevant.

The role of the multinational; criticism that is being levied from all sides on multinational operations is a very serious matter, it seems to me, as an obstacle to business. And all tied in with questions of the relationships of people, the interchange of values, socially culturally, politically, freedom, rights. All these things are involved.

One of my observations in traveling through Europe and talking to counterparts in Europe on the question of Basket II, they came up with the same conclusion you did, that really you can't ascribe any magic to Basket II as far as any improvement. Business was business and they were doing this 100 years before Helsinki ever came around and they will be doing it thereafter.

But they did note this; the same kind of thing you have pointed out in your own statement, which is that trade agreement and Basket II track the kind of ideas you fellows were talking about bilaterally. They are doing the same thing. Other countries in Europe where Basket II means a lot more to them than the United States that is trade. In their trade agreement they are tracking, they have found out by looking at the document, you know the politicians weren't stupid, they went to the trade agreements that the businessmen worked out and they tracked them.

Then there was another amazing kind of development, the hard-nosed business guys were saying, it is a funny thing but now over cocktails or coffee or whatever it is we find references to the Helsinki accord with respect to our own business in terms of what is going to go in the trade agreement. It has become a new international language whereas before it was just the kind of a bilateral thing. That is one advantage of Basket II, Helsinki, which is that what was going on bilaterally and everybody knew about was suddenly put into an umbrella document. So that while you would not use it anyway, what you are negotiating at bilaterally however is the same thing.

Mr. ROSENTHAL. Congressman, there was such an agreement between Romania and the United States at the end of November.

Chairman FASCELL. I know.

Mr. ROSENTHAL. I referred to that.

Chairman FASCELL. That is what I was talking about.

Mr. ROSENTHAL. I should insert the comment that my first view of that document was just after it had been signed.

Chairman FASCELL. I understand. In other words, we are all traveling the same railroad track.

Mr. ROSENTHAL. Sometimes we are passing each other in the night.

Chairman FASCELL. Yes, sir. Communication is the name of the ballgame. All of this is by way of predicate to lay a little emphasis on a discussion we had with Dr. Wilson. Since you are in a very important position, conversation is easy and you don't have to trade off. You have already done the hard part. So now it becomes easy to throw

Basket II in as a citation for this because you have already done it.

Mr. ROSENTHAL. Could I add one comment, Congressman?

Chairman FASCELL. Yes, sir. So instead of making one citation and say, Hey, look, in the bilateral it says so and so you say in the bilateral and in Helsinki it says so and so.

Mr. ROSENTHAL. If you don't mind, I will take that under advisement.

Chairman FASCELL. I understand. I did not ask for anything.

Mr. ROSENTHAL. There was a comment by Dr. Hardt who is obviously very expert in this general area and to whose comments I listened with great attention, concerning preferential arrangements. Let me give you my own firm's experience. We think we know what is going on in our business everywhere. If we don't, we have the wrong people working for us. We don't get every contract. We don't deserve to get every contract. We don't believe anybody has a preferential status over us any place we operate. If we find somebody is beating us to the door, we will find out what the situation is in good time.

Chairman FASCELL. Then Mrs. Fenwick and Senator Case will hear from you.

Mr. ROSENTHAL. I think we can do a good deal of that on our own because that is basically our responsibility, not to go for help but do it on our own. That is what I recommend American business do in trying to get business with Romania. Try to penetrate that market on their own. If they find there are obstacles which seem to them to be abnormal, come to me. I will do my best to help them.

Chairman FASCELL. I will buy that, Mr. Rosenthal. I that same spirit let me add this. There has been some discussion, nothing serious yet and no real effort I can detect, about some competitive mechanism in dealing, because the individual businessman, in dealing with non-market oriented countries. There has been some discussion about a trading corporation.

Rather than put the American businessman in the proposition whereby he has found out already, he can go by himself and deal with this whole mechanism inside a nonmarket oriented country, he has found that it is extremely useful to set up councils, international centers and other mechanisms to cope with the matter in a group fashion.

Mr. ROSENTHAL. Only to the extent of providing an atmosphere.

Chairman FASCELL. Agreed. Now, let us assume for the sake of discussion that all of the people who are interested in doing business in Romania, and you can lay down your own criteria, are members of a board of a trading corporation for Romania. Such a trading corporation would be a private mechanism, I don't know that it is good, I am not saying it is bad, but I would rather see that attempt made before we legislate something.

Mr. ROSENTHAL. Congressman, with all due respect that is not the way to do it. Each fellow has to do it on his own and compete with his fellow competitor. It is the way we do it here. It is the way to do it over there. I also would like to draw your attention to the fact that when we face competition, it is not just American competition; it is competition from Japanese, it is competition from British firms, from French, from Germany and so forth. The most equal footing we can have with them is if we are unfettered in the way in which we do our business.

Chairman FASCELL. As I say, I don't want to tell you how to do your business because you have been too successful. All I was suggesting is that sometimes a joint venture is not a bad deal.

Mr. ROSENTHAL. That is true. We have a number of them.

Chairman FASCELL. I want to thank you very much. You have been very gracious and certainly very direct and open. Sometime when you feel in the mood to express your political opinion we would like to have you back.

Mr. ROSENTHAL. Thank you, Congressman.

Representative FENWICK. And I am from New Jersey, too.

Chairman FASCELL. Thank you very much, Mr. Rosenthal. We will be in contact with you. We need some help on this whole process. We are not unmindful of the caveat which you have laid down, I assure you.

Mr. ROSENTHAL. Thank you very much.

Chairman FASCELL. The Commission will reconvene tomorrow morning at 10.

[Whereupon, at 4:55 p.m., the Commission recessed, to reconvene at 10 a.m., Friday, January 14, 1977.]

IMPLEMENTATION OF HELSINKI ACCORDS

FRIDAY, JANUARY 14, 1977

CONGRESS OF THE UNITED STATES,
COMMISSION ON SECURITY AND COOPERATION IN EUROPE,
Washington, D.C.

The Commission on Security and Cooperation in Europe met at 10:15 a.m., pursuant to recess in room 2172, Rayburn House Office Building, Hon. Dante B. Fascell [chairman of the Commission] presiding.

Present: Commissioners Fascell, Bingham, Fenwick, Monroe Leigh and R. Spencer Oliver, staff director.

Chairman FASCELL. The Commission will come to order.

Today we continue our examination of Basket II of the Helsinki accords. The witnesses today are Assistant Treasury Secretary Gerald Parsky, Deputy Secretary of State Charles Robinson, Commerce Secretary Elliott Richardson and U.S.-U.S.S.R. Trade Council Chairman Donald Kendall.

Each of these individuals has had unique experience in East-West economic affairs and the broader political questions affecting relations between the United States and the Soviet Union. Their careers both in and out of Government brought them to the highest councils of the Ford Administration, where decisions were made both on matters of East-West trade and the priorities given to nontrade factors, such as Soviet emigration policies, which affected U.S. trade policy.

We look forward to hearing their views on how these decisions were shaped, as well as what problems the new Congress and administration should take into account as East-West policy is reexamined in the months preceding Belgrade.

Our first witness this morning is the Assistant Secretary of the Treasury for International Affairs, Mr. Gerald L. Parsky, who is recognized as a key U.S. spokesman.

We are delighted to have him here with us today. We will be very happy to hear from you, Mr. Parsky.

STATEMENT OF GERALD L. PARSKY, ASSISTANT SECRETARY OF THE TREASURY FOR INTERNATIONAL AFFAIRS

Mr. PARSKY. Thank you, Mr. Chairman. It is my pleasure to appear here today.

I have a rather lengthy statement, and to the extent possible, I will summarize certain portions of it. But I would appreciate if it could be submitted in full for the record.

Chairman FASCELL. Without objection, the full statement will be included in the record, Mr. Parsky, and you may proceed.

[The statement referred to follows:]

STATEMENT BY HON. GERALD L. PARSKY, ASSISTANT SECRETARY OF THE TREASURY

Mr. Chairman and Members of the Commission: It is a pleasure to appear before this Commission to discuss implementation of Basket II of the Final Act of the Conference on Security and Cooperation in Europe (CSCE). As Executive Secretary of the East-West Foreign Trade Board and Chairman of its Working Group, I welcome these hearings as an opportunity to clarify the meaning and relevance of Basket II of the Final Act, and the possibilities for East-West economic cooperation which it offers. I hope that our discussions today can provide guidance to the new Administration and the new Congress to implement further the Final Act, and in so doing facilitate future East-West economic cooperation.

I commend the Commission for its hard work in monitoring implementation of the Helsinki Agreement, and for its efforts to encourage private and governmental projects and programs which will take advantage of provisions of the Act to expand East-West economic cooperation and human contact. I also applaud the initiative demonstrated by the Commission in its inquiries and studies in this area, which has been only slightly understood.

In signing the CSCE Final Act, the United States, Canada and 33 European States, including the Soviet Union and the countries of Eastern Europe, undertook a significant moral and political obligation to carry out its provisions. It is a broad document touching on a wide range of issues grouped together in three Baskets.

Basket I contains a Declaration on a ten-point listing of the principles agreed upon by the signatories to guide relations between them; Basket II contains provisions on cooperation in the fields of trade, industrial cooperation, science and technology, environment and other areas of economic activity; and Basket III includes provisions on humanitarian principles involving the freer movement of people, ideas, and information. In my remarks today I will focus on the progress and prospects for resolving economic issues which hinder the successful implementation of the Basket II provisions.

Basket II, like the rest of the Final Act, contains no legally binding commitments by its signatories to adopt specific policies or programs which would facilitate East-West economic cooperation. But it does provide a framework in which patterns of cooperation in this area may emerge. In Basket II, the Eastern and Western signatories expressed their intention to work together to develop their cooperation in the economic, scientific and technical spheres of activity.

Basket II should be viewed as a basic economic charter leading toward specific steps by governments and nongovernmental institutions on a unilateral, bilateral and multilateral basis.

U.S. INTERESTS IN IMPROVED ECONOMIC COOPERATION WITH THE EAST

Basket II of the Final Act complements U.S. interests in expanding East-West economic cooperation. The central theme running throughout this Basket is that economic contacts are a natural outgrowth of improved political relations—and contribute, in turn, to the stability of these relations. In signing the Agreement the Participating States endorsed the conviction that "their efforts to develop cooperation in the fields of trade, industry, science and technology, the environment and other areas of economic activity contribute to the reinforcement of peace and security in the world as a whole." This is precisely the concept that has underscored U.S. efforts to develop economic cooperation with the East in these fields over the past few years.

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

The Cold War policy of sharply restricted trade and broad embargoes against the Communist countries came to be seen as ineffective in either altering the nature of their systems or materially improving their policies toward the Western world. It was also increasingly recognized that this policy was counter-productive to U.S. economic interests for several reasons:

East-West trade continued to expand more rapidly than world trade despite the lack of significant U.S. participation;

Western Europe and Japan were vigorously gaining access to Eastern markets with government backed credits which the United States continued to withhold; and

The United States was suffering serious balance-of-payments difficulties, and increased trade with the East could generate healthy surpluses.

At the same time, the Soviet Union and the countries of Eastern Europe came to realize that they could not provide for increasing consumer demand or meet the technological requirements of the more sophisticated economies they were seeking solely from their own economic resources. As a result they moved toward greater economic contact with the West.

Faced with these developments, the U.S. Government has, in recent years, sought to implement a policy of detente, in which the attempt to normalize U.S. economic relations with the Soviet Union and Eastern Europe has been an important element.

Stronger economic bonds between the U.S. and the Communist countries have been a critical element of this policy. Economic and political relationships are inevitably intertwined, and improving economic relations can only develop in the context of a stable political environment. But closer economic ties can also help create an environment for progress on political issues. It has therefore been in our economic interest to work to intensify our economic relationship with the Communist world.

At the outset of this new approach, we achieved some notable accomplishments.

In the Moscow Summit in May 1972 former President Nixon and Secretary Brezhnev signed the Basic Principles concerning the development of U.S.-Soviet political and economic relations. Among these principles the two leaders agreed that economic and commercial ties were an "important and necessary element in the strengthening of U.S.-Soviet relations."

Following this meeting, the United States began negotiating a series of agreements designed to improve our economic relations with the Soviet Union. Their purpose was to advance U.S. economic interests and to encourage parallel improvement in our overall relations with that country.

In July of the same year an agreement providing for the extension of \$750 million in CCC credits to the Soviet Union over a three-year period was concluded.

In October the Maritime Agreement was reached opening 40 ports in each country to the flagships of the other and providing that U.S. and Soviet ships should share equally and substantially in the carriage of cargoes between the two countries.

Also in October, the Trade Agreement was concluded providing for reciprocal extension of most-favored-nation (MFN) tariff treatment, along with the Lend Lease Settlement, providing for Soviet payments of \$48 million by July 1975 and of \$674 million following U.S. extension of MFN tariff treatment.

At the same time the President issued a national interest determination authorizing the extension of Eximbank facilities to the U.S.S.R.

In Eastern Europe, the Administration acted to improve trade and economic relations with Romania and Poland. Eximbank facilities were restored to Romania in November 1971 and to Poland a year later.

Following passage of the Equal Export Opportunity Act in 1972, U.S. strategic export controls were reduced to bring the list of controlled items into closer conformity with the list of items controlled by our COCOM allies.

These developments were generally successful in advancing U.S. economic interests in East-West trade. The flow of goods and an exchange of people between our country and the East increased at an extraordinary rate. Our commercial presence expanded in Moscow, Warsaw and Bucharest as U.S. firms established permanent representations there. The U.S. trade surplus with these countries grew significantly, totalling more than \$2.5 billion with the U.S.S.R. alone during the 1971-76 period, and \$3 billion with Eastern Europe.

U.S. IMPEDIMENTS TO GREATER EAST-WEST ECONOMIC COOPERATION

Following adoption of the Trade Act in January 1975, including those provisions which adversely affect our trade with the U.S.S.R. and most of Eastern Europe, further improvement in our commercial and economic ties became harder to achieve. The U.S.-Soviet Trade Agreement was not entered into force, and the Lend Lease payments were suspended. The momentum slowed, costing our economy exports and jobs in our export industries.

These provisions of the Trade Act hinder the development of United States economic activity with the East by blocking the financing of American exports by agencies of the United States Government, and by preventing most-favored-nation treatment of imports from most of the nonmarket economy countries.

President Ford and other members of this Administration made clear our opposition to the discriminatory provisions at the time the trade legislation was under consideration in the Congress. After the legislation was passed, President Ford publicly and emphatically stated his belief that remedial legislation was urgently needed.

Section 402 and related provisions of the Trade Act, and the 1974 Eximbank Act Amendments, have adversely affected the expansion of U.S. economic cooperation with the East, and have served neither the political nor the humanitarian interests of the United States.

A solution to the legislative problem would materially enhance our business community's efforts to expand economic relations with the East. We have had many indications that the lack of official credits from the United States has caused the U.S.S.R. and some of the Eastern European countries to direct their purchases elsewhere. Lost U.S. exports has meant lost jobs in our export industries, a negative impact on our balance-of-trade and on our competitive position in world markets.

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

On November 30, Secretary Simon and I visited Moscow to attend the third annual session of the U.S.-U.S.S.R. Trade and Economic Council with Foreign Trade Minister Patolichev. We experience again, at first hand, the American business community's strong belief that existing U.S. law has strongly impaired the development of our economic and commercial contacts with the Soviet Union.

Based on our discussions, we continue to believe that intensified economic relationships build a community of interest which can create an environment for progress on political issues.

As the Soviet and American leadership have developed the spirit of detente it has moved forward on a diverse set of fronts—political relationships, military concerns, scientific developments, trade and economic cooperation and many others. Each of these parts is related. We should strive to move them forward in a manner that is self-reinforcing.

Detente must not be seen as a short-term tactic but rather as a sustained and growing commitment on both sides. While recognizing the differences between our political and social systems, we must work at a broader definition of detente, one which promotes increased understanding and concern for the complex of issues—security, humanitarian and economic—that form the interfact of our relationship. Within this relationship our economic interests have become a critical element, a significant shift from the early 1960's when they were barely perceived in and of themselves, at all.

If we are to build a stronger foundation for economic cooperation with the countries of the East that will foster mutual benefits, the new Administration must work with the new Congress in the months ahead to pass remedial legislation that will remove existing impediments. I believe that such a legislative effort should be of the highest priority. It is also important to understand, however, that progress on the humanitarian issues is of deep concern to the American people, and that the way in which this concern is satisfied will affect the success of any legislative proposal.

The Basket II text on trade stresses efforts by states to promote trade and to remove obstacles to trade development. While this section provides no firm standard of conduct because the provisions are couched in general language, the Agreement nevertheless states that signatories "will endeavor to reduce or progressively eliminate all kinds of obstacles to the development of trade."

It is my belief that remedying the problem of the discriminatory provisions in existing law will further the economic and political interests of the United States, and such action would also be consistent with the Helsinki Final Act.

In addition we must encourage another change in U.S. law that would remove an unnecessary barrier to the expansion of U.S. commercial relations with the nonmarket economies of the East. The Johnson Debt Default Act of 1934 provides criminal penalties for any individual who, within the U.S., purchases or sells bonds or any other financial obligations of any foreign government which is in default in the payment of its obligations to the United States. The Act has not served its initial purpose, which was to protect American investors against the purchase of obligations of countries likely to default. Instead, it has had the effect of deterring creative methods of financing East-West economic activity by the private market. The repeal of the Act would, in my opinion, facilitate the expansion of this trade on commercial terms.

With regard to our antidumping and countervailing duty legislation, some of our nonmarket trading partners have expressed their concern that these may unfairly hinder their ability to export to the United States. In fact, the application of the antidumping and countervailing duty statutes to exports from non-market economy countries may provide too much protection. These remedies are based on market-economy concepts, and their application to goods produced in state-controlled economies requires somewhat arbitrary and artificial comparisons of prices and costs. While I have no specific recommendations at this time, consideration should be given to substituting market-disruption remedies for antidumping or countervailing duties.

EASTERN IMPEDIMENTS TO GREATER EAST-WEST ECONOMIC COOPERATION

While the United States must strive to remove obstacles to implementation of the goals of Basket II of the Final Act, the nonmarket economy countries must undertake parallel efforts.

For instance, the Soviets and East Europeans can do much to facilitate East-West economic cooperation by improving the physical facilities available to Western businessmen in these countries. A basic limiting factor in improving business facilities in these countries is the shortage of adequate physical resources—office space, telephones, telex service, good secretarial help, and living quarters. Often there is not enough office space for all who desire it. Several countries, including the Soviet Union, are taking steps to provide better facilities, through construction of modern hotels and office buildings dedicated to the service of foreign businessmen. But much remains to be done.

There are presently over 10 U.S. firms awaiting accreditation by Soviet authorities to establish permanent offices in Moscow, in addition to the 24 U.S. firms already established there. The Soviets have stated that, with regard to accredited offices, U.S. firms will receive treatment no less favorable than that accorded to companies of other countries. We are hopeful that accreditations will be forthcoming as the shortage of office and housing space improves.

Another area in which significant improvement is possible concerns the issuance of visas for American businessmen to enter and leave the Communist countries. The lack of multiple entry and exit visas for U.S. businessmen permanently stationed in the U.S.S.R. and other countries causes considerable hardship and psychological stress when they have to enter or exit quickly because of a personal emergency or commercial necessity. The Soviets have never accepted our longstanding proposal that all resident U.S.-citizen employees of accredited American companies receive multiple entry and exit visas in exchange for the issuance of multiple entry visas to all permanent Soviet personnel of Amtorg, the Kama Purchasing Commission, Intourist, and the Trade and Economic Council. (The United States has no exit visa requirements.) We have also stressed the need for such visas for third-country nationals assigned as heads of accredited offices. The Soviets have gone part way to meet our proposals, by granting multiple entry and exit visas to the two top-ranking U.S. representatives of U.S. commercial establishments, and the three ranking U.S.

representatives on the Trade and Economic Council, but they have refused to issue such visas to third-country nationals representing U.S. firms in the U.S.S.R. This has caused considerable concern among some U.S. companies who wish to assign third-country nationals as their Moscow representatives.

The Soviets and East Europeans could also do much to further the goals of the Final Act by making available up-to-date economic and trade information on a regular basis. The Final Act provides that the Participating States will promote the publication and dissemination of economic and commercial information at regular intervals and as quickly as possible, particularly statistics concerning production, national income, budget, consumption and productivity, foreign trade statistics, laws and regulations concerning foreign trade, and information allowing forecasts of the development of the economy.

The provision of economic and commercial information, particularly of a nature that would be useful to Western business firms and banks, has not, with a few exceptions, improved greatly in the period since the Final Act was signed.

With respect to the Soviet Union, there have been no major changes since Helsinki in the quantity, quality, and timeliness of statistics and other economic and commercial information published within the Soviet Union. There have, however, been some small improvements. For example the publication of quarterly trade statistics by country and the provision to the United States bilaterally, under the U.S.-U.S.S.R. Agricultural Agreement, of better agricultural data.

The U.S.-U.S.S.R. Commercial Commission's Working Group of Experts, established under the Long-term Agreement between the United States and the U.S.S.R. to facilitate economic, industrial and technical cooperation, has also served as a productive mechanism for obtaining better statistics and other economic and commercial information from the U.S.S.R. This body is charged with exchanging information and forecasts of basic economic, industrial and commercial trends to facilitate economic cooperation between the United States and the U.S.S.R. We have made progress in obtaining more information through the Working Group's information exchange program and in special seminars on Market Research and on the organizational and legal aspects of U.S. and Soviet foreign trade.

Provision of statistics concerning production, national income, budget, consumption, and productivity from most of the nonmarket economy countries continues to be largely unsatisfactory, however, and no significant change has been evident in the manner of reporting these statistics since Helsinki. Balance-of-payments statistics are especially meager. Little data on debt, debt service, or reserves are published.

Although the traditional Eastern European and Soviet secrecy with regard to basic economic data is slowly eroding, in many Communist countries, market research information is simply not available of the kind Western businessmen are used to having. Such information is not gathered, much less published. In solving this problem, the provisions of Basket II amount to a nudge in the right direction, with a long way to go.

Another major area for improvement in East-West economic cooperation is with respect to joint ventures and other forms of industrial cooperation. The Final Act aims at cooperation in such fields as manufacturing, exploitation of energy resources, and improvement of transport. The Participating States propose to encourage this by means of intergovernmental agreements, both bilateral and multilateral, and through contracts between enterprises and trade organizations. These would include joint production and sale, exchange of knowhow patents, and licenses, and joint research, as well as cooperation on standardization and arbitration.

Considerable progress had already been made in these areas before Helsinki, and forward movement has continued since then, including the recent conclusion by the United States of a long-term agreement with Romania on economic, industrial and technical cooperation. However, major impediments remain which the Soviets and East Europeans could help resolve.

American businessmen report that Soviet procedures make it difficult, slow, and costly to do business with them, requiring much patience and skill. One of the most frequently heard comments is that Soviet requests for proposals are not specific enough; in effect they ask the vendors to tell them what they need. This forces the companies to do an excessive amount of design work before preparing their tenders. American companies spend millions of dollars repeatedly

preparing bids, and most complain that the whole concept and scope of work of the projects keep changing, wasting time and money.

U.S. executives have also pointed out that the unwillingness of the U.S.S.R. to allow foreign managers a role in projects after completion is hurting the prospects for joint business efforts. Thus, U.S. hotel firms will not allow their name on a hotel unless they have a management role. U.S. firms also wish to have a role in quality control of a manufactured product if their name is to be associated with it.

Some of the East European countries have opened the possibility of equity participation and management responsibility in joint enterprises, notably Romania, Hungary and Poland. While this development is very encouraging, the exact terms of such participation are often unclear and subject to interpretation. We applaud what has been done, but the clarification of such questions is an area in which more progress can be made.

EXISTING BODIES WHICH FACILITATE ECONOMIC COOPERATION

As you are aware, non-government and governmental bodies are now in existence whose purpose is to help remove many of these obstacles to the expansion of East-West economic cooperation. I am speaking here of the joint councils, whose membership consists of U.S. businessmen and their counterparts in many of the countries of Eastern Europe and in the Soviet Union, and the government-to-government commercial commissions.

U.S.-U.S.S.R. TRADE AND ECONOMIC COUNCIL

In my contacts with the U.S.-U.S.S.R. Trade and Economic Council, I have been impressed by the important role this private organization has played in strengthening economic ties between the United States and the Soviet Union. The Council's unique contribution in providing continuing access for U.S. businessmen to Soviet foreign trade policy makers at a time when American-Soviet governmental relations in the economic sphere have been strained by the legislative situation, and also by the repercussions of recent political developments, is important for the future development of U.S.-Soviet economic cooperation.

In the three years since its creation in 1973, the Council has worked to bring together businessmen, offering a wide variety of services to facilitate their activities, and organizing expositions, conferences, and seminars. In Moscow the Council has offered office facilities to its hundreds of American members, and has helped them with advice and information on doing business with Soviet organizations. It has explored new forms of international business cooperation and provided a forum for resolution of problems and the discussion of new ideas.

The Council has established several committees for the specialized programs it hopes to implement. Its Science and Technology Committee is sponsoring a series of seminars both in the U.S. and U.S.S.R., the most recent one being on coal gasification in Moscow in early October. The Finance Committee plans to inventory non-government sources of export financing and recommend steps to increase the amount of financing available from investment banks, insurance companies, and regional banks. The Ad Hoc Committee on New Forums of Cooperation is exploring such matters as joint ventures in third countries, marketing training for Soviets in the U.S., establishment of a bonded warehouse in Moscow for storage of spare parts and for servicing of equipment, and Soviet leasing of plants for 15-20 years as a way of maintaining Western management involvement within Soviet legal restrictions. The Tourism Committee is trying to facilitate and increase tourism in both directions and is working out a tourism agreement which it plans to present to the two governments for them to negotiate. The Legal Committee is seeking to identify and publicize differences in the American and Soviet commercial legal systems and to reduce the extent to which these differences hamper the development of trade. All these committees met during the recent Council meeting I attended.

U.S.-U.S.S.R. JOINT COMMERCIAL COMMISSION

I have also been indirectly involved in the activities of the Joint U.S.-U.S.S.R. Commercial Commission, which was established during the Moscow summit of May 1972. The Commission's purpose is to promote the development of mutually

beneficial commercial relations between the United States and the Soviet Union. The accomplishments of the fifth and most recent session of the Commercial Commission, held in Moscow in April 1975, serve as an excellent example of the work being done under its auspices. The session covered the full range of issues important to the expansion of bilateral economic relations.

During the two-day session in Moscow, the members of the Commercial Commission heard reports and exchanged views on the status of discussions between Soviet foreign trade organizations and U.S. companies on a number of cooperation projects, including exploration for oil and gas, machine-building, and the manufacture of energy-consuming products. The facilities of visa issuance, including multiple entry-exit visas to representatives of organizations, enterprises and firms for business-oriented travel, was also discussed.

The Joint Commercial Commission has two Working Groups which met during the Fifth Session. The Working Group on Business Facilitation met to discuss various topics, among them the establishment of joint U.S.-U.S.S.R. stock companies, visas and travel facilitation, marine cargo insurance, and a bilateral air worthiness agreement.

The Working Group on Major Projects and Financing discussed the status of several bilateral projects including the Occidental Petroleum Chemical Complex and the Kama Truck Plant.

The Commission also heard a report on the first meeting of its Experts Working Group, held in February 1975, in Moscow. At that meeting, presentations were made by both sides on the performance and prospects of their respective economies, industries, agriculture, foreign trade, and on the data sources used to measure and analyze their trends and forecasts. In addition, the Working Group agreed to undertake a specific program of information exchange for calendar year 1976, to include joint seminars and periodic data exchanges which helped clarify and facilitate solutions to many practical problems encountered by our businessmen as they undertake economic cooperation with the Soviet Union.

In short, Mr. Chairman, the Trade and Economic Council, the Joint Commercial Commission and Experts Working Group have been important vehicles for promoting greater East-West economic cooperation and have thereby served U.S. policy interests in East-West relations.

Because of their usefulness, I believe that the new Administration should soon propose to the Soviets a new date for meetings of the Experts Group and the Joint Commission. These invitations must be made by our Government because it is our turn to serve as host for the meetings. I am confident that the Soviet Government will welcome such initiatives.

CONCLUSION

Mr. Chairman, I have attempted to be as forthright and as frank as possible in providing you the highlights of those activities and efforts undertaken by this Administration, and which should be taken by the new Administration, to expand East-West economic cooperation in keeping with the terms of Basket II of the Final Act. I have also outlined those areas in which we should look for positive movements by the nonmarket economy countries which are signatories to the Helsinki Agreement.

It is an opportunity that I personally have welcomed. Basket II of the Final Act provides countries in the East and West with a foundation on which they can build stronger ties through closer economic, scientific and technical cooperation. My experience as Assistant Secretary of the Treasury has convinced me that these ties are vital for the long-lasting peaceful relations we all seek.

As this Commission works in the future for further implementation of the provisions of Basket II of the Helsinki Agreement, I urge you to continue to strive for measures that will remove obstacles to the expansion of East-West trade.

Mr. PARSKY. As Executive Secretary of the East-West Foreign Trade Board and Chairman of its Working Group, I welcome these hearings as an opportunity to clarify the meaning and relevance of Basket II of the Final Act, and the possibilities for East-West economic cooperation which it offers. I hope that our discussions today can provide guidance to the new administration and the new Congress

to implement further the Final Act, and in so doing, facilitate future East-West economic cooperation.

I commend the Commission for its hard work in monitoring implementation of the Helsinki agreement and for its efforts to encourage private and governmental projects and programs which will take advantage of provisions of the act to expand East-West economic cooperation and human contact.

In signing the CSCE Final Act, the United States, Canada, and 33 European States, including the Soviet Union and the countries of Eastern Europe, undertook a significant moral and political obligation to carry out its provisions. It is a broad document touching on a wide range of issues grouped together in three Baskets.

In my remarks today I will focus on the progress and prospects for resolving economic issues which hinder the successful implementation of the Basket II provisions.

Basket II, like the rest of the Final Act, contains no legally binding commitments by its signatories to adopt specific policies or programs which would facilitate East-West economic cooperation. But it does provide a framework in which patterns of cooperation in this area may emerge.

In Basket II, the Eastern and Western signatories and expressed their intention to work together to develop their cooperation in the economic, scientific, and technical spheres of activity.

Basket II of the Final Act complements U.S. interests in expanding East-West economic cooperation. The central theme running throughout this Basket is that economic contacts are a natural outgrowth of improved political relations—and contribute, in turn, to the stability of these relations.

This is precisely the concept that has underscored U.S. efforts to develop economic cooperation with the East in these fields over the past few years.

On pages 4 and 5, Mr. Chairman, I provide a little bit of history, and I will skip through that, if I might.

The U.S. Government has, in recent years, sought to implement a policy of détente, in which the attempt to normalize United States economic relations with the Soviet Union and Eastern Europe has been an important element.

Stronger economic bonds between the United States and the Communist countries have been a critical element of this policy. Economic and political relationships are inevitably intertwined, and improving economic relations can only develop in the context of a stable political environment. But closer economic ties can also help create an environment for progress on political issues. It has, therefore, been in our economic interest to work to intensify our economic relationships with the Communist world.

At the outset of this new approach, we achieved some notable accomplishments, and I cite those on pages 6 and 7 and the beginning of page 8 of my testimony.

The flow of goods and exchange of people between our country and the East increased at an extraordinary rate. Our commercial presence expanded in Moscow, Warsaw, and Bucharest as U.S. firms established permanent representations there. The U.S. trade surplus with these

countries grew significantly, totalling more than \$2.5 billion with the U.S.S.R. alone during the 1971-1976 period, and \$3 billion with Eastern Europe.

Following adoption of the Trade Act in January 1975, including those provisions which adversely affect our trade with U.S.S.R. and most of Eastern Europe, further improvement in our commercial and economic ties became harder to achieve. The United States-Soviet Trade Agreement was not entered into force, and the Lend Lease payments were suspended. The momentum slowed, costing our economy exports and jobs in our export industries.

These provisions of the Trade Act hinder the development of U.S. economic activity with the East by blocking the financing of American exports by agencies of the U.S. Government and by preventing most-favored-nation treatment of imports from most of the nonmarket economy countries.

President Ford and other members of this administration made clear our opposition to the discriminatory provisions at the time the trade legislation was under consideration in the Congress. After the legislation was passed, President Ford publicly and emphatically stated his belief that remedial legislation was urgently needed.

Section 402 and related provisions of the Trade Act and the 1974 Eximbank Act Amendments have adversely affected the expansion of U.S. economic cooperation with the East and have served neither the political nor the humanitarian interests of the United States.

A solution to the legislative problem would materially enhance our business community's efforts to expand economic relations with the East. We have had many indications that the lack of official credits from the United States has caused the U.S.S.R. and some of the Eastern European countries to direct their purchases elsewhere. Lost United States exports has meant lost jobs in our export industries, a negative impact on our balance of trade, and on our competitive position in world markets.

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

On November 30, Secretary Simon and I visited Moscow to attend the third annual session of the U.S.-U.S.S.R. Trade and Economic Council with Foreign Trade Minister Patolichev. We experienced again, at first hand, the American business community's strong belief that existing United States law has strongly impaired the development of our economic and commercial contacts with the Soviet Union.

Based on our discussions, we continue to believe that intensified economic relationships build a community of interest which can create political issues.

As the Soviet and American leadership have developed the spirit of détente, it has moved forward on a diverse set of fronts: Political

relationships, military concerns, scientific developments, trade and economic cooperation, and many others. Each of these parts is related. We should strive to move them forward in a manner that is self-reinforcing.

Détente must not be seen as a short-term tactic, but rather as a sustained and growing commitment on both sides. While recognizing the differences between our political and social systems, we must work at a broader definition of détente, one which promotes increased understanding and concern for the complex of issues—security, humanitarian, and economic—that form the interface of our relationship. Within this relationship our economic interests have become a critical element, a significant shift from the early 1960's when they were barely perceived, in and of themselves, at all.

If we are to build a stronger foundation for economic cooperation with the countries of the East that will foster mutual benefits, the new administration must work with the new Congress in the months ahead to pass remedial legislation that will remove existing impediments.

I believe that such a legislative effort should be of the highest priority. It is also important to understand, however, that progress on the humanitarian issues is of deep concern to the American people and that the way in which this concern is satisfied will affect the success of any legislative proposal.

The Basket II text on trade stresses efforts by States to promote trade and to remove obstacles to trade development. While this section provides no firm standard of conduct because the provisions are couched in general language, the agreement, nevertheless, states that signatories "will endeavor to reduce or progressively eliminate all kinds of obstacles to the development of trade."

It is my belief that remedying the problem of the discriminatory provisions in existing law will further the economic and political interests of the United States, and such action would also be consistent with the Helsinki Final Act.

In addition, we must encourage another change in U.S. law that would remove an unnecessary barrier to the expansion of U.S. commercial relations with the nonmarket economies of the East. The Johnson Debt Default Act of 1934 provides criminal penalties for any individual who, within the United States, purchases or sells bonds or any other financial obligations of any foreign government which is in default in the payment of its obligations to the United States.

The Act has not served its initial purpose, which was to protect American investors against the purchase of obligations of countries likely to default. Instead, it has had the effect of deterring creative methods of financing East-West economic activity by the private market. The repeal of the act would, in my opinion, facilitate the expansion of this trade on commercial terms.

With regard to our antidumping and countervailing duty legislation, some of our nonmarket trading partners have expressed their concern that these may unfairly hinder their ability to export to the United States. In fact, the application of the antidumping and countervailing duty statutes to exports from nonmarket economy countries may provide too much protection.

These remedies are based on market-economy concepts, and their application to goods produced in State-controlled economies requires somewhat arbitrary and artificial comparisons of prices and costs.

While I have no specific recommendations at this time, Mr. Chairman, consideration should be given to substituting market disruption remedies for antidumping or countervailing duties.

While the United States must strive to remove obstacles to implementation of the goals of Basket II of the Final Act, the nonmarket economy countries must undertake parallel efforts.

For instance, the Soviets and East Europeans can do much to facilitate East-West economic cooperation by improving the physical facilities available to Western businessmen in these countries. A basic limiting factor in improving business facilities in these countries is the shortage of adequate physical resources—office space, telephones, telex service, good secretarial help and living quarters. Often there is not enough office space for all who desire it. Several countries, including the Soviet Union, are taking steps to provide better facilities through construction of modern hotels and office buildings dedicated to the service of foreign businessmen. But much remains to be done.

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of economic and commercial information at regular intervals and as quickly as possible, particularly statistics concerning production, national income, budget, consumption and productivity, foreign trade statistics, laws, and regulations concerning foreign trade and information allowing forecasts of the development of the economy.

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For example, the publication of quarterly trade statistics by country and the provision to the United States bilaterally, under the U.S.-U.S.S.R. Agricultural Agreement, of better agricultural data.

The U.S.-U.S.S.R. Commercial Commission's Working Group of Experts, established under the long-term agreement between the United States and the U.S.S.R. to facilitate economic, industrial, and technical cooperation, has also served as a productive mechanism for obtaining better statistics and other economic and commercial information from the U.S.S.R. This body is charged with exchanging information and forecasts of basic economic, industrial, and commercial trends to facilitate economic cooperation between the United States and the U.S.S.R. We have made progress in obtaining more information through the working group's information exchange program and in special seminars on market research and on the organizational and legal aspects of United States and Soviet foreign trade.

Provision of statistics concerning production, national income, budget, consumption, and productivity from most of the nonmarket-economy countries continues to be largely unsatisfactory, however, and no significant change has been evident in the manner of reporting these statistics since Helsinki. Balance-of-payments statistics are especially meager. Little data on debt, debt service, or reserves are published.

Although the traditional Eastern European and Soviet secrecy with regard to basic economic data is slowly eroding, in many Communist countries market research information is simply not available of the kind Western businessmen are used to having. Such information is not gathered, much less published. In solving this problem, the provisions of Basket II amount to a nudge in the right direction, with a long way to go.

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As you are aware, nongovernment and governmental bodies are now in existence whose purpose is to help remove many of these obstacles to the expansion of East-West economic cooperation. I am speaking here of the joint councils, whose membership consists of U.S. businessmen and their counterparts in many of the countries of Eastern Europe and in the Soviet Union, and the government-to-government commercial commissions.

In my contacts with the U.S.-U.S.S.R. Trade and Economic Council, I have been impressed by the important role this private organization has played in strengthening economic ties between the United States and the Soviet Union. The Council's unique contribution in providing continuing access for U.S. businessmen to Soviet foreign trade policymakers at a time when American-Soviet governmental relations in the economic sphere have been strained by the legislative situation and also by the repercussions of recent political developments is important for the further development of U.S.-Soviet economic cooperation.

In the 3 years since its creation in 1973, the Council has worked to bring together businessmen, offering a wide variety of services to facilitate their activities and organizing expositions, conferences, and seminars. In Moscow, the Council has offered office facilities to its hundreds of American members and has helped them with advice and information on doing business with Soviet organizations. It has ex-

plored new forms of international business cooperation and provided a forum for resolution of problems and the discussion of new ideas.

I have also been directly involved in the activities of the Joint U.S.-U.S.S.R. Commercial Commission, which was established during the Moscow summit of May 1972. The Commission's purpose is to promote the development of mutually beneficial commercial relations between the United States and the Soviet Union. The accomplishments of the fifth and most recent session of the Commercial Commission, held in Moscow in April 1975, serve as an excellent example of the work being done under its auspices. The session covered the full range of issues important to the expansion of bilateral economic relations.

During the 2-day session in Moscow, the members of the Commercial Commission heard reports and exchanged views on the status of discussions between Soviet foreign trade organizations and U.S. companies on a number of cooperation projects, including exploration for oil and gas, machine building, and the manufacture of energy-consuming products. The facilitation of visa issuance, including multiple entry-exit visas to representatives of organizations, enterprises, and firms for business-oriented travel, was also discussed.

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In addition, the Working Group agreed to undertake a specific program of information exchange for calendar year 1976, to include joint seminars and periodic data exchanges which helped clarify and facilitate solutions to many practical problems encountered by our businessmen as they undertake economic cooperation with the Soviet Union.

In short, Mr. Chairman, the Trade and Economic Council, the Joint Commercial Commission, and Experts Working Group have been important vehicles for promoting greater East-West economic cooperation and have, thereby, served U.S. policy interests in East-West relations.

Because of their usefulness, I believe that the new administration should soon propose to the Soviets a new date for meetings of the Experts Group and the Joint Commission. These invitations must be made by our Government because it is our turn to serve as host for the meetings. I am confident that the Soviet Government will welcome such initiatives.

Mr. Chairman, I have attempted to be as forthright and as frank as possible in providing you the highlights of those activities and efforts undertaken by this administration and which should be taken

by the new administration to expand East-West economic cooperation in keeping with the terms of Basket II of the Final Act. I have also outlined those areas in which we should look for positive movements by the nonmarket economy countries which are signatories to the Helsinki Agreement.

It is an opportunity that I personally have welcomed. Basket II of the Final Act provides countries in the East and West with a foundation on which they can build stronger ties through closer economic, scientific, and technical cooperation. My experience as Assistant Secretary of the Treasury has convinced me that these ties are vital for the long-lasting peaceful relations we all seek.

As this Commission works in the future for further implementation of the provisions of Basket II of the Helsinki Agreement, I urge you to continue to strive for measures that will remove obstacles to the expansion of East-West trade.

Thank you, Mr. Chairman. I would be delighted to try to respond to any questions which you or other members of the Commission may have.

Chairman FASCELL. Thank you, Mr. Assistant Secretary, for a very comprehensive assessment. We also appreciate your recommendations. I like the affirmative approach that you have taken.

It seems to me that you have provided a format for the kind of tone and approach that can be taken at Belgrade in the assessment of Helsinki and its implementation.

We are going to deal with a lot more emotional issues than trade. Some people do not find trade very emotional, but it is exciting to those who are in it. But there is no reason why even on the emotional issues the assessment of where we are and what needs to be done cannot be done in the same kind of affirmative spirit which you displayed in your presentation this morning. I would hope that as we prepare for Belgrade, the various parts of our Government can and will get together: To reach a consensus on the kind of approach the United States is going to take.

I have not seen the other kind of approach, but I kind of like this approach if we are going to go.

Mr. PARSKY. Mr. Chairman, if I could just comment. I think a coordinated approach between the Congress and all agencies in the executive branch of the Government is essential. And you are right, there are many emotional issues. But I think that there are some common threads that can tie the bodies together; and trade is a two-way street. It is not beneficial just to one party.

I think if you look at it from that standpoint, both sides can benefit.

Chairman FASCELL. We are certainly going to give it a try.

I would like now to turn to our colleague who has done extensive work in the economic field and thoroughly knowledgeable in the international aspects of it. He heads the Subcommittee on International Trade and Commerce of the Committee on International Relations, Congressman Bingham.

Mr. BINGHAM. Thank you, Mr. Chairman.

I, too, would like to compliment Assistant Secretary Parsky on a very comprehensive statement.

I think the area I would like to discuss with you, Mr. Parsky, is on page 12; but you do not develop it at all. I think we should perhaps have some discussion of it.

In essence you are saying a legislative effort to modify or repeal the so-called Jackson-Vanik amendment should be of the highest priority. You go on to say:

It is also important to understand, however, that the progress on the humanitarian issues is of deep concern to the American people and that the way in which this concern is satisfied will affect the success of any legislative proposal.

I know this hearing today is concerned with Basket II, but obviously there is a relationship between Basket II and Basket III. I wonder if you would develop that thought that you have stated there in one sentence a little further. What do we do about our efforts to implement the provisions of Basket III? Can we relate that in any way to the implementation of Basket II? You suggest that we can, but you do not suggest how.

MR. PARSKY. Congressman, I think you have touched on a very important subject, as usual. And I think, first of all, we should start with the approach that governments should take, vis-a-vis the subject of trade and economic cooperation. It seems to me that the principal responsibility of governments in the process is a facilitating one and that the private sector is still the principal element of generating trade and economic development among countries, two-way in nature, benefits flowing each way.

However, the Government does have an important role to play when impediments exist to the free flow of trade and to the free development of economic cooperation.

Clearly, the restrictions contained in the Jackson-Vanik amendment are an impediment to the flow of trade between countries. Obviously, the underlying basis behind that legislative restriction was a legitimate concern about a humanitarian issue.

The experience, however, that we have had since its enactment has been that the humanitarian objectives which are just and right were not served by that legislative approach. It does not mean the humanitarian concerns do not exist still, because they do.

In seeking a resolution of the problem, a problem which has resulted in impediments to the development of a normalized trade and not improvement in the humanitarian issue, a resolution has to be fostered by the Congress, the executive branch and the American people. All three bodies are still concerned about the humanitarian issue, and I happen to think, rather, that there is a way in which to insure that this humanitarian concern is not only recognized but is responded to without taking the legislative approach.

It is going to take a certain degree of diplomacy. It is going to take utilization of the existing mechanisms that we have in place. It is going to take a coordination of our overall relationship. But as part of that overall package, I think recommendations for elimination of the Jackson-Vanik restrictions can be forthcoming and we can still satisfy legitimate humanitarian concerns.

Mrs. FENWICK. Will the gentleman yield?

Mr. BINGHAM. Yes.

Mrs. FENWICK. It seems to me there are two impediments, not just one. One acts as an impediment, as the Jackson-Vanik amendment that you refer to. Certainly equal on the other side is the treatment of people.

Why should we given way and not they? In other words, it seems to me all through—I marked down precisely the pages that Congressman Bingham did.

Remedial legislation; I suppose you are referring to title IV of the Trade Act of 1975 and how to improve trade relations by eliminating it. But have you ever brought to their attention, Mr. Parsky, the facts which we consider an impediment?

The impediment is that refusal to treat people decently. They want—and you are quite frank in saying it—they ask our businesses to tell them what they need. They do not know what they need in order to make a productive plant. I have heard this over and over again. How to put it all together is what is frustrating the Soviet economy. They think they have the means of doing it, but they do not know how to put it together.

So we spend enormous amounts of money and time, as you say in your very interesting testimony, showing them what they need.

Look, if they want to find out what they need and if they want more trade, they have got to pay some attention to what is a basic feeling in this country. And we are shocked—at least I was, speaking for myself—with some of the testimony we heard yesterday about the official and quasi-official people who had gone to Moscow and said these humanitarian concerns were just a response to special interest groups in politics.

That is a very dangerous and damaging thing to say because it suggests you can remove that impediment, as Jackson-Vanik is referred to, simply by refusing to listen to special interest groups. Whereas, I think one of the businessmen who testified yesterday was far nearer the truth.

When questioned as to title IV by officials of the Eastern European nations, he said, this humanitarian concern of the United States is longstanding, suggesting that it had nothing to do with politics; that it could not be eradicated by the stroke of a pen.

Mr. PARSKY. Congresswoman, I would agree with you on several points, and I may end up disagreeing with you on a few. But I would agree with you that the humanitarian concerns which were expressed in Jackson-Vanik which had been expressed in other forms of legislation are real and they are deep and they do not represent the interests of one or two groups, but, rather, they represent the interests of the United States—and they should.

The only difference of opinion that we have and that I had with others on similar issues is the proper means to go about achieving results that we want. I think we have seen that linking those humanitarian concerns with trade legislation impairs the free movement of trade and does not achieve the objective we want on the humanitarian issues.

The only debate that I think exists is not whether one person or one group or one administration is concerned about humanitarian issues, whether it be Jewish immigration from the Soviet Union, political

prisoners in Chile, or the Arab boycott of Israel. It is not a question of whether we are concerned about it or whether to bring about an end to such policies, but it is the means.

What I have tried to indicate, and I have indicated this very clearly to all of the countries that I have ever visited, is that this is a deep-seated concern. We have just seen the results of the legislative approach not being really in our interests or in the interests of an objective we want to promote. And so we ought to be looking to whether there are other avenues. That is all that I tried to put forward.

Mr. BINGHAM. If I may pursue my original question, I do not really think you answered it, Mr. Parsky. You said there are ways—and I do not have your exact language—but you said there are ways in which we can pursue the humanitarian goals that we are seeking. But just what, specifically, are you referring to? And do they have anything to do with the expansion of trade or the treatment of trade, or do we just simply consider these as totally separate Baskets, unrelated to each other? And do we simply reserve the right to talk about or protest violations of Basket III?

Mr. PARSKY. No, I do not consider the Baskets totally separate. I do not consider the interests or the objective purposes of the Baskets as being unrelated.

What I am saying is, we have established over the recent past a network of relationships, governmental and private. It seems to me we ought to be able, we should be able, we should be pursuing through all of these networks the achievement of the humanitarian interests that we espouse.

If you convert those humanitarian concerns into challenges of sovereign strength by a legislative solution. I think it has been proven in the past that the result is counterproductive. But we do have networks. We have established governmental commissions; we have established trade councils; we have various governmental networks that I think, if properly pursued, can bring about the objectives we want.

All I am saying is, we should be pursuing these other pinnacles, if you will, to achieve what we want.

Mr. BINGHAM. I think we would be going a bit afield to argue whether they have achieved the humanitarian objectives they seek.

I just would like to comment, that those who are most affected, namely some of the courageous, outspoken dissidents in the Soviet Union, that they do not agree with that conclusion. They say it is not a mistake, it is not counterproductive, and it should not be eliminated.

However, I do not think this is the forum to continue that debate.

What I would like to get at is the relationship of our increased trade with the extension of credit. My recollection is that we heard in Brussels that there are those who feel that what the Soviets are really interested in is to get a lot of technology and a lot of capital goods from us, which they will not pay for and which we never really will get paid for other than, possibly, in their minds, through the importation of some of the goods that are produced.

Mr. PARSKY. Congressman, in my limited experience in dealing with the Soviet Union and in dealing with the businessmen that have had much more experience and participation with them, I have seen no evidence that that is either an objective or that it will, in fact, take place.

As a matter of fact, I have seen in my discussions with the Soviet Union a clear objective that the benefits of trade be two-way. The Soviet Union leaders that I have met with have gone out of their way to indicate that they do not see the relationship with the United States as only benefiting them. And, in fact, they do not see this as a form of assistance to them, but rather as benefits that would go both ways. And the notion of defaulting on obligations owed, I think, is totally alien.

Mr. BINGHAM. Surely you would not expect them to state that they expect it to be of benefit only to them. And I was not speaking of default, either. But I recall very distinctly when the Soviets did reject the trade agreement, the Secretary of State—our Secretary of State—then stated that the reason the negotiations have fallen apart was not the Jackson-Vanik provisions on which they were actually very close to an agreement, but the so-called Stevenson amendment which limited the amount of credits that would be extended, and that when the Soviets looked at that, they said, well, it just was not worthwhile because limitation was so relatively tight that this made the whole proposition something they then felt they would reject.

In other words, for them, the idea of trade is intimately and inextricably connected with the idea of credit.

Mr. PARSKY. There is no question that a relaxation of the credit restrictions would be beneficial to the Soviet Union. But it would also benefit American firms as well.

Although we have sought to achieve what is referred to as a "gentlemen's agreement" among major countries with respect to providing official credits, we still are in a position where we are in quite a competitive situation, vis-a-vis other countries. And it is true, especially on large-scale projects. I think you are right; that there is a keen interest on the part of the Soviet Union for credit.

But I do not see it as an objective to not, in fact, pay off the obligations, but rather as a means of helping to finance large-scale projects, projects which U.S. firms cannot participate in because they are in competition with entities where official credit is provided.

I would agree that this is certainly a principal element in the difficulties in bringing the Trade Act into force. But I can say that if a legislative solution were sought just on the credit side without the MFN side, I do not believe that would achieve the kind of legislative solution that would be beneficial to both sides.

Chairman FASCELL. Mr. Leigh.

Mr. LEIGH. I have no questions.

Chairman FASCELL. Mrs. Fenwick.

Mrs. FENWICK. Mr. Parsky, we had testimony yesterday from a most knowledgeable person, and this is part of it:

The lack of a national consensus joining government, private industry, labor, the banking community and other groups which reinforced the lack of momentum. This divisiveness was recently illustrated by presentations made by official and quasi-official U.S. representatives to the meetings of the U.S.-U.S.S.R. Trade and Economic Council in Moscow in November 1976. A number of these U.S. representatives took a critical posture on the established U.S. position on tariffs and credits as signed into law by President Ford in January 1975.

Moreover, some chose to explain—

I referred to that earlier, U.S. resistance to granting MFN—to certain special interest groups in terms of U.S. domestic politics.

This is confusing to Eastern observers. As long as this continues, they are going to hold out thinking the market will change. In other words, if they get these conflicting and, according to the testimony, confusing opinions as to what is going on in this country and as to what is back of this kind of legislation, they are going to hold out, get what they want on the terms they want—MFN, credits, everything—and all we talk about is the fact that we are granted physical facilities and visas.

That just is not good enough. Physical facilities, visas and information, these are very important if you are doing business. But the basic thing is the relations between the two countries on which these business things can be based.

Mr. PARSKY. Congresswoman, I think you have touched on a characteristic of the democracy that has evolved in this country. We preserve the right for any individual, any interest, to express himself or herself as he or she sees fit. And when a U.S. businessman speaks out, he is speaking out for the interests that he is representing.

Obviously, any businessman, any leader in the business community, has an obligation to concern himself with much broader issues. But it is the principal obligation of the Government to concern itself with a whole range of different issues. I do not consider presentation or various presentations by the business community critical of an approach that has been taken by the U.S. Congress as necessarily detrimental to the U.S. interests.

I think it is only reflective of the fact that we do have differences of opinion in this country.

Mrs. FENWICK. Mr. Parsky, could I say these were official representatives. It is confusing to foreigners. Certainly everybody has a right to an opinion and as long as one says, "Look, this is what I think." But the facts we know are that these are deep-rooted American feelings. This is not just partisan politics or ephemeral emotions which they are going to change tomorrow. You are not going to get any change out of the American people on these subjects, and I think it would be better and less confusing if representatives spoke like this. If they wish to express a personal opinion, they have a right to do so.

But they ought to try to convey what is true about this country, because as long as people think there is going to be some way of changing our views on human rights, they are not going to remove that impediment to trade.

Mr. PARSKY. Mrs. Fenwick, let me say this. First of all, with respect to that meeting, there was only one governmental representative, and that was Secretary Simon. In his presentation to the group, I think he expressed a position which parallels the kind of approach that I have outlined to you this morning.

Again, with respect to the business leaders, I do not consider the fact that a business leader expresses a critical view of legislation as necessarily rejecting the notion of securing human rights. Again, it may be confusing to someone in the Soviet Union—a little bit—to hear an expression of a point of view. But in talking with the leadership of the Trade and Economic Council and in talking with the business leaders, I have seen from them just as much concern, broad-based concern, about the human rights question. And I do not see, I have never heard it portrayed that this concern is not broad based. I have

heard it portrayed, as I have this morning. That is, the legislative route to achieving that objective has not been successful.

Mrs. FENWICK. What other route is there?

Mr. PARSKY. I have tried to indicate that I think there are a number of different governmental and private routes. I think it includes the use of the Commercial Commission, the use of the Council, the use of a number of different forums to bring about the objectives we want.

Mrs. FENWICK. If the Council is going to go over this and say, "This is just a political business of special interest groups," that is not going to contribute to breaking down those barriers.

Mr. PARSKY. Congresswoman, I think it has been shown that such issues are never resolved when one sovereign state, whether it be the United States or any sovereign state, challenges another state, legislatively.

Mrs. FENWICK. As you did in the Helsinki Accord?

Mr. PARSKY. No, ma'am, not as we did in the Helsinki Accord; as we have done with special—

Mrs. FENWICK. The Helsinki Accord states quite clearly. We are talking about living up to what we agreed to.

Mr. PARSKY. The only issue is whether we take unilateral action or we seek action in a multilateral way; that is the only issue. If we are going to take unilateral action legislatively and restrict participation in trade or other matters for a whole range of different issues, we have seen the kind of results that have taken place. They have been counter-productive, not productive.

We have to look for other avenues. That is all I am saying. I am not saying we should abandon the objective. I am not saying it is not broadbased at all. I have expressed it very clearly to every Government official that I have said it to.

Mrs. FENWICK. Not to us.

Mr. PARSKY. I am saying it right now.

Chairman FASCELL. Mr. Oliver.

Mr. OLIVER. Mr. Parsky, in your statement you say that the Soviet Union has undertaken a significant moral and political obligation in CSCE and to carry out its provisions. What do you think we should do if they fail to carry out those obligations?

Mr. PARSKY. Again, it is a question of assessment as to what failure is. That is a process of time. There are a number of different obligations, moral, economic, political, social, that are inherent in it, and it is a matter of assessment.

As part of a governmental policy, vis-a-vis the Soviet Union or any other country, we have to assess what that means and what it means to us. I do not have the ability at this point in time—maybe the Commission would—but I do not have the ability at this point in time to say failure has taken place.

I would say that with respect to a number of the elements, the objectives have not been met. The question is, do you walk away from it or do you try to pursue, through avenues that have been open, achievement of them, and do you persist until they are actually accomplished?

It is a question of whether you sever a relationship and walk away from it; a relationship with entities that have a different system, have

a different approach to life. But they exist in today's world. I do not think you can walk away from it. I think you have to pursue your objectives and pursue every avenue to achieving those objectives. This is the choice.

Mr. OLIVER. I understand that.

You say the political and economic ties are inevitably intertwined?

Mr. PARSKY. That is right.

Mr. OLIVER. What I am saying is if they do not fulfill their political obligations, then is it unfair to use the economic lever to try to enforce those provisions or to let them know that if they do not fulfill their obligations in one area, then we may question the advisability of entering into agreements in other areas?

Mr. PARSKY. There is no question we could question the advisability of agreements in other areas. What we have been debating is a question of whether we take unilateral action vis-a-vis our companies in order to achieve an objective that we are trying to bring about in another country. Our relations vis-a-vis another country is a different question. Whether we would enter into other forms of agreements that they want on a governmental level. I think that is obviously brought into question.

Chairman FASCELL. Mr. Parsky, one of the things the Commission found on its study mission, which was interesting and outstanding was that Helsinki provided (besides the phenomena of the accord itself with 35 heads of state which deserves a special place in history) the opportunity for the question of human rights to achieve a new status in international diplomacy, with emphasized focus. One of the struggles in the Congress has been and is the relation of human rights and international diplomacy as it reflects and affects U.S. policy. One of the questions was how to raise it to a sufficient level in our own Government so that in the business of diplomacy the question of human rights would be given some better equality with economic matters, political matters and other matters. That is slowly evolving.

It seems that this is also slowly evolving, and I think primarily because of Helsinki, in international affairs generally. Diplomats find it easier to talk about human rights than they did before.

Since they are all interrelated, it seems to me Treasury would play a particularly useful role in including in the international business lexicon the question of human rights. How you do it is a matter of good judgment; but businessmen have good judgment or they would not be in business.

You cannot just simply slough off the problem by saying, well, that is a matter for Government. I am sure you did not want to leave that impression in the record.

Mr. PARSKY. No, sir.

Chairman FASCELL. That is the impression I got, though.

Mr. PARSKY. That is my fault because I did not mean that at all. I meant I agree with what you are saying. It is an interrelated matter and it is a matter of concern to the American people as a whole whether it is governmental individuals or American citizens, businessmen or others. It is a deep-rooted concern. The only question we have

and we have not found the right answer yet, the only question is how to mobilize the strengths, if you will, of the U.S. private and governmental area to achieve the objectives that are real.

Chairman FASCELL. I could draw a scenario; we all could. The next time the Trade Council meets, they could raise questions of human rights without affecting their business negotiations. You could raise them.

Maybe nobody will pay attention to them because they are more interested in making a deal, but at least it would have been raised. Not to raise them at all, because it seems totally irrelevant or might be an obstacle to the economic transactions which are being discussed might be a minus and not a plus. If you do not use moral persuasion, what are you going to use?

I think that, basically, is a softsell. And around here, sometimes people get frustrated and do not want to use a softsell. The art of diplomacy is very difficult, especially if you are not a diplomat.

Mr. PARSKY. I have never been a diplomat.

Chairman FASCELL. We have more questions for you, but we are out of time and our next witness is here.

Mr. PARSKY. I will be glad to supply them in writing.

Chairman FASCELL. You are mighty kind. That would be extremely useful. We might like to have specifics on the question of debt. I have been curious about U.S.S.R. paying for the goods and technology they want. If they are going to borrow into the private market, which I understand they have done, and we do not know what that borrowing is, then you never know where you are in terms of creditworthiness.

Let's just assume, for example, that the U.S.S.R. is up against a top limit of credit. Let's say instead of \$40 billion external debt, it is really \$80 billion, and no commercial or other governmental credit is in sight. Then it might be very useful, for them, to enter immediately into a special government-to-government credit arrangement and get off the hook, with détente as the bait.

Now on the other hand, if payment was to be made in gold, maybe the United States might want to consider that it might not want to give them any credit.

I think those kinds of things need to really be put on the record.

Mr. PARSKY. I will be glad to supply any answers.

[The information follows:]

SOVIET AND EAST EUROPEAN DEBT TO THE WEST

There has been a sharp increase in the indebtedness of the Soviet Union and most Eastern European countries to Western countries in recent years:

SOVIET AND EAST EUROPEAN DEBT TO THE WEST

[Billions of U.S. dollars]

	1973	1974	1975	1976 (estimate)
Soviet Union.....	4.5	5.0	10	14
Other Eastern Europe.....	8.5	13.2	19	25
Total.....	13.0	18.2	29	39

This debt has been financed almost exclusively by borrowing from Western banks and governments. The largest creditor nations are West Germany, the United Kingdom, France, Italy, and Japan. The U.S.-held portion of Communist country debt is relatively small—it was only about \$2.9 billion in mid-1976 and most of this represented lending by U.S. commercial banks rather than Government export credit institutions, i.e., the Export-Import Bank and Commodity Credit Corporation.

The increase in debt has been mainly due to trade deficits. During 1973-1976, the U.S.S.R. and Eastern Europe have run fairly consistent and relatively large trade deficits with the West: \$1.6 billion in 1972; \$3.2 billion in 1973; \$6.3 billion in 1974; \$10.4 billion in 1975; and an estimated \$7.9 billion in 1976. These countries face fundamental problems in developing export supplies and in entering Western markets. They have not been able to increase their exports as rapidly as they have increased their imports. While the Soviet Union has been able to generate significant amounts of hard currency through arms sales, gold sales, and other means, and some of the East European countries have "invisible" income (tourism, etc.), the great bulk of merchandise trade deficits has been made up by borrowing in the West.

Although rapidly expanding Western credit has permitted much of the increase in East-West trade, it is evident that continuing expansion of debt cannot indefinitely finance a continuous increase in Communist countries' imports from the West. At some point, their exports to the West must increase so as to achieve greater balance in East-West trade and restrain the growth in debt.

Information concerning new orders placed by the Soviet Union and Eastern Europe in the West and their import plans through 1980 indicate that imports from the West will probably continue to increase, though at a pace much reduced from that in the first half of the 1970's. Undoubtedly the Communist countries will make strong efforts to increase exports. Although some success is likely, it seems doubtful that increases achieved will be sufficient to close the trade gap with the West in the next few years. It appears certain that there will be a need for additional borrowing.

The continued extension of credits to the Communist countries by Western governments and commercial banks depends on their assessments of the creditworthiness of the borrowing countries. The various measures of creditworthiness and the interest rates these countries pay generally reflect a favorable assessment of their situation. The Soviet Union in particular, with its large gross national product and its strong natural resource base, is considered to have a relatively low debt position, a good record of ability and willingness to repay credits promptly, and an excellent credit standing as reflected by the low interest margin it pays on its loans.

Available information indicates that some further expansion of Soviet and East European debt is feasible, though perhaps at higher interest spreads for some countries. Western government support for export financing will be crucial in this respect. As long as the Soviet Union and East European countries demonstrate their ability to manage the growth of their debt and to move toward growing export capability, Western lenders will probably continue to make sufficient credit available to finance expanding East-West trade.

Chairman FASCELL. I cannot see how an individual businessman doing business with a central-market government ever has the opportunity to get that information. I do not know how he is going to know. Some of the big banks think they can.

Mr. PARSKY. Some.

Chairman FASCELL. Some of them think they can. We have talked to some who think they have all the right information. At least they put their money on the line.

If I was sitting on the board of that particular bank, I might want to take a hard look. It is these kinds of questions we would be interested in. We might send them to you.

Mr. PARSKY. I would be delighted.

Chairman FASCELL. I want to thank you very much for the excellent presentation you have made, for candidly answering the questions that

we have put to you, and for the articulate manner in which you presented your own point of view. You have made a very good contribution to our study. Thank you.

Mr. PARSKY. Thank you; it is my pleasure.

Chairman FASCELL. Our next witness is Mr. Charles W. Robinson, who is Deputy Secretary of State of the Department of State. He has extensive experience, both in business and in Government and still manages to smile and be of good humor, despite his many travails in this room, which I am sure he must feel is his second home.

We are delighted you are back and we are anxious to hear from you.

**STATEMENT OF HON. CHARLES W. ROBINSON, DEPUTY
SECRETARY OF STATE**

Mr. ROBINSON. Thank you very much, Mr. Chairman.

I would like to make a caveat at the beginning. In your letter you had suggested that my testimony be in the nature of advisory in view of the fact that I am not long for this world. You are right on the latter part. I am not long for this world, but I am delighted to be here for my valedictory and pleased to be able to exchange views with you and your committee on this very important subject.

Chairman FASCELL. I am sure it will be filled with sparkling adjectives.

Mr. ROBINSON. As far as being advisory in nature, I just would like to say in leaving the present administration, I felt it was inappropriate to advise anyone. However, I will do the best I can to answer your questions and will respond as well as I can, based on my experience in this field.

Mr. Chairman, I am pleased to have this opportunity to appear before the Commission. I understand that the purpose of these hearings is to enable the Commission to receive information and opinions relating to that portion of the Final Act of the Conference on Security and Cooperation in Europe known as Basket II (Cooperation in the Field of Economics, of Science and Technology, and of the Environment).

As you are aware, the administration's overall view of the CSCE and of the implementation of the Final Act's provisions was contained in the President's December 3 report to the Commission. My testimony today centers on economic questions that fall under the Basket II provisions, which we understand to be the focus of these hearings.

I believe that thorough-going discussions, such as have been organized during these 2 days, will help to make clear both to the Congress and to the American public the range of problems and the prospects for practical cooperation surrounding the numerous provisions included in Basket II.

For the moment, I would like to turn directly to the specific points. Mr. FASCELL asked me to address in this prepared statement. Later, in response to further questions the Commissioners may have, I would be pleased to amplify any items dealt with in this statement as well as other pertinent issues.

First, however, I would like to briefly review the objectives of the United States and the West in general in Basket II of the CSCE which were similar to those pursued throughout all the subject areas covered.

in the Conference. We wished to obtain specific commitments which would lead to improvements in areas which have proven to be problems for the development of East-West contacts and cooperation.

In the economic and trade fields, these Western objectives focused on working conditions for businessmen, including such practical matters as the availability of office and residential facilities, increased economic and commercial information of use to businessmen, improved possibilities for the promotion and marketing of products, better contact between officials involved in business transactions, including end-users, and stimulation of joint industrial cooperation projects.

These objectives were pursued through a wide range of specific proposals advanced by Western countries and dealt with in Conference subcommittees created at the insistence of the Western delegations to insure the kind of detailed negotiation required. To a large extent the Western objectives were met. The Final Act, while neither a treaty nor an international agreement, contains a number of specific commitments to improve standards of performance in areas of interest to Western businessmen.

Signature of the Helsinki Final Act at the highest level imposes a strong moral and political obligation to carry through on these commitments. There has been limited implementation in Basket II areas of interest to the West and the United States; much remains to be done.

Mr. Chairman, you asked first for my evaluation of U.S. interests in economic cooperation with the Soviet Union and Eastern European countries, the current status of this cooperation, and the obstacles to its further development. The United States attaches great importance to the maintenance and improvement of trade and economic relations with the Soviet Union and the countries of Eastern Europe.

Expanding trade, with proper safeguards against the sale of goods that would make a significant contribution to the military potential of these countries, can serve both our economic and political interests. The United States must derive from these relations the usual benefit of foreign trade; namely, a market for U.S. goods, with the consequent creation of jobs at home and positive effects on our balance of trade as well as a source of needed raw materials and of goods produced more economically abroad.

The political dimension of this trade has long been of great importance to all parties. It is generally accepted that progress in political relations must go hand in hand with expanding economic relations and that trade, in turn, contributes to more stable political ties. And commercial ties require public support in the United States—both from leaders of the business community and from the public at large.

Finally, we see in the development of good trade and economic ties with the Communist countries the possibility for improving contacts across the wide spectrum of government, private organizations, and individuals engaged in this activity, such as commercial officers, trade representatives, company officials, technical specialists, and industrial enterprise managers. Increased human contacts open valuable avenues for the reduction of misunderstanding and distrust between our governments and people.

There are some practical obstacles to rapid expansion of trade and economic intercourse with the Communist countries. One of the more

evident is the continuing difficulty the Soviets and East Europeans have in matching their desired import levels from the West with like amounts of exports.

Clearly these countries, which have inconvertible currencies, cannot indefinitely buy from hard-currency areas more than they sell to those areas. Increased export capability, however, requires the production of goods that are competitive in price and quality on world markets. Manufactured goods from the Soviet Union and Eastern Europe have yet to make an appreciable dent in Western markets, and supply problems appear to limit the growth of their exports of raw materials.

In purely trade terms, then, a major obstacle to the continued rapid growth of East-West trade is the apparent inability of the Communist countries to achieve large gains in their exports to hard-currency customers.

The continuing inadequacy of public economic and commercial data in most Communist countries is another obstacle to the growth of trade. Limited information restricts the ability of our companies to make rational business proposals to their commercial counterparts in the East. As a result, both sides lose the benefits of potential business transactions: Our firms miss business opportunities and the countries involved do not receive either the products, processes, or plants which would add to their economic well-being; or at least they do not have the opportunity to consider an offer from an alternative and, possibly more advantageous, source of supply.

Another important obstacle to trade has been our inability to extend nondiscriminatory treatment and Government-sponsored credits to the U.S.S.R. and certain Eastern European countries due to the restrictions in the Trade Act of 1974 and the Export-Import Bank Act of 1975. The lack of Exim credits means that U.S. firms cannot compete on an equal basis with their counterparts in Western Europe and Japan. The absence of most-favored national treatment makes it more difficult for the countries affected to sell competitively in the United States.

It is also regarded as discrimination by the Soviets and East Europeans, who have responded by diverting some business away from U.S. firms. It is impossible to estimate the exact value of the trade that has been lost as a result of the legislative restrictions. While the Soviet claim that the United States has lost \$2 billion worth of orders is probably exaggerated, there is no doubt the loss has been significant.

The provisions of Basket II can, in principle, serve our interests in heightened economic and trade relations with the Soviet Union and Eastern Europe by helping to overcome obstacles to trade expansion, some of which I described earlier.

For example, the numerous provisions on business facilitation, business contacts, marketing, and industrial cooperation, if fully implemented, would help our firms to sell and would improve the export potential of the Soviets and East Europeans over the long run.

Meanwhile, innovative trade and financing arrangements, including coproduction and compensation transactions, could enable the Soviet Union and Eastern Europe to continue their present high level of imports of goods from the Western countries without significant near-term drawdowns of scarce hard-currency reserves.

Further, we believe that the Communist countries are overlooking potentially valuable trade opportunities with Western firms and organizations by not making enough information available to permit these firms to make reasonable business proposals. I recognize the political reality of the centralized foreign trade structure existing in each of these countries. We do not see in the CSCE a device for forcing changes on these systems. Nonetheless, full implementation of the Basket II provisions for improving the flow of economic and commercial data, together with the provisions calling for better access by our businessmen to the potential end-users of their technology and equipment in these countries could, in our view, have very positive results.

The third specific question raised by Chairman Fascell was whether or not real progress has been achieved since Helsinki in the important areas of economic and commercial information, business facilitation, and industrial cooperation. I would like to refer the Commissioners to the full and detailed information provided by the President recently in his first semiannual report to the Commission. That information remains current and valid. I might just now briefly summarize the findings contained in the President's report.

Provision of useful, relevant economic and commercial information by the U.S.S.R. and East European countries has improved only marginally since Helsinki. The most forthcoming have been Hungary and Poland, which now make available relatively comprehensive and meaningful statistics, plan narratives, lists of foreign trade laws and regulations and directories of organizations and officials engaged in foreign trade. Romania and the Soviet Union are at the other end of the spectrum, having taken virtually no unilateral actions to improve their performance.

The Soviet Union claims that, as a unilateral CSCE initiative, it now publishes foreign trade statistics quarterly as well as annually. These figures, however, are so highly aggregated both by area of the world and by commodity breakdown as to be virtually useless to businessmen. Further, the Soviet Union reduced by one-third the number of copies printed of the most recent edition of its annual economic statistical handbook.

Romania has improved somewhat its performance in the provision of data under existing bilateral agreements. In the agricultural field, for instance, the Romanians have recently expressed a willingness to be more forthcoming in implementing the information exchange provisions of the September 1975 bilateral Protocol on Development of Agricultural Trade—a willingness we intend to test in the near future.

In the area of business facilitation, Soviet and East European performance has been somewhat better. Those countries which permitted foreign firms to open permanent offices on their territory before Helsinki have processed new requests reasonably promptly in the post-Helsinki period. Some other countries, which before Helsinki had not allowed foreign firms to open offices, have now begun to do so. Czechoslovakia and Bulgaria promulgated new regulations after Helsinki permitting, in principle, foreign firms to open offices in their capitals. Several Western companies have had application approved to establish offices in Prague and a few have opened offices in Sofia. None of

these is American. Also, the German Democratic Republic moved with reasonable dispatch to grant permission to open an office in East Berlin to the one American firm, Dow Chemical, wishing to do so.

On the question of access to end-users we find that Soviet and East European compliance to date with Basket II commitments has been disappointing. Such access is effectively precluded in most of the Eastern countries. As I stated earlier, we believe that permitting Western businessmen ready contacts with potential end-users of their equipment from the outset of a possible business transaction is a needed element in the trade "normalization" process, and we encourage U.S. firms to press for such access.

Regarding industrial cooperation, the provisions of the Final Act in this area are basically a confirmation of a process that was already well in train before the CSCE negotiations began. Therefore, while industrial cooperation projects in their various forms, especially the so-called compensation deals, are in fact increasing in number and are recognized by both East and West as useful to the overall economic relationship, one should not attribute this progress to Final Act provisions alone.

Concerning steps that the next Congress and administration might consider to promote further implementation of Basket II provisions, I believe that a sound basis for future progress has been laid by a number of positive actions which the United States Government has already taken. The U.S. record is generally excellent in the important areas of information provision and business facilitation. Nonetheless, we are undertaking further unilateral implementation steps in these areas. For example, we are publishing a guide for American businessmen listing the relevant Basket II provisions of possible utility and interest to them in pursuing trade opportunities in the Eastern countries. We are gathering complete reference materials on U.S. firms of all kinds to beef up the commercial libraries of our embassies and consulates in the Soviet Union and Eastern Europe. These materials, openly available to all trade officials, enterprises specialists and other interested persons in those countries, are of great practical value to foreign business representatives.

Bilaterally, we have stressed the importance of Basket II and the full implementation of its provisions in the context of our joint economic and commercial commissions with the U.S.S.R., Romania and Poland. And additionally, we have made diplomatic representations with those countries where we feel that progress in implementing Basket II provisions has been less than satisfactory.

On the multilateral level, the United States, with its Western allies, took the lead in assuring that the UN Economic Commission for Europe (ECE) located in Geneva, became fully engaged in practical Basket II implementation. The ECE was mandated specifically by the Final Act to be the lead organization in carrying out numerous Basket II multilateral provisions. At the 31st annual session of the ECE last March/April, the Commission's first meeting since Helsinki, we succeeded, first, in reaffirming the Commission's CSCE mandate. We also were successful in attaining consensus for a decision calling on the ECE to pay special attention to its CSCE mandate in its work program and especially to certain specific areas of particular interest

to the West. The Commission has now adopted a useful and substantive work program on the provision of economic and commercial information, and in the environmental area it will undertake work in monitoring transboundary air pollution. In short, the ECE is now, more than ever before, engaged in practical East-West cooperation.

Since Helsinki our trade and economic relations with the Soviet Union and Eastern Europe have continued to expand. But in the area of human rights, progress has been limited.

Our experience with the Trade Act, which was enacted 2 years ago, demonstrates the problems inherent in attempting to achieve faster progress on human rights questions with the Soviet Union and Eastern Europe by creating specific legislative linkages to trade. In the early stages of negotiations on trade with the Soviet Union, the emigration question was kept within the bounds of quiet diplomacy—and emigration increased dramatically. However, the Trade Act, despite this administration's deep misgivings, made the linkage specific, and the result, in the case of the Soviet Union, was a sharp decline in emigration. It is questionable that Soviet interest in trade with the United States is such that specific threats and discriminatory acts will produce the changes in domestic policies we all wish to see. In fact, the Soviet Union will seek to demonstrate that it is not subject to this kind of economic pressure. Except for Romania, the Eastern European Governments also rejected the terms of the Trade Act.

Today, prospective emigrants continue to be harassed and intimidated, and human rights activists are detained or jailed for acts which would be legal anywhere in the West. Yet it is apparent that the Soviet leaders are becoming increasingly aware that they pay a political and economic price for failing to take account of United States and Western concerns about human rights. Since Helsinki, Western attention has focused more closely on Soviet performance and heightened the pressure to moderate repressive policies. The evidence of change in Soviet policies is, at best, halting. There has been some simplification of emigration procedures, an increase in the number of emigrants—primarily Armenians—given permission to leave for the United States, exit permission for some Jewish applicants who had been refused permission to emigrate before, and release or expulsion of some prominent dissidents. And in the last 3 months of 1976, there has been a substantial increase in the number of Soviet Jews receiving permission to emigrate to Israel—roughly a one-third increase over the annual average figure for 1975 and 1976. This will result in 1976 being the first year since 1973 which showed an increase—even though a small one—in Soviet Jewish emigration. It is too early to describe this as a trend, and the actions taken against the dissident organizers of the December Jewish Cultural Symposium in Moscow and other activists are illustrations of continued harassment of those who speak out strongly. But it has been clear to Soviet officials at all levels that modification of the legislative linkage between trade and emigration can only come if the Congress sees substantial improvement in the emigration picture—both current and prospective.

The Soviet Union's Eastern European allies continue to have emigration policies which are fundamentally restrictive in nature. However, with their different historical and cultural backgrounds, the

Eastern European Governments generally have been considerably less restrictive on this score than the Soviet Union. Since Helsinki, emigration practices in most Eastern European countries have shown some improvement, and a number of individual family reunification cases continued to be successfully resolved. With the exception of Romania, however, all of the countries affected have toed the line set by Moscow and have refused to accept the connection made by the trade act between emigration and normal trade relations.

As you know, the administration has favored amending the trade legislation to provide greater flexibility to the President. We believe that this would permit the U.S. Government to pursue its political, economic and human rights goals more effectively with the Soviet Union and Eastern Europe. While Congress must form its own judgment as to whether the linkage legislated in 1974 has worked, our verdict is that it has not and that we need to try a new approach.

Thank you for this opportunity to present my views on this important subject on my last visit before your committee in this room.

Chairman FASCELL. Thank you, Mr. Secretary.

First of all, let me thank you for being so specific in response to the inquiry of the Commission. You were very pointed in giving the assessment and it is very useful for us to hear it.

Our previous witness from the Treasury was also very specific in the assessment which he gave. It has been extremely useful, to have that kind of specific evaluation based on whatever your judgments are.

I was also glad to learn for the first time that efforts are being made with the Basket II responsibilities. If we are going to rely on moral suasion, then we ought to use it more across the board. It seems to me there is definite responsibility there.

I gather that by inference what you are saying in your statement, the kind of assessment which is possible simply by giving one's opinion based on whatever facts he has at his command to precede Belgrade in terms of achieving the kind of assessment that everybody is seeking in order to proceed from Belgrade onward. Am I correct in that inference?

Mr. ROBINSON. That is correct.

Chairman FASCELL. You do not see any particular obstacle in the kind of assessment you have presented if that assessment or something close to it was adopted as a procedure at Belgrade?

Mr. ROBINSON. With one condition. I think to be effective in this forum, it is important to have cooperation with our Western allies. Therefore, whatever position we might seek, I would feel it would have to be coordinated and harmonized with the position of our other European allies to make sure we take a common approach there, and only in that way can we be effective at Belgrade.

Chairman FASCELL. Do you not think it would also be useful if we adopted that same policy with the Congress and the administration?

Mr. ROBINSON. After Thursday of next week, I am all for it.

Chairman FASCELL. Mr. Bingham.

Mr. BINGHAM. Thank you, Mr. Chairman.

First of all, I would like to say to Undersecretary Robinson I think he has really been a great asset to this administration. I know from my personal experience his consideration for congressional representa-

tives at international meetings. I think he has shown a real understanding of the problems of North-South relationships and how they should be improved and how important they are for the United States and for the world, as well as for the problems that we confront today.

While I am not expressing regret at the change of administration, I want to say throughout, particularly, we have enjoyed having you appear in this room and have enjoyed working with you, and personally, we will miss you in this role.

Mr. ROBINSON. Thank you, very much.

Mr. BINGHAM. I would like to ask you the same kind of question that I asked Mr. Parsky. That is, you have sketched out a way in which you think the Basket III provisions can be pursued in conjunction with Basket II. You suggest that the Jackson-Vanik restrictions should be modified so as to give the President more flexibility. I am interested in that phraseology.

Do you have anything more specific than that in mind? If it is a matter of providing more flexibility to the Executive, presumably you are not proposing that the linkage be totally withdrawn.

Mr. ROBINSON. No; I am not proposing that, nor do I think any action by Congress will ever eliminate the linkage. I think the linkage is there. I think there is political sensitivity to it, and I think all we are talking about here is, really, timing. Do we allow time for the process to take place?

I spent almost 30 days in the Soviet Union a year ago negotiating the grain agreement. And I had an opportunity to discuss this basic problem with many Soviet officials. I continue to maintain periodic contact with the Soviet Ambassador here. And it is very clear to me that a great deal of progress could have been achieved through quiet diplomacy so long as we were not publicizing our demands and thereby creating a situation in which the Soviet Union had to respond negatively. There is no question in my mind but what the Trade Act of 1974 has been counterproductive in achieving goals that I think we all subscribe to.

Mr. BINGHAM. There is one point in your statement which I think I would have to take issue with: the implication that there was no connection between our legislative action and the improvement in the Soviet emigration policies in 1973 and 1974. With the threat of legislative action came results. I do not think that is correct.

You say:

In the early stages of negotiations on trade with the Soviet Union, the emigration question was kept within the bounds of quiet diplomacy—and emigration increased dramatically.

Surely you have to give credit in that period to, first of all, the very vigorous protests that were being made in this country and worldwide, in Brussels and elsewhere, against the Soviet policies.

Second, during that period there was very much in the picture the possibility of legislation, and one of the curious ironies of this whole situation is that it seemed the threat of the legislation was more effective as a means of stimulating the Soviet Union to action than the legislation itself.

Would you agree that your statement may be not quite ample, maybe, on those points?

Mr. ROBINSON. My first experience in testifying before a Senate committee resulted in a comment by one Senator, that it sounded to him like State Department pap. I have always been sensitive to that. You have been much kinder in your comments on my testimony today.

I agree, and I think this is a basic principle—it applies whether you are in business or government—that the threat, a subtle threat, quite often can be much more effective than the action itself. Once the action has been taken, we set in motion certain forces that are beyond control on either side, quite often.

So therefore, I think that a public statement of our principles on human rights, the possibility of legislation during the 1973-74 period, clearly did have an impact. I think it is only unfortunate that we did not continue to maintain the threat without having taken the action, that then brought about the reactions I view as counterproductive.

Mr. BINGHAM. How do you feel about the problem of credits? To what extent should our efforts to expand trade with the Soviet Union be based on the principle that we will lend them the money to pay for their imports?

Mr. ROBINSON. I am concerned about the growing level of indebtedness accumulating in the Eastern European bloc. At the end of 1976 we certainly will be very close to \$40 billion of total indebtedness, of which I believe about \$23, \$24, maybe \$25 billion, is accounted on by the Eastern European countries other than the Soviet Union; the balance of \$14, \$15 billion, by the Soviet Union itself.

Chairman FASCELL. How do we know that?

Mr. BINGHAM. Who are the creditors in that calculation?

Mr. ROBINSON. They are governments, of course. We have some indebtedness through Eximbank credits, but other governments, of course, do extend credits in the way we are not now extending other than to Romania, Yugoslavia and Poland. They are also commercial banks, and commercial banks have viewed the Eastern European governments as one of the best credit risks anywhere in the world and felt they could extend, expand their lending in that area without great risk.

However, they are beginning to see the cumulative impact of this borrowing and of the most recent negative balance of trade of some \$12 billion, of which about half is accounted for by the U.S.S.R., two thirds of the balance is Poland, and there are clearly some growing problems.

We are beginning to see indications that some of that new indebtedness is to finance old debts, and there is no question but what this is going to force the Soviet Union and other Eastern European countries to become more involved in the world economy by developing exports.

I think it is in our interest to do it. I am concerned about the indebtedness, but I think the potential for servicing that debt exists, and I personally feel it is in our interest to encourage not the increase in indebtedness but the increase in the development of resources which would then allow the Eastern European countries to service that debt.

In connection with the grain agreement and, Mr. Chairman, I do not want to raise a sensitive subject again because you have attacked

me enough on that issue, but in connection with the grain agreement, I worked very hard to develop a reciprocal movement which would allow them to buy more grain in return for oil. I did include a letter of intent that established the obligation for the Soviet Union to make available to the United States on an optional basis 10 million tons of oil a year.

We have not implemented that agreement because of various reasons, but not because the Soviets did not want to pursue it. We are the ones that have not pursued it. That could be a starting point.

They need technology, they need some capital. But they could very rapidly expand their production of oil and their exports to the Western World. I saw this as a very important opportunity to reduce our dependence on the OPEC nations.

It would be symbolic in the early stages. We were only talking about 2 percent of our total imports at that time, but it could have been expanded.

There is another opportunity I have attempted to develop in phosphates. We have ships, U.S.-flagships, carrying one-third of the grain to the Soviet Union. They have very large deposits of high-grade phosphate. Phosphate is essential to our agricultural industry in this country, and we are increasingly dependent on Saskatchewan for some 80 percent, and that could well go on up to 100 percent.

While we have not seen OPEC kind of actions yet, we do not know what Saskatchewan is going to do when they have 100 percent control of our phosphate requirement, potash.

My feeling was that we should develop and assist the Soviet Union in developing their potash deposits. That material can be transported back on grain ships which otherwise would be returning in ballast, and transportation costs into our agricultural areas would be at a fraction of the cost of rail transportation from Saskatchewan into our country. It just seems to me there are some great opportunities to develop relationships here which would tend to counter the trend toward cartel-like actions in other parts of the world.

So there are ways in which we could deal with the debt issue. It is getting high. It is of concern. The commercial banks operating independently have suddenly recognized that in total, they are now getting into a position where they should be concerned, and we are going to have to deal with the problem in an innovative and intelligent way.

I am convinced this will force these countries into doing what is, in the long run, in our own interest.

Mr. BINGHAM. Thank you; that is very interesting.

One more quick question. On page 4 you referred to their having—the Soviet Union and Eastern Europe—scarce hard currency reserves, particularly with reference to the Soviet Union. Is that a correct statement; they have a scarcity of hard currency?

Mr. ROBINSON. They clearly are trying to preserve their reserves, and they are doing it by borrowing.

I do not have figures on their reserves or on their inventory of gold, but they clearly are in a defensive position of protecting those reserves, and if that is critical information, I can see that it is developed and supply it to your committee. I think it is important.

Mr. BINGHAM. I think it will be good to have those figures.

[The information follows:]

DEPARTMENT OF STATE,
Washington, D.C., February 9, 1977.

HON. DANTE B. FASCELL,
Chairman, Commission on Security and Cooperation in Europe, House Office
Building, Annex 2, Washington, D.C.

DEAR MR. FASCELL: During the Commission's hearing on CSCE Basket II, Congressman Bingham asked Deputy Secretary Robinson for information on Soviet hard currency reserves. In response to that request, I can report that according to our information at the end of 1976 the Soviet Union's hard currency debt was around \$14 billion and gold reserves totalled approximately \$8 billion (at current prices).

I hope this information will be of use to the Commission.

Sincerely yours,

KEMPTON B. JENKINS,
Acting Assistant Secretary
for Congressional Relations.

Thank you, Mr. Chairman.

Chairman FASCELL. Mrs. Fenwick.

Mrs. FENWICK. Mr. Secretary, I did not enjoy Congressman Bingham's opportunities to work with you, and I am now very sorry it is no longer going to be possible because I can quite imagine how he feels.

I am heartened by the final page of your testimony, Mr. Secretary. It is good to see that Basket III is not left out of discussion of Basket II and that you feel that something can be done.

I, too, had written down the words "page 8, greater flexibility" to ask you to expound on that a little further.

Mr. ROBINSON. Flexibility—

Mrs. FENWICK. "Greater flexibility on the part of the President in administering the act, which is found to be so difficult and such an impediment to trade."

What kind of flexibility would you suggest that the President should have?

Mr. ROBINSON. We are talking about bringing about a fundamental change in the way in which these countries deal with their citizens. There have been a number of decades in which their present practices, present policies, have evolved until now they are so ingrained that we have to recognize they are not going to be changed overnight.

Flexibility has two aspects to me. One is timing. We have to be flexible in dealing with each issue, each specific issue in a way that is appropriate for that issue in that country, given the conditions that apply.

And then in terms of the overall Basket II package, there are clearly aspects that are beneficial to the Eastern European-Soviet bloc, and we must play those intelligently, with sensitivity, without imposing on the Soviet Union or Eastern European countries the necessity for acknowledging publicly that they are responding to our pressure.

Mrs. FENWICK. I do not think I put my question very well. I am referring to your last paragraph: "The administration has favored amending the trade legislation to provide greater flexibility to the President."

How would you amend that legislation?

Mr. ROBINSON. By eliminating Jackson-Vanik.

Mrs. FENWICK. You do not mean "amending;" you mean eliminating?

Mr. ROBINSON. There may be some compromise approach. But what I am saying is that a legislation that imposes on the administration the necessity of withholding credits, withholding MFN, for countries that do not meet our standards, clearly does not produce the results we need.

Mrs. FENWICK. I read something else into it.

Do you think suggestions that credit might be restored would produce a flood of those emigration visas and less harassment? If the threat of the Jackson-Vanik was so effective, do you think that the carrot might be as effective as the stick; that the promise of a carrot would be as effective as the threat of a stick?

Mr. ROBINSON. That is a judgment question. I do not think we are going to see a flood of emigration, regardless of whether we use carrots or sticks.

Mrs. FENWICK. I think 34,000 reduced—

Mr. ROBINSON. Yes, I would anticipate that a repeal of the Jackson-Vanik amendment could well bring us back to the 30,000 to 40,000—

Mrs. FENWICK. I am not suggesting that. I am suggesting the hint that it might be.

Mr. ROBINSON. Obviously we have, in the administration, made it very clear that we would work for that, and that has allowed us in more recent months to achieve some real progress, particularly with the Soviet Union. But the hint is not, in itself, going to bring a flood or a sudden jump, in my opinion, because that, in effect, would be construed domestically as a response to our pressure or our release of pressure and, therefore, it would still have the psychological problem that we are dealing with here.

Mrs. FENWICK. On page 5 you spoke of some U.S. firms. You spoke of some firms not American which had been given permission to settle in Prague. Were any U.S. firms refused?

Mr. ROBINSON. I cannot answer that. Perhaps one of my associates—apparently not.

Mrs. FENWICK. Thank you, Mr. Chairman.

Chairman FASCELL. Mr. Secretary, I am having a hard time here. I cannot see the importance of MFN without volume trading and earnings. That is the only purpose, is it not; to earn hard currency?

Mr. ROBINSON. That, of course, is an important element.

Chairman FASCELL. You have to do that in the world market channels. You could not do it with preferential deals: am I correct?

Mr. ROBINSON. It can be done with preferential deals. With MFN, we are talking about the world—

Chairman FASCELL. It seems to me the important thing, from their point of view, is credit. What difference does it make what we do to the Trade Act?

Mr. ROBINSON. Certainly for the Soviet Union, credits are much more important than MFN. Perhaps to Romania and Poland MFN is more important.

Chairman FASCELL. It is possible to write a scenario where you modify the linkage with MFN, but credits seem to be the key.

Mr. ROBINSON. They are interrelated, however, in that those credits are often used to increase productive capacity, capacity to produce

manufactured products that would be, could be marketed in the United States with MFN treatment.

Chairman FASCELL. I did not want to get into a detailed breakdown of what could be sold to the United States and what increased production capacity for manufactured items would make MFN more useful. Do we have some idea of the list?

Mr. ROBINSON. We have a list of important products.

Chairman FASCELL. What do they export, generally, in the world market? They could export oil, they could export phosphates?

Mr. ROBINSON. Potash.

Chairman FASCELL. I mean potash. They do not want to export gold.

Mr. ROBINSON. They have gas. Of course in Western Europe, they have a major source of gas.

Chairman FASCELL. They have a lot of sugar.

Mr. ROBINSON. We have a list of some key products. For Bulgaria, tobacco is their export to the United States. Czechoslovakia sells machinery, crafts, glassware.

Chairman FASCELL. They are more established in that market?

Mr. ROBINSON. Yes.

Chairman FASCELL. And have been for a long time, though.

Mr. ROBINSON. That is correct.

Chairman FASCELL. That is not new.

Mr. ROBINSON. We are talking about volume.

Chairman FASCELL. Go ahead. I am trying to get some idea of the importance of MFN to the U.S.S.R. and Eastern bloc countries.

Mr. ROBINSON. For the German Democratic Republic, wax and glassware are the key products for export to the United States. Hungary is ham, electrical component, machinery. From Poland, pork products, metal products, chemicals, furniture, machinery.

Chairman FASCELL. We heard for years about the myth if we could ever give the Latin Americans preferential treatment to our markets, it would just open up a bonanza.

The volume has been phenomenally small so far. It is a question of being competitive in the world market, is it not?

Mr. ROBINSON. It is long-range planning that will develop the products—

Chairman FASCELL. Productive capability, that is what you are talking about.

Mr. ROBINSON. That is right.

Chairman FASCELL. In other words, the whole thing is tied together in a sense that in order to become competitive in the world market, they would have to be able to bring about the productive facilities to export.

Mr. ROBINSON. That is correct. So it takes time to develop the response to the improved market input.

Chairman FASCELL. But that is long term. In other words, the ability to earn hard currency is long term unless they come up with some kind of innovative program which you initiated, which, I must admit, was very innovative.

Mr. ROBINSON. That could be implemented very rapidly.

Chairman FASCELL. Otherwise, you have got to resort to credits. You have no choice; am I correct?

Mr. ROBINSON. You are right.

But those credits will flow if there is a basis for projecting revenue.

Chairman FASCELL. In other words, if you have a long-range plan, let's say your 5-year plan on economic growth which includes production improvement, then you might be able to be in a better position to lift the lid on your credit where you are already bumping the lid; and that is about where they are right now.

Mr. ROBINSON. That is right.

Chairman FASCELL. It looks like, to me, if that is relatively true—this is so cursory—but if that is relatively true, then it seems to me it requires the most delicate examination at the diplomatic level in cooperation with Treasury, State, and the Congress. If we are going to follow the recommendations which you and other witnesses have made to eliminate the linkage, it would seem that timing is very important.

I am just saying might be; that time might be right now because of a peculiar combination of circumstances. I do not know.

One other question, and that is a question of preferential treatment of American businessmen dealing abroad.

Do you have suggestions or recommendations as to how to avoid getting into that trap; special deals for a special company with a special country?

Mr. ROBINSON. I am opposed to special deals for special companies. I think in the long run it creates a lot more problems than it solves. There are questions of principle involved, and I just do not believe in it, in principle.

Chairman FASCELL. I know you do not.

Mr. ROBINSON. All I can say is that there are cases where a given kind of investment or trade opportunity is available to all, but it requires a special diplomatic effort to obtain it. Where only one company happens to be interested, supporting that company in the effort. I do not see as providing preferential treatment but merely dealing with an issue in the way it would be dealt with for all companies.

I have to distinguish between doing that and something special.

Chairman FASCELL. Right.

Mr. ROBINSON. Sometimes it is a little hard in determining what is preferential—

Chairman FASCELL. Mr. Secretary, would it be possible to open up the process while that is going on so as to remove the doubt, the speculation and acrimony after the fact? Is there any way to do that?

Mr. ROBINSON. I just do not believe we ought to be involved in supporting special preference for any company trying to accomplish an objective unless we are prepared to do it all for companies under the same circumstances.

Chairman FASCELL. I think that is the only policy we can follow.

Mr. Secretary, you have been very kind in giving us your time today. You have given outstanding public service to this country at great expense to yourself. You have been very courageous in your views not only before committees of the Congress and this Commission, but also with the Executive. I think you obtained commendatory notoriety for your candid service in the Department of State.

I thank you for your willingness to serve and for the contributions which you have made in your service. I believe this will probably be the last opportunity for one of our Commissioners to sit and to serve

with us and to serve his Government where he has been outstanding. I am talking about Mr. Monroe Leigh, who is our Commissioner representative from the Department of State. I have had the pleasure of working with Monroe Leigh for many years, many years both in and out of Government. I say he is one of the most dedicated, able people that I have ever had the pleasure of working with in the Department of State, Mr. Secretary. He is a very able lawyer, I want to tell you that, and a great advocate.

He is also one of the kind of men you just do not run over. He is like you that way. You do not find many of those around. I could not help but draw the parallel and to pay my respects to both of you as you leave your service in Government.

Mr. ROBINSON. Thank you very much. On behalf of Monroe Leigh, let me just say he spent about half of his time keeping me out of trouble and trying to get me out of trouble. I am equally indebted to him for that.

Chairman FASCELL. Thank you very much.

The Commission stands adjourned until 2 o'clock.

[Whereupon, at 12:15 p.m., the Commission recessed, to reconvene at 2 p.m. the same day.]

AFTER RECESS

The Commission reconvened at 2 p.m., Hon. Dante B. Fascell (chairman of the Commission) presiding.

Chairman FASCELL. This Commission will come to order.

We continue this afternoon on hearings on Basket II and, as I have announced earlier, our first witness this afternoon is the Honorable Elliot L. Richardson who is Secretary of Commerce and has a long and distinguished career in and out of Government.

Mr. Secretary, we are delighted to have you here. We know how busy you are but we appreciate your responding to the invitation of the Commission to give us the benefit of your views on this important subject as it applies to your area of responsibility. We particularly welcome your advice and recommendations and your views because of who you are, because of your vast experience, and because we have great respect for you.

We are delighted to hear what you can tell us on this very important subject which the Commission is considering.

STATEMENT OF HON. ELLIOT L. RICHARDSON, SECRETARY OF COMMERCE, ACCOMPANIED BY ARTHUR D. DOWNEY, DEPUTY ASSISTANT SECRETARY OF COMMERCE FOR EAST-WEST TRADE

Secretary RICHARDSON. Thank you, Mr. Chairman, and members of the Commission on Security and Cooperation in Europe.

This is the last time I appear as a witness before a body in this chamber as a member of the Cabinet, maybe. At any rate, I am delighted to have this opportunity to appear on Capitol Hill before this unique Commission to provide some personal observations on the prospects for increased East-West economic cooperation in the context of the Commission on Security and Cooperation in Europe.

CSCE has become an important means for encouraging and measuring progress in the development of East-West cooperation. It is

my hope that future administrations will press actively to maintain the terms of the Final Act as a focal point for cooperative endeavors in East-West political and economic relations.

The second section of the Helsinki agreement, popularly identified as Basket II, is officially entitled "Cooperation in the Fields of Economics, Science and Technology, and the Environment." It contains a broad array of provisions designed to encourage economic cooperation and to reduce barriers to trade.

During the past year, in my capacity as cochairman of the government-to-government commercial commissions with Romania and Poland, I have had a unique opportunity to observe the progress achieved in East-West economic and commercial relations. I have also met with U.S. businessmen and, during my recent visits to Hungary and Yugoslavia, with representatives of foreign governments and enterprises to discuss many of the economic issues treated in Basket II.

The appendixes to my statement detail the progress achieved in these areas since the conclusion of the Conference. Today, however, I would like to comment on how I believe the Helsinki Final Act can serve U.S. interests and help overcome some of the obstacles to a better economic relationship with the Eastern European countries and the U.S.S.R.

I believe we have an interest in developing a long-term stable, and cooperative economic relationship with the Soviet Union and the countries of Eastern Europe. The direct economic benefits to be gained from increased commercial exchanges—jobs, profits, needed raw materials—are, of course, of value to us.

Even the limited trade taking place so far has brought significant benefits to this Nation. Some of the longer-term arrangements entered into by American companies and the bilateral arrangements between governments promise to yield continuing returns. A long-term stable relationship would permit more meaningful and better planning and resource commitments necessary to maximize economic benefits.

It is also in our interest to bring the Soviet Union and the countries of Eastern Europe increasingly into responsible participation in the international economy, especially as concerns the development and utilization of energy, food, and ocean resources. This, too, will require cooperation over the long term.

Finally, we are interested in minimizing the potential for political confrontation that can escalate into military conflict. While economic cooperation, of course, cannot insure peace, it can contribute to a climate conducive to progress in political, military, and other aspects of our relations. The interrelationship of the various spheres, or baskets, is, after all the foundation on which the Helsinki Final Act was created.

A major problem in developing an equitable, long-term trading relationship between East and West lies in the barriers to trade that can result from the differences, real and imagined, between the economic systems of the market and nonmarket economy countries.

In the case of the nonmarket countries, their central plan directives for production and foreign trade, and the closed nature of their economies and societies, present barriers to Western businessmen not normally encountered in commercial transactions involving market economy countries.

Basket II, in its sections on business contacts and facilities, economic and commercial information and marketing, directly addresses the problems of Western companies attempting to do business with the East. These provisions supply a set of guiding principles through which the Eastern European countries and the U.S.S.R. have agreed to reduce obstacles to East-West trade. If we are to improve our access to the Eastern European and Soviet markets, compliance with these provisions must continue to be sought, particularly in the areas of working conditions and facilities for businessmen, expanded contacts with the end users of products, and improved economic information.

I should caution, however, that certain provisions attempt to deal with barriers that a market economy system may raise and can, therefore, create certain responsibilities for the United States. Most important among these provisions is the agreement "to endeavor to reduce or progressively eliminate obstacles to trade." Although the "obstacles" are not spelled out in the language of the Final Act, and no specific commitments were made, our denial of MFN and the limitation on Eximbank credit facilities constitute barriers to the expansion of U.S. trade with the Soviet Union and most of the Eastern European countries.

It is also important that the United States and other nations of the West recognize that a viable, long-term trading relationship with the East cannot continue indefinitely to rest on the huge debt-creating Western surpluses of recent years. Instead, the West will have to absorb larger quantities of imports from the Communist countries to achieve a more nearly balanced trade.

To the extent that these imports compete with domestic production in the West, there may be difficult problems ahead. Our antidumping and countervailing duty laws rely essentially upon costs and prices as determined in a market economy. But costs and prices in the Communist countries are, of course, normally set by central authorities.

These basic differences between two kinds of economic systems—market and nonmarket—can be expected to create problems and misunderstandings for both sides in dealing with market disruption problems. It is not enough to note that the Communist countries increasingly are watching the way in which we utilize our antidumping and countervailing duty laws and may see them as obstacles to increased trade. We must attempt to deal with this. As a means of resolving this problem, we should undertake a systematic bilateral exploration of the cost and price accounting systems of these countries. The basic differences between market and nonmarket economics may continue to present this type of difficulty until constructive solutions are found.

Basket II reflects a recognition on the part of the signatories of the diversity of problems involved in expanding East-West trade and economic cooperation. It is not, nor should it be, the sole instrument for fostering the development of East-West trade on a mutually beneficial basis. At most, it provides a set of rough guidelines. The question before us then, is how to use Basket II, given its limitations, to assist in bringing about an expansion of commercial relations?

In my judgment, the usefulness of Basket II lies partly in the fact that it encourages both bilateral and multilateral approaches to East-

West economic issues through a variety of existing channels which deal with trade and economic cooperation.

For example, the agreement is a useful reference point when negotiating specific matters within intergovernmental bodies such as the Joint Commercial Commissions. In my own experience, I have found these Commissions to be useful vehicles in promoting the objective of industrial cooperation and encouraging the State-controlled economies to facilitate business relations with U.S. firms.

The United Nations' Economic Commission for Europe (ECE) has proved useful in dealing with many of the technical problems of trade and is actively working to promote the implementation of Basket II objectives in specific areas delegated to it, including harmonization of statistical nomenclature, trade promotion, market research, industrial cooperation, licensing and leasing, and the drafting of contracts of East-West business negotiations.

Finally, although not all the Helsinki signatories have acceded to the GATT, (notably some of the Communist countries), efforts in that forum to liberalize trade should complement and enhance the attainment of a principal objective of Basket II—the reduction of barriers to international trade.

Both the legislative and executive branches can play significant roles in insuring implementation of the Basket II provisions of the Final Act. For example, this Commission could provide a valuable forum for members of the business community to voice their concerns and aspirations regarding the conduct of trade with the East. The treatment of these problems and prospects in such a forum can provide the executive branch with documentation to be used in formal bilateral and multilateral frameworks. Also, the executive, as a result of the information gathered by this body, will be better prepared to have substantive discussions regarding compliance and implementation of the Final Act at the followup session scheduled to be held in June in Belgrade.

U.S. economic relations with most of the East European countries are currently in a "holding pattern" because of the refusal or inability of most of those countries to accept the freedom of emigration provisions (Jackson-Vanik amendment) of the Trade Act of 1974. Since enactment of that legislation, Soviet Jewish emigration—the principal concern of the amendment's sponsors—has decreased substantially. During the same period U.S. participation in East-West trade has remained far below its potential.

I have always strongly believed in the free emigration objectives reflected in the Jackson-Vanik amendment. However, the current legislation, which directly links trade and emigration, limits the President's flexibility to use diplomatic means to achieve these humanitarian goals. The current restrictions deprive him of discretionary powers that could enable him to achieve progress toward both a normalization of commercial relations and a liberalization of Communist country emigration policies.

I would add, Mr. Chairman, that the effect of the legislation inevitably is to force the Soviet Union or another East European country affected by the amendment, into a position in which a liberalization of its emigration policies is done as a result of a gun pointed di-

rectly at its head in a manner that forces, in effect, an admission that it has accepted an intrusion into its internal affairs. It is this fact which complicates and has obstructed the achievement of the objectives underlying the amendment. At the same time the result has been to prevent the development of expanded trade relations.

The Ford administration has often stated its opposition to those restrictions, but has sensed the absence of a political environment in which proposals for change could be constructively advanced. The next administration, in cooperation with Congress, has an opportunity to break the impasse, in part because of the increased international attention focused on the Helsinki Final Act.

The act not only establishes a blueprint for normalized commercial relations, but also contains a comprehensive declaration of principles and a set of specific provisions on a wide spectrum of humanitarian issues, including the freedom of movement concerns reflected in the Trade Act. The Helsinki document thus provides an alternative framework within which we can work toward achieving both economic cooperation and humanitarian goals.

Of course, I do not have unlimited expectations for results from the Helsinki Final Act. It lacks the force of law and, as with most international agreements, there is no "enforcer" other than world opinion.

Nevertheless, in my opinion, Helsinki not only can be important in the normalization of East-West trade, but would possibly provide a more effective and appropriate means than the Jackson-Vanik amendment for pursuing the advancement of human rights. I say "would" because I think the Jackson-Vanik amendment is a peculiarly unsuitable instrument for this purpose.

If Congress can agree that the Helsinki Final Act has potential as a vehicle for achieving those objectives, it might see fit to remove or modify the Jackson-Vanik amendment to the Trade Act. This would provide the President the flexibility needed to conduct our Nation's foreign and trade policy effectively, and at the same time pursue humanitarian goals. Of course, a renewed commitment by the next administration to the Final Act will be necessary to assure all concerned that we intend to press vigorously for the humanitarian objectives reflected in the Final Act. This commitment also will serve as a signal that we will continue to be cautious in the extension of economic benefits to those nations that have not fully demonstrated compliance with these provisions. Congress could still exercise its oversight responsibilities on such humanitarian questions as emigration through the monitoring activities of this Commission.

One final point, Mr. Chairman. The development of economic cooperation, as set forth in Basket II, may bring about intangible benefits to the United States. Increased economic cooperation necessitates many more direct contacts between Americans and people of all levels in the East. These contacts offer those in the East an opportunity to observe the personal freedoms and liberties which we enjoy, and the effective and efficient operation of Western trade, industry, and technology in a decentralized and open economic setting. Although economic cooperation alone is far too weak an instrument to achieve the economic, political, and humanitarian goals we seek, such relation-

ships, over time, can contribute importantly to greater flexibility and more openness in the economic and social systems of the Communist countries.

That concludes my prepared statement, Mr. Chairman.

I am accompanied by, on my right, Arthur T. Downey, Deputy Assistant Secretary of Commerce for East-West Trade, and any questions I can't answer I would be glad to refer to him.

Chairman FASCELL. Thank you very much, Mr. Secretary, for your statement, and we are delighted to have Mr. Downey here also.

[The appendixes to Secretary Richardson's statement follow:]

APPENDIX I

EXPERIENCES AND WORK RESULTS OF THE U.S.-POLISH AND U.S.-ROMANIAN COMMERCIAL COMMISSIONS

This fall I had the pleasure of chairing the U.S. Delegation to the Sixth Session of the Joint American-Polish Trade Commission and the Third Session of the Joint American-Romanian Economic Commission. I valued highly the opportunity these meetings afforded to review comprehensively with Polish and Romanian leaders the state of our bilateral relations, to express to them some of our concerns, and to gain greater insight into their aspirations and policies.

We met not only at the Commission table, but also in small groups and informal sessions during the several days each Commission met. Our discussions covered not only commercial matters, but also the political, humanitarian, scientific, and cultural issues which affect our bilateral relations and our cooperation in international fora. While such direct personal communication did not always produce agreement or unanimity of views, it did enhance the mutual understanding so necessary for cooperative resolution of differences.

I came away from these two Commission meetings convinced that both these countries seek to expand and improve their relations with the United States and that there are many areas in which cooperation can be extended to our mutual benefit. It was also my impression that these countries attach considerable importance to the Helsinki Agreement.

These Commissions have been in existence for several years. The Polish Commission met five times previously since it was established in 1972, and the Romanian Commission met twice since its inception in 1973. In addition, working groups of both Commissions have met between Commission sessions to discuss specific issues. This fall's session continued to advance the work begun in previous years. I was impressed with the scope of issues covered at each session and the progress achieved in many areas.

The September meeting of the Polish and the November meeting of the Romanian Commission concentrated their efforts in the areas of economic and commercial information, business contacts and facilities, and industrial cooperation—areas covered by the provisions of Basket II.

ECONOMIC AND COMMERCIAL INFORMATION

We have found the joint commissions useful vehicles for the exchange of information concerning economic development plans and foreign trade laws and regulations. During the last commission sessions, for example, both the Polish and Romanian delegations presented in some detail information on their economic development programs to 1980. As an outgrowth of this, some information was also developed on specific investment projects which might offer opportunities for U.S. companies. The Polish delegation also presented an information memorandum describing Poland's foreign investment regulations which were adopted last May. This memorandum now is available through the Department of Commerce to the American business community.

In addition, during this last session, the Polish side described the features of the Polish tariff system which had been introduced at the beginning of the year and explained the principles guiding Polish traders in buy-back arrangements.

We in turn provided them information on U.S. bank lending limits and Eximbank lending policies, which served as a basis for the Commission's discussion of Poland's debt-incurrence and debt-repayment plans. The permanent working group on agricultural cooperation of the Joint American-Polish Trade Commission has evolved a program of regular exchange of information on agricultural production and trade.

The commissions also have afforded us opportunities to urge the collection and publication of both economic data and business practice information. We were informed that the Chambers of Commerce of both Poland and Romania are preparing such guides for businessmen.

BUSINESS CONTACTS AND FACILITIES

A second important area of commission work concerns the facilitation of business contacts and improvement of working conditions. In the case of Poland, the groundwork in this area was laid during the meetings of the Working Group on Business Facilities in March, 1973, when procedures for the establishment and conditions for the operation of U.S. company offices in Poland were defined. Since then, many specific matters have been clarified and revised in view of the increasing number and varied types of operations at such offices. At this last Commission session, the Polish side presented clarifying information on the business expenses which foreign company offices can cover with the Polish currency they earn within Poland. The Polish delegation again renewed its invitation to American companies to open offices in Poland. Leasing conditions for offices in the new Warsaw Trade Center were also discussed and a number of ameliorative measures were announced.

The cost of doing business, especially as affected by the exchange rate, was also discussed. The desire of American companies for contacts with Polish research and design offices was welcomed by the Polish side, and ways in which such contacts could be pursued were suggested. The Polish side also raised several matters which they believed would facilitate working conditions for their trade representatives in the United States, including visa categories and Foreign Agents Registration Act requirements for trade promotion literature. Both the Polish and Romanian commission sessions discussed ways in which the negotiation of business contracts could be accelerated and contract fulfillment assured. The American-Romanian Commission agreed that the issuance of multiple entry business visas on a reciprocal basis would facilitate trade relations, and both sides are now considering a specific proposal to this end.

INDUSTRIAL COOPERATION

Both Poland and Romania have evinced great interest in industrial cooperation with American companies. The recent session of the Joint American-Romanian Economic Commission was preceded by signing of a Long-Term Agreement on Economic, Industrial and Technical Cooperation. This document, which was negotiated over the last year, sets forth the governing general principles, and the conditions and facilities which will be afforded cooperative ventures. Both the Romanian and Polish delegations presented at the last commission meetings lists of industrial areas in which they would particularly welcome cooperation with American firms. Both also indicated interest in cooperating with U.S. companies in third markets in construction, production, or marketing activities.

This information has been disseminated to the American business community. Proposals were also received for the creation of working or consultative groups to explore further the various aspects of industrial cooperation. Concern about the impact on industrial cooperation projects of such U.S. regulations as those governing export licenses and antidumping and countervailing duties was raised by the Polish and Romanian delegations.

Communication and cooperation between the intergovernmental commissions and the joint economic councils under the auspices of the U.S. Chamber of Commerce have been developing favorably since the creation of the private councils. The positive interaction of both sectors will be necessary for the full development of trade and economic cooperation as called for by the Helsinki Agreement.

APPENDIX II

IMPLEMENTATION OF THE PROVISIONS OF BASKET II SINCE THE HELSINKI CONFERENCE

Basket Two includes a number of guidelines and recommendations concerning the free flow of economic and commercial information, improved working conditions for foreign businessmen, and industrial cooperation. Some modest progress in all these areas has occurred since the signing of the Helsinki Agreement. These improvements generally have continued the previous policies of the individual Eastern European governments and thus probably reflect more their desire to develop trade with the West than any direct effort to implement CSCE principles.

The Helsinki Agreement, however, may have helped to quicken the pace of some of these developments and to maintain the environment that encouraged these policies in the first place. In some areas—notably with respect to the availability of information—the record of the U.S.S.R. and Eastern Europe is mixed. Lack of progress or even retrogression where it has occurred, similarly, probably should not be attributed to a conscious flouting of the Helsinki principles.

ECONOMIC/COMMERCIAL INFORMATION

In several instances, economic/commercial information has become less readily available than it was before August 1975. In 1976, the U.S.S.R. published one-third fewer copies of its annual National Economic Handbook, the principal source of economic data on the Soviet Union, than it did in previous years. Trade data published by the German Democratic Republic in 1975 do not even show the values of individual country exports and imports with respect to the GDR, as in the past, but merely report total trade turnover by country. Since the 1976 edition of the Romanian Statistical Annual was published only in December 1976, six months later than previously, Romanian statistical data on the Romanian economy and trade for 1975 was unavailable for a full year.

Data published by all the Eastern European countries and the U.S.S.R., moreover, continue to lack sufficient detail to support the type of market research required by Western businessmen. This situation is partly due to the fact that centrally planned economies are not based on domestic market mechanisms. Since such statistics are not needed internally, resources are not expended on compiling them. In some cases, however, fairly detailed market studies can be purchased from individual state publicity agencies. Nevertheless, the Eastern European countries would probably find it to their advantage if Western businessmen could more readily make market assessments of their economies. This would better enable Western businessmen to provide these countries with the products and services best suited to their needs, and also to identify areas of potential purchases and industrial cooperation.

In certain cases, there has been an increase in the amount of economic and commercial information made available to the West, and to the United States in particular. Hungary has been more forthcoming than some of the other countries in publishing detailed statistical and economic information. As an example, the 1976-80 Five-Year-Plan was translated and published in English within three months of its approval by the Parliament. In the U.S.S.R., more information is becoming available in the foreign trade area. In May 1976, the Soviets began to publish quarterly statistics on exports and imports with both individual countries and country groups, although statistics on commodity trade are still lacking in detail.

Moreover, the U.S.S.R. Ministry of Foreign Trade has cooperated with the U.S.-U.S.S.R. Trade and Economic Council in preparing and updating a handbook of Soviet foreign trade officials. In addition, at the November 1976, meeting of the Council in Moscow, sessions were arranged to allow U.S. businessmen and several Soviet industrial ministers to discuss Soviet economic plans and potential areas of cooperation. Finally, Soviet authorities published a document outlining the next five-year-plan for the use of foreign businessmen.

Elsewhere in Eastern Europe, additional information was made available in the context of meetings of government-to-government joint economic commissions.

As a result of the Second Session of the U.S.-Romanian Economic Commission in November 1975, at which the U.S. Government repeatedly urged cooperation with the "spirit of Helsinki," Romania provided a list of contacts in Romanian foreign trade organizations, ministries, and industrial centrals for U.S. commercial use. It failed to provide, however, promised information on agricultural import needs, market analysis data, and pertinent regulations and duty rates on items imported by foreign commercial representation offices in Romania. At the American-Polish Trade Commission meeting in September 1976, Poland provided useful clarifying information on its foreign investment regulations which had been promulgated in May 1976, as well as information on its economic plan to 1980 and its new tariff system.

Other government-to-government meetings have resulted in useful information exchanges. A joint information exchange seminar held in December 1975, under the aegis of the U.S.-U.S.S.R. Long-Term Agreement to Facilitate Economic, Industrial, and Technical Cooperation contributed measurably to an understanding of the legal, organizational, and financial framework of Soviet foreign trade. Significantly, the U.S. Government received full cooperation and valuable assistance from the Soviets when it later published a compendium of the papers presented at the seminar. Similarly, in 1976 official U.S. delegations were welcomed in Bulgaria, Czechoslovakia, the German Democratic Republic, Hungary, Poland, and Romania to discuss and study patent and licensing practices in each of these countries.

Other initiatives have been taken unilaterally by some of the Eastern European countries to make more information available. In April 1976, Hungary notified the U.S. Embassy in Budapest that it could make direct mailings to Hungarian enterprises and persons, without any restriction. Previously, restrictions had been placed on the types of information that could be mailed in Hungary by Western embassies. Since June 1976, Czechoslovakia has begun to include in its official monthly bulletin of statistical indicators additional graphs and data on sales, worker productivity, and selected product inventories.

CONDITIONS FOR FOREIGN BUSINESSMEN

In the U.S.S.R. and some countries of Eastern Europe, contact with end-users is limited, although it has tended to increase over the past several years. In most countries, unless Western businessmen are well-known through repeated business dealings, they must arrange such contacts through the appropriate foreign trade organization or industrial ministry. In Hungary, Poland, and to some extent Czechoslovakia, access to end-users is relatively easy, especially after repeated business dealings. Numerous producing enterprises in Hungary have foreign trading authority and thus U.S. firms can deal directly with these organizations. Hungary also publishes directories of factories, research organizations and other end-users.

In none of the countries, however, is it possible to attribute improved end-user access directly to the Helsinki Agreement. Furthermore, it is similarly difficult to conclude whether requests by Western firms for the establishment of representative offices in the respective Eastern European countries have been given any different consideration as a result of Helsinki. In all of the countries except two, Bulgaria and Czechoslovakia, the establishment of offices was made possible by virtue of regulations enacted before the signing of the Helsinki Act. Moreover, the rate at which new offices have been accredited in these countries has not increased dramatically since the signing, but neither has the rate of applications from interested Western firms.

In any case, however, the total number of U.S. firms represented in the U.S.S.R. and Eastern Europe is presently greater than it was before Helsinki. Since Helsinki, for instance, the U.S.S.R. has granted accreditation to four additional U.S. firms, bringing the total number of permanent U.S. offices there to twenty-four. Another U.S. firm has received assurances that its application will receive favorable consideration early in 1977.

In Bulgaria and Czechoslovakia, the decrees passed in December 1975, allowing the establishment of foreign representative offices were possibly stimulated by the Helsinki Act, but the principal impetus probably came from the fact that the other countries of Eastern Europe had already set the precedent. Nonetheless, during 1976, 19 Western firms established offices in Czechoslovakia, and four firms in Bulgaria. No American companies were among them.

In other countries of Eastern Europe, moreover, conditions associated with the establishment and operation of offices have improved since Helsinki. In Romania, housing and services for office personnel became more easily obtainable in 1976. Poland, during the September 1976 meeting of the Joint American-Polish Trade Commission, announced a liberalization of the regulations governing the use of Polish currency, which should ease the burden of meeting office operating costs in Poland. Since the thirty-eight-story Warsaw Foreign Trade Center was opened a year ago, office space is not a problem there. The German Democratic Republic has begun an extensive building program in Berlin to meet a current shortage of office space.

Hotel accommodations are adequate for the volume of business visitors to most of the Eastern European countries, with the possible exception of Bulgaria and the U.S.S.R., where tour groups receive preferred treatment. In the U.S.S.R., apartments have now been found for the principal representatives of all accredited firms. These developments at least show seriousness about the individual country commitments to encourage Western business offices, and demonstrate progress toward the attainment of adequate accommodations called for by the Helsinki Accord.

COOPERATIVE VENTURES

The first joint venture in Hungary between a Hungarian enterprise and an American company has been established in the period since Helsinki. Poland, too, has begun to permit direct foreign investment. All the countries officially encourage joint equity undertakings with foreign firms in third countries, and have promoted development of other cooperative business arrangements by a variety of means. The U.S.S.R. has signed a number of "compensation agreements" which arrange for such matters as financing for Soviet purchases of Western equipment and subsequent purchase by Western firms of product produced at the newly created facilities.

Previously, most of these deals involved Soviet production and export of raw and semiprocessed materials. At present, the Soviets are striving to arrange deals covering manufactured products. The U.S.S.R. is also studying several approaches to joint production projects which could allow for an unprecedented, but limited, management role for Western companies.

Fifty-four U.S. firms (12 since Helsinki) have signed science and technology cooperation agreements with the U.S.S.R. State Committee for Science and Technology, under the aegis of the 1972 U.S.-U.S.S.R. Science and Technology Cooperation Agreement. Although joint research and development work under the individual agreements has been limited to date, the agreements have been used to facilitate commercial contacts and contracts.

Most of the Eastern European countries have recently concluded various types of cooperation arrangements with Western firms. In some countries, such as Poland and Hungary, the agreements involve sizable joint production and marketing arrangements. Poland and Romania have provided the United States with lists of projects in which they would like to cooperate with U.S. firms. In November 1976, Romania signed a long-term agreement with the United States on Economic, Industrial, and Technical Cooperation, which encourages joint ventures and the exchange of economic data. Bulgaria has signed a few umbrella cooperation agreements with U.S. firms in the past year, which indicate an interest in doing more business on a cooperative basis.

In all of these instances, however, the cooperative agreements appear to be unrelated to the Helsinki Agreement. The prime motivation of the U.S.S.R. and Eastern European countries in discussing cooperation arrangements would appear to be a desire to develop their technological base, to conserve scarce hard currency, and to develop Western markets in order to rectify large trade imbalances and service hard-currency debt.

In sum, the U.S.S.R. and the countries of Eastern Europe, through their actions in the area of business facilitation, have given indications of continued strong interest in developing East-West trade, probably as a result of policies established before Helsinki. The Helsinki Basket II principles, however, have perhaps made the Eastern European countries more conscious of where their economic and commercial interests mesh with those of the West, and so perhaps have hastened movement in those areas of perceived mutual interest. It, therefore, would seem advantageous to the U.S. to encourage this process further by

continuing to point out the areas where the Eastern European countries and the U.S.S.R. fall short in the commitments to the objectives and principles agreed to at Helsinki.

The provisions of Basket II, especially those concerning business contacts and facilities and the availability of information, define many of the interests and needs of American companies doing business with the U.S.S.R. and the countries of Eastern Europe. Even prior to the signing of the Helsinki Agreement, private companies were in the forefront of pressing for many of these facilities; and it was in response to their initiatives that the establishment of offices and improvement of working conditions first began to receive consideration from the U.S.S.R. and the Eastern European countries. It was their needs also, as conveyed to the government, which shaped our proposals for Basket II.

In their individual negotiations of contracts, American companies and those of other Western nations continue to press for conditions which coincide with those enumerated in the Helsinki pact. It is doubtful, however, that all individual American firms so involved are aware of the specific provisions of Basket II or that they attempt to exploit them in negotiating for better facilities or greater access to information. Similarly, the joint economic councils set up by the private sector with their counterparts in the U.S.S.R. and Eastern Europe have undertaken to advance some matters covered by Basket II. However, like the efforts of individual companies, their programs, too, have been inspired by the practical needs experienced by the members rather than by the provisions of Basket II.

The Department of Commerce will be assuming an increasingly active role in bringing the provisions of the Helsinki Agreement to the attention of American companies, especially those aspects which can be advanced by and benefit the companies in their individual or associational capacities.

Chairman FASCELL. Mr. Secretary, I was glad to note the affirmative tone that you have taken with respect to the Helsinki Accord and its possible potential.

If you have to have some alternative it might as well be this one. At least it is here and has been agreed to.

What has the Department of Commerce done specifically, if it has been able to do anything, to introduce into American business language to familiarize American businessmen with Helsinki and its Basket II as part of their normal processes of doing business?

Secretary RICHARDSON. Mr. Chairman, I don't think we could claim to have done more than make a beginning. We are in the process of preparing a booklet on the Helsinki Final Act, with specific reference to its economic provisions.

Chairman FASCELL. Was that done in cooperation with Treasury?

Mr. DOWNEY. This is a separate booklet in the process of being prepared in cooperation with the Department of State.

Secretary RICHARDSON. We would hope that this booklet gets wide distribution. In the meantime, the provisions of the Final Act, Basket II in particular, are identified in the course of our regular consultation and advice to American firms doing business in Eastern European countries. There are often questions, for example, with respect to access to end users or availability of offices and similar issues of this kind in which we have occasion to call their attention to the provisions of Basket II. It is beginning to make a difference and to be of help in this context.

For example, I was recently in Bucharest on a mission in which I had hoped to have the company of your fellow Commissioners the Legal Advisor of the Department of State, Mr. Leigh. While there, I signed a long-term agreement with Romania—Long Term Agreement on Economic, Industrial and Technical Cooperation between the

United States of America and the Socialist Republic of Romania—in which we had made specific reference in the preamble to the Basket II provisions. During the course of the negotiation of that agreement, which dealt with many of the things I have just mentioned, there had been frequent opportunity to cite the existence of the Final Act as a means of encouraging Romanian concurrence with provisions that seemed to us important.

Chairman FASCELL. Mr. Secretary, of course, I am sure not only Mr. Leigh but the rest of the Commission would have been delighted to have joined you in Romania at or about that time, but we had a difference of opinion with the Government as to whether or not they wanted us, but I am glad they accepted you.

Did I understand that the agreement has been negotiated, formalized; is that what I understood you to say?

Secretary RICHARDSON. Yes, the agreement was signed. I signed on behalf of the United States, and Romanian Minister Ian Patan for Romania. The preamble states that "The Government of the United States of American and Socialist Republic of Romania determined to promote in their relations the objectives of the Final Act of the Commission on Security and Cooperation in Europe and to give effect to all of its provisions including those relating to economic, scientific and technological operation." Then skipping—"Have agreed as follows."

Chairman FASCELL. Are there any understandings, Mr. Secretary, between the two countries other than what is encompassed in that document?

Secretary RICHARDSON. Between the United States—

Chairman FASCELL. Yes, as part of this general understanding or is that it?

Secretary RICHARDSON. We do have the Bilateral Commission (the Joint American-Romanian Economic Commission), of course, which, although it does not provide for a specific understanding on particular trade issues, has been created pursuant to bilateral agreement. I was recently there in November as the American cochairman.

Chairman FASCELL. In broad, general terms, what are the undertakings by either respective governments under that agreement without getting into the specifics?

Secretary RICHARDSON. The most general thing I could say, Mr. Chairman, is that it covers very much the same kinds of things that are covered in Basket II. It deals, for example, with measures for business facilitation, assurances against expropriation, and the provision of economic and commercial information. Monitoring of the agreement is carried out by the Joint American-Romanian Commission.

Chairman FASCELL. These sound to me so far just agreements on principle.

Secretary RICHARDSON. The monitoring provision provides a mechanism for determining how well we are doing. There is also an annex which formally recognizes the right of firms engaged in cooperative activities, including joint ventures, to repatriate net income and assets, to verify compliance with contractual obligations, to make purchasing decisions according to competitive criteria, to work directly with sup-

pliers and customers in the other country and to have access to end users.

Chairman FASCELL. So far repatriation and end user contact have jumped out at me. What is the rest of it—I am just trying to get a handle on what these trade agreements really mean.

Secretary RICHARDSON. We have no comparable agreement with any other Eastern European country. It is both specific and long term. It is applicable for a period of 10 years, and it has—

Chairman FASCELL. Does it have any financial undertaking, Mr. Secretary?

Secretary RICHARDSON. No; it deals wholly with the framework for business relations between American firms and their counterparts in Romania.

Chairman FASCELL. In other words, it establishes the ground rules by which American firms can expect to operate within that country?

Secretary RICHARDSON. That puts it very well and very concisely. In the case of joint ventures it deals with the right to share in profits in proportion to their shares in the equity, to share in the management of the project and to limit liability to the value of one's contribution.

Chairman FASCELL. Is that joint ventures with the signatory country or is that other joint ventures?

Secretary RICHARDSON. This refers to joint ventures like the one that I visited in Romania.

Chairman FASCELL. In other words, it means external joint ventures?

Secretary RICHARDSON. It could be external or internal to the actual conduct of the operation to either the United States or Romania. As a practical matter it will most often be applicable to joint enterprises in which we have an American company which has entered into a joint venture with a Romanian counterpart. I visited one such plant in Romania where Control Data Corp. of the United States is engaged in production of certain computer peripheral equipment with a Romanian state-owned joint participant. The company is called Rom Control Data. This is an example of the kind of economic cooperation activity that I discovered, not only there but in other countries. Questions, like the ones on the right to repatriate profits and the basis for the determination of the share of profits are problems that vitally need to be sorted out as preconditions to moving forward with the formation of joint ventures like Rom Control Data. As time goes on and patterns are established we can, I think, anticipate that the number of such joint ventures established will begin to accelerate.

Chairman FASCELL. Mr. Secretary, I am impressed with the fact that a lot of the language that is included in the guidelines provided in this agreement conforms very closely to the general principles which are sought to be implemented in Basket II of Helsinki. Also that the Romanian Government has been forthcoming enough to put its name on the line with the United States in seeking foreign capital for specific purposes of interest to itself, so that you have here a real concurrence of implementation, it seems to me.

In other words, whether it would have happened with or without Helsinki is entirely another matter. The fact is it is within the broad framework. Let's examine that kind of affirmative effort along with your recommendation—and this is not unique, I might add.

As a matter of fact, I have never seen such fine cooperation and coordination in the executive branch of Government as I have in the position with respect to elimination of MFN and credit restrictions.

Secretary RICHARDSON. I am only addressing the facts, Mr. Chairman. Our conclusions are compelled by our familiarity with the problem.

Chairman FASCELL. I wouldn't say the language was exact or verbatim, Mr. Secretary, but it is close enough to get me to realize it is the finest example of cooperation I have witnessed in a long time around here. But be that as it may, if we are to remove the barnacles of restriction and if we are to give the President all of this freedom and flexibility which is so desirable and if thereby we are to serve the economic purposes of both countries, or for all countries, then what do we do—and we can't link them or we should not link the problems of Basket III although they are all part of the same document—how do we get the same kinds of affirmative cooperation with respect to the restatement or reaffirmation or the willingness for other signatory countries to pursue compliance with provisions of Basket I and Basket III? It seemed so easy in Basket II.

Secretary RICHARDSON. I hope this is responsive, Mr. Chairman. I am confident that you will so inform me if it is not.

Chairman FASCELL. I don't really mean to catch you on that.

Secretary RICHARDSON. I just want you to be clear about what I am saying.

Chairman FASCELL. I am leading up to the next question.

Secretary RICHARDSON. I will give you a short answer to this one then, so you can get to the next one. What I was going to say, though, is that the trouble with Jackson-Vanik, in my view, isn't so much that it ties the President's hands, it is not even that it links trade and other objectives—

Chairman FASCELL. It forces a confrontation.

Secretary RICHARDSON. Precisely.

Chairman FASCELL. I got all that. I am with you. Now, let's say well maybe that is not so good. We think that is all we have up here, by the way, but assume we follow the line of reasoning that says we would be better off if we left it to the diplomats and you Congressman stay out of foreign policy and leave this thing to people who know what we are, what they are doing and we could be better off if we could diplomatically deal with the problem.

Let's say I agree with that for the sake of this argument. Mr. Diplomat goes over and negotiates a 10-year agreement on economics, all within the provisions of Basket II. He does not seem to have any problem. I would have felt a lot better if when the Secretary of Commerce went over there, the Secretary of something—I don't know who it would be—was there at the same time saying "We would like to talk to you about Basket I and Basket III provisions, too."

Secretary RICHARDSON. I did. I took occasion to take it up with President Ceausescu.

Chairman FASCELL. I understand that. I am sure you were very persuasive and forthright and candid. Now, if you were to say or I could expect that shortly hereafter comes another agreement between the United States and Romania dealing with other matters, I would say, well, that is a pretty good diplomatic effort or, at the same time, we

had an announcement on two or three agreements I would say that was a very successful diplomatic effort.

I am not denigrating the successful diplomatic efforts that you undertook with respect to this agreement. I think it was a good one. I don't know whether we missed a deal or not, frankly. I don't know whether we bargained effectively or not. I just don't have any way of knowing. And I tell you a lot of people in the Congress have had this feeling for a long time, Mr. Secretary.

Secretary RICHARDSON. Mr. Chairman, I have to say a couple of things here. Implicit in your questions is the assumption that we may have given away more under this agreement than we got within its four corners.

Chairman FASCELL. I didn't say that. I did not mean it and I retract the inference.

Secretary RICHARDSON. It is implicit for the simple reason that it is never possible to link another objective to a given negotiation, unless there is a quid pro quo somewhere for getting whatever the other thing is. To the extent therefore that an agreement stands on its own feet or can be looked at within its four corners, you cannot expect it to buy something else at the same time. This is why in any given trade transaction—an American company, for example, selling machinery to an Eastern European country cannot be expected to sell it for less than its price, simply because we are buying with it a willingness on the part of the Eastern European country involved to take a more conciliatory approach to the Middle East.

Chairman FASCELL. Agreed, Mr. Secretary, and neither is it possible for that businessman in his negotiation to work out any deal with some poor guy in jail who has been harassed or whose property has been confiscated or who cannot get out of the country. He cannot do that.

Secretary RICHARDSON. So, in our 10-year agreement, we are dealing with provisions that can be helpful to American businessmen regarding the expropriation of property, the provision of better information and better access to end users as a basis for market information.

To that extent it is useful. In the case of Romania we are talking about a country that has satisfied the provisions of the Jackson-Vanik Amendment. And in the case of other Eastern European countries, the question is really whether you advance the same purpose. Let me take the example of Hungary. Hungary, in my judgment, and in the judgment, I believe, of the Department of State, could satisfy on the basis of its emigration policies, the provisions of Jackson-Vanik, at least as well if not better than Romania.

They have not done so merely because to do it would potentially put them out of line with the policies of the Soviet Union, thereby subjecting themselves to criticism for having yielded to American pressures involving an intrusion into their internal affairs. The result is that though they badly want MFN status and could benefit from it more than any other Eastern European country, they are prevented from taking advantage of their relatively good performance in dealing with emigration matters; by the fact that the Jackson-Vanik amendment exists.

Chairman FASCELL. Mr. Secretary, no question about that. We understand that sensitivity and appreciate it very much, but for every political decision you pay a price.

Secretary RICHARDSON. In this case I think both the United States and Hungary are paying a price in a situation where admittedly they have performed well on the very objectives of the act. Nevertheless, the existence of the act prevents them from taking advantage of that performance.

Chairman FASCELL. That sounds like we should have a major diplomatic effort with the Soviet Union soon.

Secretary RICHARDSON. I think so. I think in the case of the Soviet Union the major diplomatic effort should embrace all the aspects in which the Soviet Union is a closed society. I think that the major obstacle to additional progress in the area of so-called détente is the asymmetry resulting from the fact that the Soviet Union is a closed society and we are not. I think that ought to be at the very head of the agenda.

We should say to the Soviet Union, "Look, we can only go so far with you in any area, including the arms limitation agreement. We can't exercise unilateral control over our decisionmaking process without significant regard to public opinion, as you can. We are never going to be on a footing of true mutual security unless we equalize relationships in this respect."

All of that gives Basket III and the whole of the Helsinki Agreement a greater relative significance for purposes of East-West relations than I think has been generally recognized. I do not think the United States, at any point—certainly no spokesmen for the United States—should have to take a defensive position toward the value of the Helsinki Final Act. On the contrary, I think that its relatively insignificant impact with respect to the ratification of the status quo on boundaries is unimportant by comparison with the long-term value it holds for the affirmation of individual rights, freedom of movement, and in general the holding out to all the countries of Europe of a higher standard of civilization.

Chairman FASCELL. Mr. Secretary, I find that a very enlightening and strong foreign policy. I wish I had heard it more often.

Secretary RICHARDSON. I do, too.

Chairman FASCELL. Mrs. Fenwick.

Ms. FENWICK. Thank you, Mr. Chairman.

I think we are all encouraged and heartened by your testimony, Mr. Secretary.

I have one or two questions here. In your opinion, if you had to say which one of the two acts, the Stevenson Acts concerning credits or the Jackson-Vanik, which would you consider to be the greater impediment to increased trade? Which, in other words, do they regard as the greatest barrier and the most offensive?

Secretary RICHARDSON. I think from the standpoint of the East European countries, the Jackson-Vanik impediment is more serious than the limitation on Eximbank credits. The effect of the Eximbank credit limitation is, in my observation, almost entirely to harm U.S. interests. The unavailability of credit, where there was the poten-

tial for major transactions, has resulted in those transactions going to Germany or—that is the Federal Republic of Germany—or to the United Kingdom or to France. I might add here that I am basically unsympathetic to constraints on the availability of Exim credit that are not directly imposed by a hard-headed approach to the specific banking transaction in a given case.

I think we have hurt the United States, not only by virtue of the limitations in East-West trade, but by virtue of a too “chintzy” approach in general toward Exim credit. I think if we are going to remain competitive, this situation must change.

I am not now talking about wars over credit terms. I think we should seek to develop as much international concurrence on this score as possible. But when it comes to credit availability I do not think we should give business away just by a refusal to make credit available.

Ms. FENWICK. So you think, in other words, they don't mind the Stevenson Act?

Secretary RICHARDSON. In many cases they would have rather dealt with us, but in almost all cases I know of, other alternatives are available to them.

Ms. FENWICK. Because I have heard a great many comments—I don't know if it was testimony—that Jackson-Vanik they could swallow but the limitation on credits they could not and that that was the act that at one sweep shot down the great emigration figures of 34,700 a year which we had had before the passage of that act. But you tend to take the opposite view. You think it was the Jackson-Vanik.

Secretary RICHARDSON. I can't confidently say, Mrs. Fenwick, really which rankles them more because I am not sure. From an European point of view, I am not sure I have seen much distinction made, in the context of the general intrusion of the United States into internal policies and so on.

My impression, though, is that from the standpoint of their economic interest, they are more bothered by the unavailability of MFN than by the unavailability of credit. The lack of credit availability simply drives them to somebody else in a situation in which they might have preferred to deal with us, but in which other alternatives exist.

Ms. FENWICK. Are you suggesting that the Basket II and III—III particularly—sections of the Helsinki Accords could be used in place of title IV and that we might obtain more satisfactory results from a humanitarian point of view if we developed and leaned on the Helsinki Accord and substituted that for Jackson-Vanik and Stevenson? Is that what you are suggesting?

Secretary RICHARDSON. Yes, in substance. Not a total substitution perhaps, but nevertheless, in the course of the negotiation of the overall relationship along the lines that the Chairman and I were discussing a moment ago, we should lean heavily on the final act, both Baskets II and III and their relationship to each other, as the kinds of relationships which all the signatories have said should characterize the standards which they apply internationally and to each other.

I think that there is—notwithstanding the fact that it lacks legally binding force—considerable opportunity to do this. Let me put it this

way. A country that does not freely permit emigration is a country that has not yet achieved a level of civilization able to accord full dignity and freedom to its citizens.

If I were a spokesman for such a country, it would make me very uncomfortable to feel that the development of my country had not yet reached such a stage. I would find it an embarrassment by comparison with the countries in Western Europe and the United States.

And when I had joined in signing a declaration, affirming the value of such freedom and dignity, I would be hard put to explain why I was unprepared to carry out the spirit of such an agreement when the issue was raised by someone from the West.

Ms. FENWICK. But, Mr. Secretary, look at the danger we expose people to who have no other protection, because then we say to every businessman conducting an agreement, deal or arrangement that it is going to be up to them to bring up the Helsinki Accords and the Basket III provisions; we leave in their hands the implementation of this international accord unless we have written legislation. Isn't that a very frail thing?

Secretary RICHARDSON. I don't think that follows. I would not suggest that this be left to the individual businessman. I think we ought to call to the attention of the individual businessman that the other country has undertaken to improve access to end users and has talked about the exchange of information. If the countries aren't doing this, the businessmen should go to the commercial counselor in the embassy and let him know about it. We should do a little jumping up and down, point to the Helsinki language and ask what is the matter. More broadly, however, what I had in mind was that the United States and the Western signatory countries—through diplomatic processes, and through the instrumentality of this Commission—should use their positions to exert steady pressure toward the implementation of the provisions of the Final Act.

What I am saying, is that we don't need to improvise the orchestration here. However, orchestrated through a range of channels and approaches and voices, the Helsinki Final Act is and can be, I think, of significant value.

Ms. FENWICK. I do, too. I just worry about several things. It seems unwise to abandon something that is definite and leave it to the operation of public opinion in the first place. Second, I wonder whether or not these systems of restraining emigration are a stage or a central part of the system; and whether or not increased trade and youth groups and cultural exchanges could go on for 100 years without improving human rights if the system itself does not change.

Secretary RICHARDSON. I have no difficulty, Mrs. Fenwick, in urging the abandonment of something which is not only detrimental to U.S. interests but counterproductive to its stated purpose. I see no benefit, in other words, in simply insisting on keeping it on the books even though year by year we learn better that it is not working.

Ms. FENWICK. I have one more little question I would like to ask you concerning Hungary. One of the ministers, cabinet ministers, came to this country last winter and I asked him at the breakfast where we met what the visa situation was and how many people had been given visas; the number was indeed quite impressive. But when

I asked how many of these visas had been granted to countries outside the Warsaw Pact the response was less definite.

So I wonder exactly how we can measure how far compliance has extended? Do you have any information on that, Mr. Secretary?

Secretary RICHARDSON. I have a good deal of information on Hungary on the numbers of emigration visas, the opportunities for separated families to be rejoined, the numbers of individuals who traveled from and returned to Hungary in a given year. I would be glad to furnish the figures for the record.

Chairman FASCELL. We will be happy to receive them.

[The following information is supplied for the record:]

In the case of Hungary, the problem of divided families is not a major one. Although on paper Hungary's emigration law is strict, it is applied in a generally positive manner. However, the Hungarians have informed us that the application of the law in this manner does constitute a problem for that country, which because of the absence of growth in its population, is beginning to suffer significant labor shortages.

The number of outstanding family reunification cases that we have in Hungary is substantially smaller than we have in other Warsaw Pact countries. From July 1975 to June 1976, the American Embassy in Budapest issued 113 emigration visas to individuals to join U.S. citizens and alien relatives resident in the United States. Occasionally, Hungarian authorities deny passports to impending Hungarian emigrants to the United States. Our Embassy brings such cases to the attention of the Hungarian Ministry of Foreign Affairs.

Since Helsinki, we have presented all 17 such cases. In 8 involving 10 individuals, passports were issued; and in three cases, involving four individuals, the prospective emigrants withdrew their applications for reasons unrelated to the cases. Currently, only six cases involving 11 individuals remain unresolved. These figures are significantly better than those of the other East European countries. I should also add that Hungary does not apply its emigration law in a discriminatory manner toward its small Jewish population of approximately 30,000.

In addition, I believe you may find useful some statistical information on Hungary's policy regarding foreign travel. It is my feeling that in assessing a country's compliance with the broad focus of issues treated in Basket III, a useful indicator is the degree of freedom permitted the nation's citizens to travel outside the country and to receive foreign visitors.

Hungarian Ambassador Ferenc Esztergalyos recently provided me the following data. Hungary, which has a population of 10.5 million, hosted 9.4 million foreign visitors in 1975. Of these, 1.2 million came from non-socialist countries; 54,000 from the United States. At the same time, 3.5 million Hungarians traveled outside Hungary, with 252,000 going to the West. Four thousand Hungarians visited the United States in 1975. The number of Hungarians traveling to the West is, of course, constrained by Hungary's hard currency shortages. Consequently, when and if visits to the West take place, they often have to be funded by Western residents.

Secretary RICHARDSON. That last number, people traveling outside Hungary and coming back was very large; something like 3½ million a year out of a population of about 10 million.

Ms. FENWICK. But many of them went to Poland.

Secretary RICHARDSON. And many went to Austria, the largest number to Austria. Nevertheless, going back to what I said earlier to the chairman, the facts in the case of Hungary are such that it could qualify under Jackson-Vanik. The assurances could be given that would justify a waiver of Jackson-Vanik, at least as adequately as the case of Romania in any event, but for the fact that from the standpoint of the Hungarians even to seek a waiver is inhibited by solidarity with the Communist bloc.

Ms. FENWICK. Can we do it without their asking?

Secretary RICHARDSON. No.

Chairman FASCELL. Mr. Bingham.

Mr. BINGHAM. Thank you, Mr. Chairman.

I am sorry that I was delayed and have not been able to hear the exchanges. I would first like to say a word with relation to Deputy Assistant Secretary Arthur Downey who is here. He has frequently testified before my Subcommittee on International Trade and Commerce and I would just like to say that I think he has done an outstanding job although we have not always agreed.

Mr. Secretary, the administration's position with respect to Jackson-Vanik, that it was a mistake at the time and has been proven to be a mistake because it has been counterproductive as far as its goals are concerned troubles me in various respects.

First of all, it seems to proceed on the presumption that the high levels of emigration in 1973 and 1974 were the product of formal diplomatic processes. I would seriously question that. I think they were the product of worldwide protests especially the Brussels meetings and also the product of the fact that a legislative action by the United States Congress was in the offing and perhaps they were hoping to overcome it.

Second, the fact that we came very close to an agreement with respect to the emigration problem as indicated by the exchange of letters of October 15, 1974. After the Soviets did reject the trade agreement the Secretary of State indicated privately and publicly that the reason they had done so was because of the Stevenson amendment limiting the amount of credits which he had not anticipated and this was the final straw which upset the apple cart.

And, finally, that the people most involved in this who were most affected by it—at least the articulate ones, the extremely courageous dissidents both in the Soviet Union and some who had been allowed to leave like Andre Amalrik—are not in agreement with this proposition. They say that Jackson-Vanik was not a mistake and that this kind of pressure should be maintained and that if you give up on this kind of pressure you really are giving up any kind of leverage that you may have. Would you care to respond to the three points that I made?

Secretary RICHARDSON. Mr. Bingham, obviously it is hard to sort out issues of cause and effect in a sequence like this. I am certainly prepared to believe that international pressures in 1974 had an impact on increasing the rate of emigration from the Soviet Union. I would hope that this was true regardless of whether or not they had also hoped to head off legislation like Jackson-Vanik.

I would have no way of knowing, but it certainly seems possible, even though it was to give the United States a higher base from which to judge subsequent performance. Perhaps, had they known Jackson-Vanik was to be enacted, the Soviets might have found it in their interest to do the opposite and hold down levels of emigration in the preceding year.

In any case, the question, it seems to me, is not so much why they did better, than why they have not done as well since. It seems to me here that the key point is one the chairman remarked on earlier in our colloquy; namely, the point of confrontation. One can often

accomplish through negotiation results that cannot be accomplished if one directly challenges the pride of the opposite party or if one directly challenges a security interest.

For example, it seems to me ludicrous to suppose that the United States could use grain deals for the pursuit of significant politico-military objectives. One might use the overall framework within which a trade deal is negotiated as part of the pursuit of a politico-military objective. But if you were to say to the Soviet Union, we won't sell you wheat unless you do "X" in the Middle East or "Y" in SALT, they would obviously have to tell us to go chase ourselves.

It would be one thing to say to them that this emigration thing undercuts the development of broader relations in a variety of areas including trade, but it is quite another to make it an explicit condition on the availability of MFN, as distinguished even from a tacit condition. This is what I mean by saying there are opportunities for the Congress in the exercise of its oversight function and this Commission to monitor the degree to which the Eastern European country observes the spirit of Helsinki—the spirit of Jackson-Vanik for that matter—that don't leave it totally in the hands of the executive branch, but do leave a way in which the other side can maintain its self-respect while also doing what we want done.

It seems to me this is the essence of the problem. In any event, I recognize it as a matter of judgment. I am only giving you my judgment for what it is worth.

Mr. BINGHAM. Thank you.

Chairman FASCELL. Mr. Secretary, I want to thank you for being so candid with us and giving us the time that you have. Mr. Downey also. It has been very helpful to us. I have been very impressed, Mr. Secretary, not only with your testimony and the answers to the questions but also with probably your last set of "doodles" before some kind of commission or committee in the Congress.

You are supposed to be generous and if you want to initial them I would be honored to enshrine them in the committee records.

Secretary RICHARDSON. I would be honored to have them repose in those records.

Chairman FASCELL. Before you leave let me say this may probably be one of the last times that one of your commissioners sits with us today and that is your designee on the Commission, Commissioner Sprague, who has certainly represented you extremely well, Mr. Secretary. He has been absolutely faithful in carrying out your very explicit instructions.

Secretary RICHARDSON. I am pleased to hear that. Not surprised.

Chairman FASCELL. But that has never kept him from speaking his piece or letting everybody know exactly what he thinks. He has been very dedicated to the work of our Commission and has made a very fine contribution and we are very, very happy to have had the chance to have worked with him and we are delighted that you designated him.

Secretary RICHARDSON. Thank you, Mr. Chairman. I am very pleased to hear that.

Mr. SPRAGUE. Thank you, Mr. Chairman. I note that you did not give me the opportunity to question my boss and I am glad that is the case.

Chairman FASCELL. Thank you very much, Mr. Secretary and Mr. Downey.

Secretary RICHARDSON. Thank you. It has been a privilege to appear, and I could not have had a last appearance before a body whose work seems to me more important.

Chairman FASCELL. Thank you.

Our next witness is a very eminent and distinguished American who is U.S. cochairman of the U.S.-U.S.S.R. Trade and Economic Council. He is Mr. Donald M. Kendall who is chairman and chief executive officer of one of our better-known international companies, PepsiCo, Inc. I would say based on that experience alone, Mr. Kendall, having one of the largest companies with worldwide distribution problems, and being so successful against what I deem to be some of the most difficult competition the world has ever seen, I think that you merit the greatest consideration on our views because you certainly have been successful.

We are delighted to have you here and to get from you your experiences on this very important Trade and Economic Council.

STATEMENT OF DONALD M. KENDALL, CHAIRMAN, U.S.-U.S.S.R. TRADE COUNCIL

Mr. KENDALL. Thank you very much, Mr. Chairman.

My name is Donald M. Kendall, as the chairman pointed out, and I am chairman of PepsiCo as well as U.S. cochairman of the U.S.-U.S.S.R. Trade and Economic Council. I certainly welcome this opportunity to testify today as to Council activities which are relevant to the guiding principles of the Conference on Security and Cooperation in Europe and to give my personal views as to progress achieved before and since the signing of the 1975 Helsinki Agreement.

As these hearings relate to Helsinki Basket II (cooperation in the field of economics) and as the U.S.-U.S.S.R. Trade and Economic Council is a U.S.-U.S.S.R. bilateral organization, I propose to confine my remarks to United States-Soviet economic cooperation and the impact thereon of the 1975 Helsinki Agreement.

In this testimony not only will I focus on specific accomplishments to date, areas of immediate promise, and areas where the guiding principles of Helsinki have not yet been implemented to the fullest degree possible. Also, I shall make certain general observations relevant to your inquiry.

Based on my experience in Eastern Europe over the past 5 years, it is my conviction that East-West economic progress generally has out-paced other areas of détente. The capitalist and socialist economic systems need to trade with each other. The business communities of all countries involved virtually without exception want and seek expanded economic relations.

All the Socialist countries and the countries of Western Europe as well as Japan and Canada have in the recent past taken the necessary government steps to create a favorable environment for trade and business. Only in the United States do there still exist substantial discriminatory legislative and administrative deterrents to a full and normal development of the great economic potential that exists in East-West trade.

In this respect, therefore, businessmen of all countries including the United States have to a very considerable degree provided leadership to their governments so that Basket II of Helsinki at the date of its inception reflects both finished business as well as future need. This does not mean that the economic and commercial principles expressed in the Helsinki Agreement are not of very real value.

Assuredly they are, for they provide tangible evidence of the commitment of the signers, and it is useful periodically to measure progress against these commitments.

A second important point I would make is that in measuring Basket II progress I find the United States more deficient than the Soviet Union. It is sometimes charged that my convictions on East-West trade are not wholly objective. To the contrary, I feel that a truly objective examination of commitments to economic progress shows that the Soviet Union to date has gone further than the United States and that those who claim otherwise are biased—influenced notably by policies outside the economic area and by deeply ingrained prejudices.

I do not, of course, deny that there are difficulties in the political, military and human rights areas, but I do hold to the view that Soviet performance pre- and post-Helsinki, has been forthcoming and cooperative in seeking expanded, normal commercial ties.

Regardless of who is living up to the principles of Helsinki and who might be laggard, I feel that no useful purpose is served by pointing fingers and stridently identifying defects of others. For myself, I speak with an American conscience and seek to focus on those areas where my government and my country can make a contribution to Helsinki and détente. As private citizens we can only advise Soviet policymakers, but there is much each of us can do to substantively influence U.S. policy.

I would speak also to the subject of linkage. Other witnesses testifying before this commission have, I am informed, suggested that the U.S. withhold performance under Basket II until there has been greater Soviet performance under Basket III (cooperation in humanitarian and other fields).

Specifically, it has been suggested that the U.S. withhold the transfer of technology, the granting of export credits and the sale of grain pending Soviet compliance under Basket III.

I hold the opposite view. Technology is not a United States monopoly. Virtually all U.S. technology can be found in Western Europe and Japan. If we do not wish to sell, there are many others who do. The Soviet market is highly competitive.

As to credits, the Soviet Union has today approximately \$13 billion of Western credit (very little of which is in the United States), the great majority of which is as yet unused. Except for the United States, virtually all other developed countries press government-backed credits upon the Soviet Union in order to stimulate their exports. The deprivation of U.S. Government credits has in no sense hampered the expansion of Soviet trade with the developed West.

As to embargoing the sale of grain, I do not believe that the American people are so harsh as to precipitate human suffering. Traditionally we have moved promptly to alleviate human hardship wherever it occurred. The fact that the Soviet Union as a point of

pride always buys grain obscures the fact that, faced with harvest failures, many countries seek from the United States and other countries relief in the form of grants or loans almost invariably granted.

Certainly, whatever differences we may have with the communist philosophy do not extend to creating hardship and suffering for the peoples of the Soviet Union.

Economic cooperation is a discrete relationship. Within it is ample room for balance, symmetry and also, if you will, linkage. It is, however, an important part of our total East-West relationship. If it is held hostage to political or human rights issues, we court a confrontation at worst, a stalemate at best. In either case we forfeit progress. In fact, we know that noneconomic linkage has not worked.

The Jackson/Vanik amendment to the Trade Reform Act of 1974 is a clear effort to withhold trade and credits in an effort to accelerate emigration, and it has failed. Only one country (Romania) has followed the procedures prescribed by Jackson/Vanik in order to qualify under existing law for MFN. Despite unofficial U.S. encouragement, all other countries of Eastern Europe reject Jackson/Vanik. Emigration from the Soviet Union has declined from a high of 34,500 in 1973 (pre-Jackson/Vanik) to the current rate (1976) of 13,500.

Let me now proceed to more specific documentation of the areas of progress, promise and discouragement.

First some words about the U.S.-U.S.S.R. Trade and Economic Council of which I am U.S. cochairman. The U.S.-U.S.S.R. Trade and Economic Council, a nonpolitical organization, is one of the most promising and enduring products of détente. A bilateral organization with offices in New York and Moscow, staffed by United States and Soviet personnel and financed evenly by Soviet state organizations and the U.S. business community, the Council was formed in 1973 by means of a U.S.-U.S.S.R. government protocol.

Its mission is the promotion and expansion of commerce between the United States and the Soviet Union. Its activities to a considerable degree precede the signing of the Helsinki Agreement, but the unusual support it has received from both the government and business sectors of each country on a continuing and growing basis is excellent testimony to the commitment to the guiding principles of Helsinki particularly as expressed in Basket II.

Given the wide differences between the capitalist and socialist economic structures, and given the depth of the schism created between these two systems by the cold war, the United States and Soviet Governments both recognize that it will take time and effort to establish a truly normal business climate and that a unique organization is necessary to provide a bridging and facilitative function. This is the function of the U.S.-U.S.S.R. Trade and Economic Council.

In brief, the Council is supported by some 228 U.S. member companies large and small whose combined annual sales exceed 25 percent of the U.S. GNP, or approximately \$340 billion, and a comparable number of Soviet organizations.

The United States and Soviet staff, both in New York and Moscow, advises and consults on a continuing basis with United States companies and Soviet organizations to assist them to understand each other and the different systems under which both countries operate.

In 1976 the Council recorded more than 20,000 individual United States-Soviet business contracts, 4,600 individual consultations with U.S. companies and sponsored the visit of 39 Soviet trade delegations to the United States. Since its inception, the Council has conducted in its Moscow office more than 100 seminars presenting to Soviet audiences United States commercial technology.

The Council also sponsors nongovernmental bilateral committees of businessmen from both countries seeking solutions to problems in the following areas: The exchange of science and technology having commercial application, export finance, new forms of East-West economic cooperation, tourism, and legal. These committees work in a spirit of friendship and cooperation and receive the wholehearted support of both governments.

In December 1976 the Council held its annual meeting in Moscow, attended by 350 U.S. businessmen and a like number of Soviet trade officials and businessmen. The participants discussed all aspects of United States-Soviet trade. They noted that while nonagricultural trade grows, it is at a very low level as compared with its potential.

For the first 9 months of 1976 nonagricultural exports to the Soviet Union totaled \$599 million as compared with the equivalent 1975 figures of \$416 million. Soviet exports to the United States in like period were \$88 million in 1976 as compared with \$89 million in the first 9 months of 1975. It was regretfully noted that the United States ranks fifth as a Western trading partner with the Soviet Union, substantially behind West Germany, Japan, France, and Italy.

United States exports to the Soviet Union are approximately equivalent to its annual exports to Peru. Soviet sales to the United States are roughly equivalent to its annual exports to Greece. It was noted that the Trade Agreement of 1972 if implemented could remove virtually all the principal deterrents which cause the present low levels of trade.

The trade agreement remains unimplemented because of the inability of the United States to fulfill its commitment thereunder to unconditional most-favored-nation tariff treatment for Soviet imports and nondiscriminatory Eximbank facilities for U.S. exports.

Trade obviously must be balanced. The Soviet cannot buy from the United States in appreciable quantities because they cannot sell to their potential. U.S. exporters cannot obtain export financing competitive with that available to its Western competitors, thus losing more business. Without Eximbank, competitive export financing in the United States is difficult, if not impossible, to obtain.

At the conclusion of its meeting, Council members passed a resolution which, in my opinion, is of such importance and so well expresses the sentiments of virtually all American businessmen that I attach a copy to this testimony which is exhibit A.

Thus, in many areas the Council is daily evidence of the commitment of both our countries to the guiding principles of Basket II.

I would like now to list some of the bilateral United States-Soviet accomplishments which are in accordance with the guiding principles of Helsinki Basket II.

(1) The most important of these is the Trade Agreement of 1972 to which I earlier alluded. This agreement when and if implemented—

and I believe the Soviets are ready to implement it at such time as the United States fulfills its obligations thereunder—virtually abolishes the cold war environment in trade and economic areas. Soviet contributions to commercial détente under this agreement are as follows:

An equitable settlement of World War II lend-lease obligations, an act which removed a serious problem long an irritant to the U.S. Congress;

Greater accessibility to the Soviet market by the authorization of American businesses to establish offices in Moscow and more liberal visa procedures for American businessmen resident in Moscow;

The imaginative concept of the Moscow World Trade Center now under construction and scheduled for completion in time for the 1980 Moscow Olympics, but even more importantly, an enduring and visible symbol of Soviet commitment to the concept of expanded Soviet foreign trade; and

An unusually forthright commitment to the avoidance of foreign market disruption as a result of U.S.S.R. exports. Too little attention has been given this feature of the trade agreement, since today real or potential market disruption continues as an important U.S. issue.

Article II of the trade agreement reads: "Each Government may take such measures as it deems appropriate to insure that the importation of products originating in the other country does not take place in such quantities or under such conditions as to cause, threaten, or contribute to disruption of their domestic markets."

I know of no other country with which the United States has agreement giving it unilateral right in its sole judgment to control imports from the other. Naturally, the Soviet system is such that it per se controls imports. But in the spirit of balance the Soviets offered the United States reciprocal rights.

The United States also made substantial contributions to the successful negotiations. Most famous, of course, is the U.S. commitment to most-favored-nation tariff treatment of Soviet imports and normal access to Eximbank facilities. We well know that the United States grants most-favored-nation tariff schedules to more than about 140 countries and denies them to a small handful, at present 13.

For the United States, the commitment to extend most-favored-nation was symbolic recognition on its part of the end of the cold war as it applied to trade. By this act, it welcomed the Soviet Union to the large family of nations with which the United States conducts friendly trade.

Little noted is the fact that even though the trade agreement is not yet operative due to the failure of the United States to provide unconditional most-favored-nation and nondiscriminatory credits, today 20 U.S. companies remain accredited and actively conduct business from their Moscow offices. The World Trade Center continues principally, but not exclusively, a United States-Soviet venture.

(2) The maritime agreement was entered into originally in 1972 and renewed in 1976 for a further period of 5 years, rather than the original 3. It seeks to normalize maritime commerce.

(3) The Long Term Grains Agreement was signed early in 1976. It should be noted that under this agreement that Soviet Union is com-

mitted to buy annually in the United States a minimum of \$700 million per year of grains—calculated at present prices—literally rain or shine and by that, of course, I mean regardless of Soviet harvest conditions. This year, for example, the Soviets had a record harvest of 223 million tons and yet they have confirmed their continued commitment to the Long Term Grains Agreement.

(4) An agreement signed yesterday, as a matter of fact, accepting optional third country—Sweden—arbitration for contract disputes which may arise between U.S. corporations and Soviet foreign trade organizations—January 12, 1977.

Now let me turn to the less productive or unfinished business aspects of United States-Soviet economic development. The most neuralgic matter is that of MFN which, as is well known, under the terms of the Jackson-Vanik amendment remains hostage to free Soviet emigration. The principal need is for unconditional MFN.

An MFN hampered as it is in Jackson-Vanik by such deficiencies as periodic congressional reviews, Presidential reporting, a short-term grant, et cetera, from the practical business viewpoint simply is unworkable in addition to being unreflective of the Helsinki concept—nonintervention in internal affairs.

The Soviet and United States investment required to establish Soviet product in this country is substantial and if there remains any possibility that MFN tariff treatment might be subject to rescission, it is doubtful that the necessary effort in terms of time and money can be mounted. The business environment critically requires continuity.

Of equal importance is the matter of reciprocal credits. The Soviet Union offers generous export financing credit, and the trade agreement calls for nondiscriminatory Export-Import Bank facilities available to United States exporters to the Soviet Union on the same basis as they are available for exports to virtually all other countries of the world.

If, for example, the Congress should see fit to establish for Eximbank minimum rates of interest or maximum terms of loans, these conditions are understood so long as they are nondiscriminatory to the socialist countries. Given the large amount of credit the Soviet Union has available in Western Europe, Japan, and Canada, and given the importance of export financing to United States-Soviet trade, it is understandable that U.S. businessmen today place their Soviet orders with overseas affiliates, subsidiaries, and licensees to take advantage of such foreign government credit availability.

The third area where forward progress is critically overdue is the matter of travel. While the Soviet Union has informally proposed a government-to-government bilateral tourism agreement, to date little progress has been made. Soviet tourism to the United States remains negligible. United States tourism to the Soviet Union could be significantly increased.

The contribution of tourism to détente and economic strength is generally accepted. What is needed is greater political will and greater flexibility on the part of the negotiating parties to realize the advantages—economic political, and social—of this important sector.

Visa and travel regulations remain a major anachronism, and a severe inhibitor not only to freedom of movement but also to trade

development. Business travel is important to the promotion of trade, and yet such travel is subject to severe restrictions imposed by both governments. The U.S. Government could make a major contribution to Basket II by repeal of the Immigration and Naturalization Act, more familiarly known as the McCarran Act.

This law specifically denies access to the United States to "aliens who are or who have at any time been members of or affiliated with the Communist Party." Soviet businessmen who clearly come under the above definition only are permitted to enter the United States by means of issuance of a waiver by the State Department when the proposed visit is "in the national interest."

The State Department presently requires 3 weeks to process a visa application and requires a precise itinerary in advance. U.S. business travel visa applications to visit the U.S.S.R. are usually processed in 4 days. In my opinion, the McCarran Act can hardly be termed as being in the spirit of Helsinki and the U.S. commitment thereto.

An even more bizarre aspect of the McCarran Act applies to proposed travel in the United States by Soviet labor leaders. The decision of whether to issue a waiver from 1963 to date has been delegated by the White House to the AFL-CIO. Mr. Meany so far has seen fit to approve not a single application, and the State Department unquestioningly accepts his verdicts.

It would seem appropriate to the spirit of Helsinki for the State Department as a minimum to recover its legal and appropriate role in the issuance or denial of visas and, second, to include the right of U.S. visits for bona fide Soviet labor leaders.

Revision of the McCarran Act and a sensible approach to visa and travel regulations are important not only to Basket III, but also to Basket II.

In summary, general East-West progress has generally outpaced other areas of détente pre-Helsinki and post-Helsinki.

The United States has made less progress with respect to Basket II of Helsinki than has the Soviet Union and virtually all other signators due to its failure to meet its commitments under the Trade Agreement of 1972 to unconditional MFN tariff treatment for Soviet imports and availability of nondiscriminatory Eximbank facilities.

Linking trade to noneconomic issues has not worked. Specifically, withholding credits, U.S. technology, and grain in order to force Basket III performance is undesirable.

The areas of achievement, to summarize:

1. The U.S.-U.S.S.R. Trade and Economic Council is a strong and effective symbol of economic need, political will, and commitment to Helsinki by both the United States and the U.S.S.R.
2. The trade agreement of 1972, though as yet unimplemented, includes these significant United States and Soviet contributions to the development of East-West economic ties:

Those by the U.S.S.R.: Equitable settlement of World War II lend-lease obligations; greater accessibility to the Soviet market; Moscow World Trade Center; Soviet commitment giving the United States unilateral right to control imports from the Soviet Union in order to avoid market disruption.

By the United States: a Presidential commitment to MFN and Eximbank availability for U.S. exports.

The U.S.S.R. continues to honor most of its commitments under the trade agreement.

Other bilateral accomplishments:

1. The Maritime Agreement of 1972, renewed in 1976.
2. The Long Term Grains Agreement, 1976, under which the Soviet Union is committed to purchase in the U.S. market annually \$700 million of grains, regardless of Soviet harvest conditions.
3. United States-Soviet arbitration agreement, 1977.

Areas in need of progress:

1. Fulfillment of U.S. commitment under the trade agreement of 1972 to MFN tariff treatment for Soviet imports and availability of Eximbank facilities on a nondiscriminatory basis for United States exporters to the Soviet Union.
2. Increased two-way tourism between the United States and the U.S.S.R.

3. Revision of the McCarran Act.

4. Modernization of travel and visa procedures, including the return to the State Department of procedures controlling proposed visits to the United States by Soviet labor leaders.

This concludes my testimony. I will be happy to answer questions.

Chairman FASCELL. Thank you very much, Mr. Kendall. You virtually have been very explicit both in your assessment and in your recommendations, and that is basically what we are interested in and we wanted to hear and review so that we would have better benchmarks against which to evaluate what else we will hear when it gets here, whether it is on Basket II or anything else.

The operation of the Council as a private organization was characterized, I believe, in testimony yesterday as quasi official. Now, what is this quasi-official nature?

Mr. KENDALL. First of all, I am not sure, Mr. Chairman, I really agree with that. It was set up as a result of a protocol which was signed during General Secretary Brezhnev's visit to the United States and during one of the summit meetings.

Chairman FASCELL. So that is its official nature?

Mr. KENDALL. But that really permitted the Soviets and ourselves to set up. I think it was probably more needed on the Soviet side in order to set it up, but on the U.S. side it is strictly a private sector and it is operated by the private sector.

It is a private sector board and we traditionally have the chairman of the United States-Soviet Government Commission which is the government-to-government group, we traditionally have the chairman of both of those as honorary chairman of the council and they usually make a speech at the opening of the meetings and that is their participation.

Chairman FASCELL. In other words, the protocol between the United States and the U.S.S.R. is the basis by which the council, U.S.-U.S.S.R. Council, was put together; now, I am not familiar with all the law on this. Maybe you know off the top of your head, but is authorization required for commercial transactions?

In other words, did the protocol agreed to by the United States and the subsequent formation of the Council legally give some kind of authorization?

Mr. KENDALL. Authorization to what?

Chairman FASCELL. To continue business.

Mr. KENDALL. No, no.

Chairman FASCELL. In other words, any individual businessman can negotiate with the Soviet Union?

Mr. KENDALL. Absolutely.

Chairman FASCELL. But he would have one heck of a time doing it unless he was part of the Council, am I correct?

Mr. KENDALL. No; that is not so.

Chairman FASCELL. There is no advantage to being in the Council?

Mr. KENDALL. Yes; there is a big advantage, but it is not necessary.

Chairman FASCELL. I do not understand. I really do not because on the other side—

Mr. KENDALL. Let me explain. The principal reason for setting up—there are a lot of chamber of commerce type organizations. You know we have a Mexican Chamber of Commerce, we have a German. We have one for Greece and Poland. There is one for almost all countries.

When you deal with a socialist economy you have a Government dealing with a Government, but then all of a sudden they want to do business—as you recall in one of the General Secretary Brezhnev's speeches he talked about he wanted contacts and contracts. I told him you can have contacts with the U.S. Government, but you will not get contracts with them because the U.S. Government is not in the business of making contracts with the commercial sector, so that is set up so you would have a vehicle for the Soviet Government to have an entity that would make those contracts and have an organization they could deal with in the United States.

They arrange the visits for people. If they want to go to the Soviet Union they set it up. It has communication directly, and you are dealing with a Soviet counterpart. The only place I know of in the Soviet Union where you can get a directory of who does what to who in the Soviet Union has been put together by the Council, so it is a great advantage to anybody to use the Council.

They will get their dues back in one trip to the Soviet Union.

Chairman FASCELL. But what you are saying—I am not being critical. I am just understanding—one, the Council has the mark of the U.S. Government on it, so you can do business with the central market economy. That is one. Am I correct? Otherwise, you would not be doing it.

Mr. KENDALL. No; it is the facility to make it easier to do business.

Chairman FASCELL. It is a lot easier to do business as the U.S.-U.S.S.R. Council than it would be to be the normal American Chamber of Commerce trying to do business with them, am I correct?

Mr. KENDALL. Yes.

Chairman FASCELL. Second, if I am an individual businessman I had better come to the Council if I want to get into the Soviet Union and do any business. Otherwise, I might wait 6 days to get a telephone call or a piece of paper.

Mr. KENDALL. That is right.

Chairman FASCELL. Or to talk to the right man, right?

Mr. KENDALL. Unless you know him.

Chairman FASCELL. So for all practical purposes the Council winds up being—officially or unofficially or quasi, it does not make any difference—the fact is the Council for all practical purposes is the focal point for any U.S. businessman who really is serious about doing business with the U.S.S.R., so it is a trading corporation basically, no shares, no stock, or anything.

Mr. KENDALL. Well, except it does not do business.

Chairman FASCELL. I understand that. It just makes it possible for a person to do business, Mr. Kendall. So now, how do I get in? What do I have to do?

Mr. KENDALL. It depends on your size. The scale goes from \$1,000 up to \$2,000.

Chairman FASCELL. I am pretty small.

Mr. KENDALL. It will cost you \$1,000.

Chairman FASCELL. What else do I have to do?

Mr. KENDALL. Nothing.

Chairman FASCELL. There is no vote?

Mr. KENDALL. We have an annual meeting where people come and the board makes recommendations.

Chairman FASCELL. Why should that be necessary if I am an American businessman? Again, I am curious. I do not know a thing about it. I am just finding out right now.

Mr. KENDALL. Is there a vote?

Chairman FASCELL. I pay \$1,000, am I in or out?

Mr. KENDALL. You are in.

Chairman FASCELL. Does it take a vote of somebody to get me in?

Mr. KENDALL. To be accepted?

Chairman FASCELL. Yes.

Mr. KENDALL. Oh, yes.

Chairman FASCELL. Who has to vote on it?

Mr. KENDALL. The board.

Chairman FASCELL. How is the board selected?

Mr. KENDALL. So far, they have not turned anybody down.

Chairman FASCELL. How is the board selected?

Mr. KENDALL. I would say we are out seeking people to be members, so it is a very easy thing. If you would like to join, we could arrange it in a hurry.

Chairman FASCELL. I am just trying to find out how the board is selected.

Mr. KENDALL. (No response.)

Chairman FASCELL. Anyway, I did not mean to press the point, but it is very important really because if we are going to use this kind of business—and I am all for it—but there have been some undercurrents about all of this and I am trying to lay them out on the table.

You have been frank and candid, and I appreciate that. Now, how does the board get selected?

Mr. KENDALL. There is a nominating committee.

Chairman FASCELL. Now, you and I have been in 1,000 organizations, so I understand this process. How many members do we have? I think you said 226.

Mr. KENDALL. Some 200.

Chairman FASCELL. Again, I mean no disrespect, but how is the chairman selected?

Mr. KENDALL. Of the nominating committee?

Chairman FASCELL. Of the council.

Mr. KENDALL. By the directors.

Chairman FASCELL. How were they first—I am trying to get back to the organization of this outfit. How were the directors selected? Somebody had to start this thing.

Mr. KENDALL. Directors are selected by the membership.

Chairman FASCELL. Somebody had to let the first member in so, I gather, that somewhere in the protocol or in some working paper somebody selected 15 or 20 people to start this thing; am I correct?

Mr. KENDALL. That is right.

Chairman FASCELL. Then it has been running ever since then?

Mr. KENDALL. Yes.

Chairman FASCELL. So this is a self-perpetuating body?

Mr. KENDALL. It could be, but it has not been.

Chairman FASCELL. It is all internally controlled?

Mr. KENDALL. Yes.

Chairman FASCELL. In other words, nobody on the outside maneuvers it or manages it, it is just the businessmen, themselves?

Mr. KENDALL. That is right.

Chairman FASCELL. That is what I meant. In other words, you do not have the hands of government involved telling you who is going to be chairman and who will be the members of the board and how much dues you are going to pay, who gets in and who gets out.

Is there any selection process as to who gets to deal with the right guy on which side in the Soviet Union? Is there kind of a normal categorical process that takes place by virtue of the normal dynamics of business? In other words, do you break down into subgroups?

Mr. KENDALL. The council is not broken into subdivisions except in relation to some of the committees such as science and technology and tourism. In tourism you have the head of American Express and some of the hotel people. Science and technology you have the head of IBM and Hewlett-Packard.

Chairman FASCELL. So the dynamics of the business dictates the subgroups for meeting purposes and business contacts.

Mr. KENDALL. Yes.

Chairman FASCELL. And then the actual negotiations are up to the individual businessman and the government agency involved.

Mr. KENDALL. That is right.

Chairman FASCELL. Is that generally the way it works?

Mr. KENDALL. That is right. There may be several in the Soviet Union. As you know, one of the problems of doing business is the various agencies that you have to work with because everything flows through the ministry of foreign trade.

If you are in a compensation package you may be dealing with two different ministries outside of that one, who produces and one who you are selling to and if you do not know that procedure you can negotiate with the ministry of foreign trade and suddenly find your-

self without any agreement because you have not touched base with the minister that is really going to use the product.

Chairman FASCELL. That sounds minor compared to doing business with the U.S. Government.

Mr. KENDALL. On a television show in Canada last week I used the example of when they tried to get an opinion as to what it was like in the Soviet Union. I said:

If you could picture coming to the United States with a product and having to go and get approval of our State Department and the Commerce Department and attempt to get FDA to approve it before you could sell it on our market, then you have some idea.

Chairman FASCELL. You left environmental impact statement.

Mr. KENDALL. That is a new agency.

Chairman FASCELL. I have a host of other questions, but let me turn to Mrs. Fenwick.

Ms. FENWICK. I noticed on page 5, Mr. Kendall, of your testimony you spoke about linkage and your idea of the role for linkage. It is on the third line. You say "There is ample room for balanced symmetry and also, if you will, linkage."

I think you know this Commission is indeed interested in linkage. "In fact, we know that noneconomic linkage has not worked," you say further down. What kind of linkage do you mean?

Mr. KENDALL. The linkage of Jackson-Vanik.

Ms. FENWICK. You say higher up "there is room for linkage."

Mr. KENDALL. Yes. I happen to believe there are varying degrees of opinion on U.S. regulation. You get far on the right and far on the left and you get people who have had a lot of experience who have a stronger belief than those who are not experienced. I happen to believe there has been a big change in the Soviet Union. I have been going there since 1959. I said in 1959 I didn't think there was any way we could ever do business with the Soviet Union. And I think a change has occurred and I think we should recognize that change.

Most business people, in fact most U.S. people know absolutely nothing about the Soviet Union as working or its function. They know nothing about us. There is no trust or confidence on either side. I happen to believe if you build bridges and those bridges are contracts where you are building fertilizer plants or a truck plant or you are supplying bearings or you are selling Pepsi-Cola or whatever, you will have people coming in and going out. Then you have scientific and technical exchanges. You have health, environmental change. We have had all kinds of commissions going back and forth. Then you have tourism which is one where we have not made much progress. They have sent very few people over here.

If we had had the credits and if we had had MFN we would have those contracts today that the Japanese, the French and the Germans and the Italians have. We would have that business and there would be all Americans over there and we would have the jobs in the United States and there would be a lot of people involved.

Now, all of a sudden comes the question of Angola. If you look at Angola, people forget what happened. You go back to the Belgian Congo when we had trouble in the Belgian Congo, both we and the

Soviet Union were pouring money on opposing forces. They lost in Nigeria where the amount of money we spent and they spent would make Angola like a picnic. Again we won and they lost. It got to Angola, the same sort of thing going on only we quit in the middle of it.

Now, if you have enough bridges both sides are then going to ask the question, "Is Angola worth stopping the progress we have made and tearing those bridges down that we are building?" That becomes a question that is very important in leadership of the Soviet Union and the United States.

So I think by establishing these that that is the kind of linkage I am talking about, that it can be linked to other things. It won't be spelled out but it will happen and I think you could have avoided it in Angola. That is my opinion.

Mr. BINGHAM. Will the gentlelady yield because I would hate to pass a point which really may not have anything to do with this discussion we are having here today, but, Mr. Kendall, I honestly believe your recollection about Nigeria is mistaken. The Soviets supported the Federal Government of Nigeria and we did tacitly, neither side supported Biafra, so let's leave Nigeria out of the discussion.

Ms. FENWICK. I thought by linkage you meant something else because below you said noneconomic linkage. In other words, by linkage you mean just the linkage between the two countries. You don't mean linkage between Basket II and Basket III of the Helsinki accord.

Mr. KENDALL. No.

Ms. FENWICK. I see. I misunderstood. I in that regard would like to ask you if I have the information correctly, this is what you said in November in Moscow in 1976. "U.S. special interests moved in and effectively frustrated the promise that the trade agreement held out, special interests have sectorial and more often than not noneconomic reasons."

Mr. KENDALL. That was December of 1975-1976.

Ms. FENWICK. I am sorry. Did you really say that? Would you care to comment on that?

Mr. KENDALL. Yes; I was telling you about what happened. Why we did not get MFN and if you go back and look through the history of how it happened—I think my recollection on the facts is correct on this one because I was so involved in testifying and trying to get it because, as you well know, I believe very strongly in this. We started out, we were making great progress and all of a sudden the Jewish issue came up. That is what started the snowball that turned into the Jackson-Vanik. That issue was followed by a labor issue. AFL-CIO got involved in it.

Then you had the conservative group get involved with it. You had liberals on the left and people who are conservative on the right who all of a sudden joined forces and it is probably the only thing they ever joined forces on and that is what I am talking about. If you read the whole thing you find I go through the series of things that happened that led up to it.

Ms. FENWICK. But we are not talking about just a Jewish problem. Certainly the hammer has fallen more heavily on them perhaps, but

we are talking about Baptists, Lithuanians, Ukrainians—we are not just talking about one group of people. We are talking about all the Armenians that have suddenly gotten out, the Germans who were able to get out with the greatest difficulty. We are talking about human beings, not any special group, and that is what the Helsinki accord is addressed to and that was what Jackson-Vanik was supposed to be addressed to. Isn't that so?

Mr. KENDALL. I think that the facts are in my speech, that if you would like I would gladly put that in as part of my testimony.

Ms. FENWICK. Well, what do you make then of Basket III in the Helsinki accords?

Mr. KENDALL. I think it is talking about all people and I think that is what it should talk about is all people.

Ms. FENWICK. Well, in other words, you have high approval for that and would be prepared to support the denial of MFN on the basis of noncompliance with those agreed—

Mr. KENDALL. No; I think the Helsinki Agreement also says that you don't interfere with the internal affairs of another country.

Ms. FENWICK. Mr. Kendall, can one consider them internal affairs when they are a matter of an international act? In other words, has the Helsinki accord not brought those matters, those human concerns out of that general umbrella of being internal into the international field?

Mr. KENDALL. I don't happen to agree with that. If you want accomplished in the Soviet Union—if you have a sincere desire to accomplish humanitarian issues which I believe you have, I think that is the one way not to accomplish it.

Ms. FENWICK. Helsinki?

Mr. KENDALL. No, by the Vanik-Jackson type approach. I think that is the wrong approach. I think you can create an atmosphere and bring about humanitarian things that all of us are concerned about by approaching the Soviet Union, start relationships and not laying down the gauntlet. Let me give you an example of what I would think if the Soviet Union said to us during the crisis we had in Boston, on the busing issue, that they were not going to trade with us anything until we solved our busing issue in Boston. Now, you know we would have told them to go to hell.

Ms. FENWICK. I see that in the Communist press. I have read that many times. I am very familiar with that. Pravda as well as Tass, and Rude Pravo have used that argument.

Mr. KENDALL. I used the statement a long time ago.

Ms. FENWICK. They copied you then. They found it useful. Busing is not a matter of international accord and these things are. That is the difference.

Mr. KENDALL. But that is your opinion and it is not theirs.

Ms. FENWICK. It is when—

Mr. KENDALL. Not that you can interface with internal affairs.

Ms. FENWICK. But that human beings have a right to visas for reunification of families, a right to information, to travel for professional or personal reasons, to religious freedom. These things are written down, Mr. Kendall.

MR. KENDALL. I don't think there is any difference—for example, you smoke a pipe and I smoke cigars—we are both after the same thing, it is enjoyment from that tobacco and I think we are both after the same thing in the humanitarian side only I think my way will accomplish it and I think the way you are suggesting will not accomplish it because there is no way you are going to tell the leadership of the Soviet Union how many people they are going to have to give visas to. It is just not going to happen.

MS. FENWICK. I would like to ask on page 13, did I understand or did I misunderstand, are U.S. businessmen dealing through subsidiaries and giving credit through subsidiaries that they can't get through other direct means?

MR. KENDALL. If you don't understand what has happened on that then you have missed one of the key issues.

MS. FENWICK. I guess I have. Help us.

MR. KENDALL. People have been talking about technology. We say the United States, we have all the technology.

MS. FENWICK. That is not what I am talking about.

MR. KENDALL. The technology in the United States is in Germany through U.S. subsidiaries. It is in France, it is in Japan. Now what happens if you got a contract—for example, let's take the \$400,000 fertilizer plant. The credits are from Japan. The jobs are in Japan. The technology is Kellogg, an American company.

MS. FENWICK. Help me. How does that work?

MR. KENDALL. Of course, we have technology agreements all over the world and there is nothing wrong with the General Electric subsidiary in Germany or France with that subsidiary having to contract with the Soviet Union using French or German credits.

MS. FENWICK. I didn't know that.

Chairman FASCELL. It just means you don't get your part of the cut.

MR. KENDALL. You don't get the jobs here is what it means.

Chairman FASCELL. It works both ways. That is, there is no profit and no jobs. Isn't that a better way of stating it?

MR. KENDALL. Pardon me.

MS. FENWICK. How does Pepsi-Cola make out I want to know? Do they like Pepsi-Cola?

MR. KENDALL. We have one plant operating in Novorossisk. We have agreement with four more, one in Moscow, one in Leningrad, one in Tallinn, one in a place called Eupatoria. In another couple of years we will have five plants and I hope someday to have them all over the Soviet Union.

MS. FENWICK. Is it profitable? Will they let you be profitable?

MR. KENDALL. Pepsi-Cola is always profitable.

MS. FENWICK. The Mayor of Leningrad told us his large budget was mostly financed by the city industries. When I asked, "What profit ratio do you hold to?" he said, "Never less than 10 percent." So they have a pretty high standard.

Thank you.

Chairman FASCELL. Mr. Kendall, there is one scenario in your analysis that has not been discussed. You maintain that—these restrictions for capital—have not hampered the U.S.S.R. because it has been able

to go out and get their credits some place else and place their business somewhere else, so we just lost the business. We lost the jobs, as you say.

A different scenario might be that there is a principle of the U.S. people which we would like to see considered and adhered to. We would like to see human rights considered and we are maybe willing to give up the jobs and the profit and we may be willing to do that for a thousand years. That is another point of view. It may not be successful. It may not even produce anything. It might just give you a little sense of dignity; however. So I lean toward a scenario which considers human rights as well as economics.

I think both governments and both peoples are entitled to a sense of dignity. Just a question of where you stand, how you see it, as you say. All I am suggesting is there may be another side to the issue.

Obviously, anybody can get around a commercial transaction. There are geniuses like that all over the world. Business is going to go on. It doesn't make any difference what the laws are. That is a historical fact. And somebody will profit and somebody will not. It is just like politics, some win, some lose. But it is a very important political decision and if it becomes a national policy decision then that is it.

We all have to live with it. To suggest however that abroad—and I am not quarreling with you and you have heard all of this before so I am not really saying anything new to you, I am just putting it in the record for my own position—but I can't just leave it go without saying that I don't view an act of the Congress of the United States by a majority of the Representatives on an issue like restrictions on MFN or restrictions on the use of credit, as a kind of an isolated special interest idiotic approach to a very complicated economic policy.

I see it more as a very strong expression of the political sentiment, if you will, but I would rather say of the political sentiment of the Representatives of the people. You may not like Congress. A lot of people don't like Congress. They think we are wishy-washy, we pay too much attention to our constituents, that we listen to business, we listen to labor, that we listen to Jews and we listen to blacks and we worry about busing.

Ms. FENWICK. And you worry about women.

Chairman FASCELL. We listen to them, we don't worry about them.

That is part of the whole process. As a head of a major international corporation, as the chairman of a quasi-official council it is one thing for you to say something. It is quite another thing for you to say whatever you want to in your own individual rights. And I am not suggesting you ought to change your views or mute your voice. Far be it for me to suggest that. I have more sense than that.

Mr. KENDALL. Thank you.

Chairman FASCELL. But I really do wonder about your analysis. We hear a great deal about actions that are taken by the Congress as if what we decide in the Congress is totally devoid of the interests of the people. I am not sure that is good to denigrate the representational process by saying that it is a special interest kind of a thing or that it was a particularly strong lobbying group or that everybody knows where Congress gets their money. This kind of thing. It is all that kind of inference that exists which I think is not particularly helpful.

Mr. KENDALL. I didn't say that, Mr. Chairman. You did. I never got into that question but I think Congress quite frequently acts on the basis of special interest. I think there was somebody at a hearing here the other day that talked about strip mining and put a point across in which he was accused of making a self-interest point to which he replied he thought that was what Congress was all about, was people making points of view that were in their self-interest.

I think if you go back and look at the polls which we love to take in this country, Mr. Chairman, and most polls—they miss maybe 2 or 3 percent, sometimes 5 percent, occasionally 10 percent—and if you look particularly at the Louis Harris polls which surveyed this subject on trading with the Soviets and détente and so forth, right up until last January, I think you would find it difficult to say that the majority of the people in this country supported the action that Congress took. And I think that quite frequently is the case and that is a fact of life. We didn't go out and have an election on that process.

Chairman FASCELL. No; but all those Representatives that did that horrible thing all went back out on the stump and were reelected.

Mr. KENDALL. That is right.

Chairman FASCELL. So that poll must have changed rapidly—which only illustrates the danger of using polls to prove anything.

Mr. KENDALL. From my point of view, I think the mistake was made but maybe it was right.

Chairman FASCELL. I understand that.

Mr. KENDALL. Let's find out what happened as a result of it and if the desire—and I believe it was—to bring about humanitarian change in the Soviet Union—as you know there were a lot of numbers attached to that—and if you look at the result, it did not happen.

So, to me, it is much like the military issue. The military have been saying for years ever since I can remember—I was in the Naval Air Corps myself—that we should not sell anything to the Soviet Union. We should not do anything that will give them any technology.

Chairman FASCELL. A lot of people are still saying that.

Mr. KENDALL. They said it for 20 years, 25 years, because the Soviet Union would use it for military purposes. Well, I think if you analyze that it has not been successful either because we have avoided selling them things, but now by the Defense Department's establishment it now says the Soviet Union has military parity with us, so I think they can probably accomplish these things without us.

Chairman FASCELL. I am sure they can. The whole point is they can do all these things without us so—

Mr. KENDALL. They don't need us so that is not going to solve the problem. The American philosophy has always been to go out and try and sell people and convince them of your point of view. It is not to lay down the gospel. We never in this country use the principle of laying down the gospel and saying "You do this or I won't do that." It has never been the principle of this country.

Chairman FASCELL. Of course not. We just won't trade with them?

Mr. KENDALL. I don't think that is the way you accomplish things and I think if you try to build the bridges I am talking about you will accomplish the things that all of us want.

Chairman FASCELL. I have no trouble in a general, philosophical way in agreeing with that. None whatever. I am just saying if you want to strike a good, sharp, economic deal you don't forget some of the most important facets in your right hand. You just don't do that.

Mr. KENDALL. But I make sure I have the conditions that I can make the deal.

Chairman FASCELL. I am also agreed that you need to reexamine your position if you have not done what you thought you were going to be able to do.

Ms. FENWICK. Could I say, I read the document, too, that you submitted as "A" and quite apart from what one's personal feeling is, which everyone has a right to, I think it is very important that everybody who deals with these Eastern countries should try as far as possible to convey what is so, and I think what is so if one were being absolutely brutally frank with the Soviets and other officials is that this is the mood of Congress. Regardless of what any poll says. You can look at the votes and a variety of different reasons and I think it is very dangerous, Mr. Kendall, to persuade them that it is some passing fancy that is going to disappear.

Chairman FASCELL. Or that it only applies to them.

Ms. FENWICK. This is it. And it has always been part of America. It is not something new. As one of the heads of another great company and very successful company worldwide testified yesterday, whenever he is questioned he tells them, "Look, this humanitarian concern is nothing new, this is not a new development in American life." And this is a position that Congress has taken and if we were being honest with these people we would have to tell them it is not going to change. "You are going to have to get used to this." Isn't it part of our duty as citizens to convey what is so, apart from what we feel? Then, you can then go on to say "I don't agree with it" if you don't.

Mr. KENDALL. I don't think anybody is trying to convince the Soviets that Congress has taken a position. They are well aware of that and everybody who was over there has told them that, but we also hope we can change your point of view.

Ms. FENWICK. But when a document like this is submitted and when the reasons that highly intelligent and competent people give for the actions of Congress suggest that it is a passing whim that we are going to get cured of soon if we just shape up, I think we are influencing them to be like the peach farmer who does not sell his peaches when he hears there has been a frost. Hold out for later for a higher price.

Chairman FASCELL. I want to add, Mr. Kendall, something which you already know which is there are all kinds of legislative restrictions in this area in the Congress on the trade bill, on the export credit bill, in appropriations and policy bills. Frustration has been building and building. I frankly hope we can get something resolved as to the Soviet Union and Eastern bloc countries. I think that would be eminently sensible both from the human rights standpoint and a business standpoint but just putting the heat on the Congress to repeal these amendments, in my judgment, is not the answer.

Mr. Bingham.

Mr. BINGHAM. Thank you, Mr. Chairman.

I don't have much to add to what has been said, but I want to associate myself with what you have said, Mr. Chairman, and also Ms. Fenwick, but I think there are some other points in Mr. Kendall's statement that perhaps deserve some mention.

I am familiar with your organization, Mr. Kendall, and I know that you have been attacked both by the extreme right as well as other groups. I agree with the comments you made about the McCarran Act, and I hope we can move in the direction of changing the McCarran Act. It seems to me this is an anachronism, and it certainly is, in my view, an area in which we stand in violation of some of the spirit of the Helsinki accord.

Chairman FASCELL. Jack, would you yield for a brief comment which I can't resist?

If Mr. Kendall represents that that is not interference in the internal affairs of the United States—he is a U.S. citizen, but just let some government try it.

Mr. BINGHAM. I am only commenting on what came from the witness and I think we have given him a pretty hard time.

Chairman FASCELL. I think he has done extremely well.

Mr. KENDALL. I think you have been very polite and very kind.

Mr. BINGHAM. I wanted to note there were some areas where we do agree. I have visited the little office in Moscow where the United States—I think it is the Commerce and State Departments which jointly operate that office if I am not mistaken—and discussed these same questions with his businessmen who were on the ground trying to sell their products. I think what we have to bear in mind is that it is perhaps asking too much for business people whose objective is to sell their products and to make a profit for their shareholders to consider as fully as they ought to be considered other kinds of considerations.

We have again and again issues that arise here where we seem to be interfering in some way with the process of business people from the United States selling their products often with Government credits, be it said, abroad, and I don't mean any reflection on you or anybody else, but I think it is just very difficult for you, since your job and your focus is naturally on the sale of products or the building of trade to take full account of what may be the other aspects of the problem whether they be based on linkage or moral considerations or what have you.

I certainly don't think that the situation in the Soviet Union today, although it is in very many ways a terribly oppressive dictatorship, and I recently had the occasion, as did other members of the Commission, to have long conversations with Mr. Amalrik who has now been allowed to leave and who paints a very ugly picture indeed.

I say I don't think it is comparable that what the Soviet Union is doing to what was done under the Nazis in Germany in the 1930's. But I do recall that there was a great reluctance on the part of American business to refrain from doing business with Hitler and with Nazi Germany, even after the moral issues became apparent.

So, all I am saying is that I think it is our obligation as Members of Congress, and I am sure my constituents agree with this, to continue to set conditions which it may be very difficult for businessmen who have a different focus to accept. That is all I wanted to say.

Chairman FASCELL. Mr. Oliver.

Mr. OLIVER. Mr. Kendall, I would like to ask you a couple of questions about what you mentioned in the area of visas. You said in your statement there were severe restrictions imposed by both governments on business travel and you recommended repeal of the McCarran Act. I would be curious as to what you would recommend that the Soviet Government does to alleviate the restrictions they have. I would also like to know what these restrictions are. You also said it took the State Department 3 weeks to process a visa application and it only took the U.S.S.R. 4 days. I am curious as to where you got those figures. You also mentioned that Soviet businessmen are only permitted to come by means of issuance of a waiver. Do you know of very many instances, or can you cite any, in which that waiver was not granted to a Soviet businessman who was coming to the United States.

Mr. KENDALL. As far as getting visas there are a lot of things that both sides can do. I am not sure but certainly from the conversations I have had I believe the Soviets would change if we changed, and do as Japan does, where you get multiple entry visas where every time you want to go you don't have to go through that process.

The Soviets started out, it took considerable time to also get visas but what has happened is, the people that are going back and forth frequently can get them fast. I have gotten a Soviet visa in one day.

Mr. OLIVER. I am sure you could get it faster than that.

Mr. KENDALL. If you come down here are are willing to run around to the offices and get it done—3 weeks, that is an average of what the Council's experience has been.

Mr. OLIVER. You got those figures from the U.S. Government?

Mr. KENDALL. No; that is the Council's figures. Because they get involved in getting the visas for the Soviet businessmen and they help them.

Mr. OLIVER. Where did you get the U.S. business travel application figure of 4 days?

Mr. KENDALL. That is the average.

Mr. OLIVER. And the same way with the 3 weeks for Soviet businessmen coming here?

Mr. KENDALL. Yes.

Mr. OLIVER. Those figures come from U.S.-U.S.S.R. Trade Council?

Mr. KENDALL. Yes.

Mr. OLIVER. I am curious about the next paragraph, which reads: "The White House has delegated to AFL-CIO the decision whether or not a Soviet labor leader can come to the United States."

Mr. KENDALL. That is correct.

Mr. OLIVER. You mean the AFL-CIO is exercising a function of the executive branch of the Government?

Mr. KENDALL. That is correct.

Mr. OLIVER. Is this under some kind of written agreement?

Mr. KENDALL. I don't know what kind of agreement. It was given to the AFL-CIO in 1963 and they have kept it ever since, and if you are a labor leader in the Soviet Union you are not going to come to the United States unless the office of AFL-CIO says you can come.

Mr. OLIVER. You had some considerable influence in the White House in the last few years, did you ever speak to them about taking that authority back?

Mr. KENDALL. No; I never knew about it until last year or I would have.

Mr. OLIVER. I am curious about your use of one phrase, and that is your reference to "a bona fide Soviet labor leader." What is that?

Mr. KENDALL. That means exactly what it says.

Mr. OLIVER. But what is a "bona fide Soviet labor leader"?

Mr. KENDALL. Somebody who is a labor leader.

Mr. OLIVER. Do you understand why Mr. Meany and the American labor movement are opposed to granting visas to Soviet labor leaders?

Mr. KENDALL. That is not the only thing I don't understand why Mr. Meany takes a position on.

Mr. OLIVER. You suggested this is a gross violation and there is something wrong with it. Do you understand why the AFL-CIO does not want to grant visas to Soviet labor leaders?

Mr. KENDALL. I think Mr. Meany made his position very clear on United States-Soviet relations for a long time and I don't think he is going to change regardless of what happens.

Ms. FENWICK. Isn't it because they are really government officials rather than bona fide labor leaders and certainly we know that is true. You speak of Soviet businessmen, aren't they all to some extent government officials?

Mr. KENDALL. Remember, they only have one system. You are part of the system.

Ms. FENWICK. And if you are a labor leader, so-called, you are really in the government?

Mr. KENDALL. Anybody is in the government.

Ms. FENWICK. But you feel they are independent?

Mr. KENDALL. That has nothing to do with the issue. That is the communist system versus our system. We are trying to get over that hurdle.

Ms. FENWICK. Surely, Mr. Kendall, you must know that is the reason why they are objected to. They are government officials and they seek to come here as labor leaders, right?

Mr. OLIVER. I think the real answer to the question is there is not a free trade union movement in the U.S.S.R. I am sure you know what the term "company union" means. Labor leaders in the Soviet Union don't have any rights or any power at all. They are totally subordinate to the will of the government and the Communist Party. That is the objection that Mr. Meany has. He does not want to recognize them as legitimate or bona fide labor leaders because in our eyes they don't qualify as representatives of the working people, they are only representatives of the government.

Mr. KENDALL. To take that further now, would you think that perhaps the best way to let that continue to go on the way it is, is by isolating it and leaving it alone or do you think one of the best things that could happen would be to get them here and show them how we do it?

Mr. OLIVER. I agree with you, but I wonder about the term "bona fide." If they want to define a labor leader in their system, they can do it, but we can point out the different role labor leaders have in our system than in theirs.

I just have one more question. In your statement you used the term "hostage" in several instances where you said that "economic coopera-

tion was held hostage to political human rights issues" and that economic cooperation was held "hostage" by the Jackson-Vanik amendment. You also cited the figures on emigration from the Soviet Union or made reference to them. We heard in these hearings and in other testimony the fact that prior to the passage of Jackson-Vanik amendment the figures for emigration increased substantially month by month. As soon as it was passed, it was cut off and now that we have heard that there is some talk about some kind of adjustment of Jackson-Vanik, the figures are starting to increase. Would you say that they were holding those people as hostages for trade concessions?

Mr. KENDALL. I don't think there is any question about what the Soviet Union, if we have normal relations, we normalize our relations that in a lot of things that we wish they would do, you will see some gradual changes.

Mr. OLIVER. What if Jackson-Vanik were repealed and MFN were granted to the Soviet Union and then the figures on emigration went down rather than up? What do you think we should do if that happened?

Mr. KENDALL. I don't think that is going to happen.

Mr. OLIVER. My question was what if it did?

Mr. KENDALL. I don't think it will happen so—

Mr. OLIVER. Thank you.

Thank you, Mr. Chairman.

Chairman FASCELL. Mr. Kendall, I just have one more and you have been very patient.

I am curious about this delegation on the question of the visa issuance, and I gather from what you say that this is some kind of a formal delegation represented by a letter, statement, or directive; am I correct?

Mr. KENDALL. Yes; I don't know how it was done but it was done.

Chairman FASCELL. I thought maybe you had seen this document.

Mr. KENDALL. No; just the effect of it.

Chairman FASCELL. You have just seen the effect of it. I just want to be assured that we are not operating here on a conclusion. In other words, you are talking about a real delegation not a political delegation. There is a difference to say "in effect he has the say so." That is one thing. It is another thing to say he has been formally delegated this authority. Which it is?

Mr. KENDALL. I think, Mr. Chairman, if you called up people in the State Department that had that responsibility and asked them if he had to check with them before they issued a visa they would probably tell you yes.

Chairman FASCELL. It is one thing to maintain there is a working procedure which might be good political sense and it is another thing to be operating under instructions from the President. That is what I had reference to. And if you had some knowledge on that it would enlighten me. If such a thing exists I would like to know about it. That is all.

Mr. KENDALL. I think if you checked you will find out it does and that is not the kind of procedure that you would normally consider if you were going to appoint an Ambassador to Italy, where maybe

you would check with Rodino before you did it. It is not that kind of procedure.

Chairman FASCELL. I gather that from your statement.

That is why I wanted to pursue this. I appreciate you making clear what you were talking about. I want to thank you very much, Mr. Kendall. You certainly have been forthright as usual. I appreciate you taking the time to prepare the testimony and to take the time to stay with us to answer our questions, to explain your point of view and to raise the issues as clearly as you have.

They are not easy issues. They are going to be grappled with by the Congress. I don't know what the ultimate outcome will be but I will say this in conclusion, that everybody is going to get their shot at this issue before it is over. I hope we come up with some good answers.

Mr. KENDALL. I think you will. I appreciate the time that you and the committee are giving to this issue because I don't think there is anything more important. I think in this particular issue the one point where I would question how you listen to a businessman is in the case of the Soviet Union. I have been involved in international affairs since the late 1950's. I have been involved in a lot of issues which had nothing to do with that. I think most businessmen—and you have to take into account there is always somebody that is going to be the exception to this—but I think the average businessman, just like the average Congressman is sincere about this and wants to see it happen and I don't think that you will find people coming here testifying on that issue in relation to the Soviet Union that are not looking at it in the total picture and not just what they are involved in because of the seriousness of it.

We spend a high percentage of our money that could be used for a lot of other things in this country on the Military Establishment and I think we will probably have to continue to spend that money if we don't find a way to bring about détente through a SALT I or SALT II and SALT III and SALT IV. We have to find a way to do that. We can't keep going on and the explosives we have today are not what we had in World War I or the start of World War II. It is a dangerous game. We can't go on the way we have for the past 20 years. There has to be another way.

Chairman FASCELL. Mr. Kendall, there is certainly no argument with the general approach there. I can assure you that all of the individuals who have testified before us, businessmen or otherwise, we have considered their appearance of great benefit, totally in the context of trying to be helpful in the solution of a very serious problem not only for their country, but also for the benefit of the whole world. I can assure you of that and that is the only approach anybody should take.

I thank you.

We had a meeting scheduled for Monday but we had to cancel it because our witness, Mr. Lane Kirkland, of AFL-CIO, could not make it at that time.

Mr. KENDALL. If you would like I will give his testimony for him.

Chairman FASCELL. We will postpone that until another time.

I want to thank you again, Mr. Kendall, very much for being with us, and the Commission stands adjourned subject to the call of the Chair.

[Whereupon, at 4:45 p.m., the Commission adjourned, subject to the call of the Chair.]

[The following was submitted for the record:]

STATEMENT SUBMITTED BY GREGORY GROSSMAN, PROFESSOR OF ECONOMICS, UNIVERSITY OF CALIFORNIA, BERKELEY, CALIF.

I am honored to have been invited by the Chairman of this Commission to submit a written statement for these hearings on compliance with the Helsinki Agreement, and am pleased to offer the following observations.

Your Commission has wisely decided to launch the series of hearings with sessions on the so-called Basket Two, the economic portion of the Agreement. The complex of actual and potential economic connections between East and West—and specifically those between the United States and the Soviet Union, on which I shall dwell in this statement—harbors within itself considerable promise for constructive improvement in East-West relations, including those foreseen in the Final Act of the Agreement. Yet it would be a mistake to deduce from this that American controls over trade and credits should be promptly and unilaterally relaxed, not to say dismantled.

I

The fundamental fact of U.S.-Soviet economic relations is the marked asymmetry of the national interests of the two sides. The USSR stands to gain much both economically and politically, and both domestically and internationally, from such relations, especially if they should rise above the plateau on which they have remained for the past few years. The United States has little to gain economically, and in the event of bad management much to lose politically. But with policies properly conceived and executed the United States can reap substantial political dividends thanks to the asymmetry of national interests. Hence, the subject of U.S.-Soviet economic relations, as part of the broader issue of East-West economic relations, at once is beset by difficulties inherent in the asymmetry of interests and bears a welcome promise of constructive improvement in East-West relations over-all.

On the American side, a critical distinction must be emphasized at the outset, the distinction between private gain and national benefit. While some private gain is to be doubtless derived by individual firms or banks from doing business with the Soviets, in proportion to our total economy such business is now and will remain minute even under the most optimistic assumptions for the near future. (At this time, despite the current large exports of grain to the Soviet Union, the turnover of our merchandise trade with that country is about one percent of our total foreign trade turnover, and about one tenth of one percent of our GNP. What is more, the benefit of such trade to the economy as a whole—what the economist calls the “gains from trade” and which is the rationale of international trade—is surely only a fraction of the trade turnover, and is therefore virtually negligible in relative terms.)

The importation of strategic or key materials (e.g., energy carriers) from the USSR is a possible exception to the general conclusion of minimal national economic interest. But in this case one must also bear in mind that the more essential the materials are for us, the less prudent would be our dependence on the Soviets for a significant share of the supply.

However, the main reason for the divergence between private gain and national benefit in regard to trade with the USSR is not the small turnover of the trade, now or in the foreseeable future. Rather, the reason is that such relations engender both serious national risks and major political opportunities which the individual firm or bank cannot be expected to take into account in its decisions—and in many cases may not be aware of.

Among the risks are that our exports, technology, and credits will significantly contribute to Soviet military power, render us or our allies vulnerable to cutting off supplies, help alleviate the Kremlin's domestic economic and political prob-

lems (thus making it more intransigent abroad and less heedful of human rights at home), complicate our relations with the C.P.R., heighten the dependence of Eastern Europe on Moscow, create (albeit often unwitting) pro-Soviet lobbies in our country, (not the least) deprive our diplomacy of valuable instruments of leverage vis-à-vis the Kremlin. These risks attach particularly to large, long-term credits to the Soviet Union. As for national opportunities that the private businessman cannot very well take into account, the most important would seem to be the political bargaining advantage inherent in the aforementioned asymmetry of national interests. It would be a major loss to our diplomacy if this bargaining advantage were thrown away due to either a lack of understanding of the factual situation by our policy makers or the pressure of private interests. The obvious conclusion—given the risks and the opportunities—is that U.S. government control of U.S.-Soviet (and other Eastern) trade and credit is to some extent necessary.

Some of the most frequently heard arguments in favor of major expansion of trade with the Soviets tend also to be the most dubious if not downright false. Take, for instance, the common argument these days that sales to the U.S.S.R. create jobs in the U.S. Sometimes job numbers are mentioned that are too fantastic to repeat here. Reality is quite different, however. To begin with, sales to the U.S.S.R. create jobs here only to the extent that they increase our net exports to the world; and the latter figure is likely to be appreciably smaller than the sales themselves. But even if we overlook this qualification, the most optimistic projections of exports to the Soviets—say an additional several billion dollars' worth a year in the near future—imply a beneficial effect on domestic employment that is at best minute compared to the size of our economy or our recent levels of unemployment. (If "Okun's law" connecting business activity and unemployment holds, \$1 billion increase in net exports to the U.S.S.R. may reduce unemployment by about 15-20 thousand man-years, secondary effects apart. The figure may vary somewhat according to the nature of the exports.) By the same token, the loss of business by American firms owing to the suspension of long-term credits to the U.S.S.R. in January 1975 (following the nullification of the 1972 Trade Agreement by the Soviets) has been of only negligible importance for our economy and for jobs—while the political import of the suspension of credit has been on the whole salutary and now affords promising opportunities to the new Administration (see below).

But the minuteness of the effect is not the main point; there is no need to spurn beneficial effects just because they are small. The main point rather is that the same reduction of unemployment can be achieved, without involving the Soviets, by means of domestic expansionary policy—with about the same inflationary danger or lack of it—and without the aforementioned external risks (especially since a large increase in exports to the U.S.S.R. would almost certainly call for large, long-term credits from our side). We need not and should not turn to our major world adversary for a favor that we can perfectly well do for ourselves!

II

On the other hand, as mentioned, the Soviet interest in expanding economic relations with the West is an intense and pressing one, for reasons both economic and political, and domestic as well as international. A fundamental cause lies in the systemic nature of the Soviet economy; namely, the chronic excess of aggregate demand over aggregate supply with rigid (though not always effective) price control, a constant shortage of resources to meet the short-range targets, and a generally "overheated" economy. The result is continuous spilling over of the demand beyond the country's borders and an unslakeable appetite for foreign capital and goods, especially such high-priority goods as capital equipment, advanced technology, and grain in years of low harvests. Given the realities of Eastern Europe, the appetite for the foreign capital and the goods in question is of course in large measure for those of Western—and particularly American—provenance. There is little reason to believe that this appetite will wane in the foreseeable future, unless basic systemic reforms take place, of which there seems to be little chance at the moment. While growing indebtedness to the West (now around \$10 billion) and a rising debt-service ratio may from time to time check Soviet ability to borrow, over the longer run the phenomenon will doubtless persist.

The unpredictability of Soviet agriculture, together with its low level of efficiency, will repeatedly bring the Soviets back into world grain markets and

into capital markets. The lag of technology behind the West, a chronic phenomenon also deeply rooted in the politico-economic system, in conjunction with a growing pressure on labor and capital resources at home (see, for example, the discussion in my "An Economy at Middle Age," *Problems of Communism*, March-April 1976), and the wish to reserve the best engineering resources and production facilities for military use—all of these factors, too, will call for continued desire to borrow and to import large quantities of Western machinery, technology, and know-how.

Important in this connection is the steady decline in the regime's freedom of maneuver with economic resources, in part because of the general retardation of economic growth, and in part because of the stiffening of consumer expectations. Gone are the days when the Soviet public could be forced to pull in the belt repeatedly, without risk of popular disorders or other unforward repercussions. Now, any major shortfall in grain or other key consumer goods prompts enormous expenditures of hard currency to import the missing supplies, not to mention the extremely expensive program of internal investment to secure a dependable domestic supply of livestock feed as well as cereals.

III

The Final Act signed at Helsinki embraces three areas of mutual concern to the signatory powers: political (security), economic, and humanitarian. The history of negotiations leading up to the Agreement and the statements of leading Western spokesmen during and after the Helsinki Conference make it abundantly clear that the three parts of the Final Act must be seen as a single package, that progress under some rubrics in one or more of the three areas must be seen in conjunction with progress, or lack of it, under other rubrics and in other areas.

In the economic area, there has been a marked advance in at least one respect—the sheer turnover of East-West trade, and especially in the value of imports of the European Comecon countries from the industrialized Western countries. Thus, the value of Soviet imports from the latter group of countries (including Japan, which is not a signatory to the Helsinki Agreement), as per official Soviet statistics, rose 57 percent from 1974 (the year before Helsinki) to 1975, and by another 24 percent from the first nine months of 1975 to the first nine months of 1976. This jump in imports has been accompanied by net capital inflow from the West into the USSR of five or more billion dollars over the two years. All this is surely very much in accord with Soviet objectives.

Unfortunately, this advance has not been accompanied by commensurate improvements in other economic areas mentioned in the Final Act, especially those that touch on traditional Soviet secrecy and obstructionism. Particularly, one fails to notice over the past year and one half any substantial widening and deepening of publication of timely information on internal developments inside the Soviet economy, or of more direct contacts between the producers or ultimate consumers on the Soviet side and the interested Western firms on the other side. (Some observers point to the start of quarterly publication of official Soviet foreign trade statistics beginning with the first quarter of 1976 as evidence of progress in the sense of the Helsinki Agreement. While to some extent this is so, and is especially convenient for academic and governmental researchers, one wonders how useful the data are for business purposes given their highly aggregated form. And in any case foreign trade data by their very nature generally have been available from the trading partners' side already.)

However, as is now well established, it is in the humanitarian area (Basket Three) that progress since Helsinki has been especially meager insofar as Eastern Europe as a whole and the USSR in particular are concerned. Apart from some rather minor relaxations, such as the easing of visa arrangements for Western journalists, one can discern no significant change in Soviet policy in those "humanitarian" respects that are spelled out in the Final Act (human contacts across state lines, free flow of information, etc.), let alone those that are not spelled out in the Act but are nonetheless also ineluctable features of any humanitarian policy (free emigration, other basic civil and human rights or liberties). Furthermore, there seems to be no reason to assume that the Soviet regime—to mention it alone among the East European regimes—has any intention of proceeding with anything more than declaratory re-affirmation of human and civil rights and liberties on its territory in the foreseeable future.

In general, it would be a serious mistake to confuse the gargantuan Soviet appetite for Western goods and capital, which has been abundantly evident since at least the start of the First-Five Year Plan in 1928, for a readiness to change political spots, either internally or externally. On the contrary, the more successful the Soviet regime is in obtaining western economic co-operation without any significant political quid-pro-quo, the more freedom of action it is likely to sense in both domestic and foreign spheres. The notion that the Soviets will by means of economic ties become "enmeshed in a web of mutual economic interdependence" is conjectural at best. As we have noticed, they take the proffered benefits and are careful to avoid those steps that would "enmesh" them or change their wonted ways. As a result, "mutual interdependence" can easily turn into double dependence on our part: we could become dependent on their good will in repaying debts and shipping key materials such as energy, and at the same time also on their market for goods of interest to strong pressure groups in this country (e.g., the farmers). Moreover, once the Soviet regime feels secure in its receipt of economic benefits from the West, it will surely give shorter shrift to those at home seeking to emigrate or to uphold basic human rights. After all, it must not be forgotten that the Soviets opened their doors to Jewish emigration in 1969, not after the Nixon-Brezhnev meetings that launched the *détente* but in expectation of it.

To return to the Helsinki Agreement and in view of the asymmetry of economic interests between the U.S. and the USSR, it would behoove the United States to take full cognizance of its economic power in urging the Soviet Union (and other Eastern European governments) to fully comply with the political and humanitarian provisions and principles written into the Final Act. Basically, this means retaining export controls and deferring any relaxation in the present restrictions on long-term loans and credits to the Soviet Union until we are reasonably confident that the USSR is acting positively, constructively, and lastingly to an extent that is commensurate with the importance of the economic benefits to it. This mutual accommodation could, of course, be stepwise.

Just what forms this action might take, what evidence we would need, and the proper legal preparations on our side, are important questions, though not within the purview of the present statement. Yet in this connection one must bear in mind that the Soviet leadership may have only recently demonstrated its readiness to promise major political concessions in return for major economic benefits from us, and in matters that it loudly insisted to be strictly of its own domestic concern. I am of course referring to its putative acceptance of the conditions of the Jackson Amendment in regard to emigration and the treatment of applicants for emigration, as documented in the well-known Kissinger-Jackson correspondence (The New York Times, October 19, 1974, pp. 1 and 10). The benefits that the Soviets expected at the time were primarily large, long-term credits, and when these were virtually denied to them by the subsequent action of the U.S. Congress, they—not irrationally—renounced the 1972 Trade Agreement. But it must be stressed that it was the denial of the most coveted prize, credits, and not the terms of the Jackson Amendment, that led to the renunciation of the trade agreement, contrary to what the Soviets have been telling us since (with good purpose on their part). At first they apparently did agree to the political accommodation in expectation of economic benefits. On the other hand, we can reasonably doubt whether the Soviet authorities would have allowed emigration to continue in the event that the Jackson Amendment had been voted down by the U.S. Senate.

Thanks to the events of January 1975—the renunciation of the trade agreement and the re-suspension of long-term credits to the USSR, events that have occasioned only negligible economic costs to this country if any, as we have seen—the new Administration and the new Congress are in the fortunate position of still holding most of the economic bargaining chips for constructive influence on the course of our relations with the USSR and the rest of Eastern Europe, both within the framework of the Helsinki Agreement and on an even more comprehensive and global basis. Hearings such as the present ones should make a major contribution to this cause.

CURRICULUM VITAE

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Employment.—1950-53 and 1956—Graduate student fellow (later, research fellow) at the Russian Research Center, Harvard University. Since 1953—On the faculty of the Department of Economics, University of California (Berkeley). 1961-64 and 1965-67—Chairman, center for Slavic and East European studies, University of California (Berkeley). 1957-69—Chairman (or co-chairman) faculty seminar on Communist societies, UCB. 1960-61—Visiting professor in Italy under a Fulbright grant. 1964-65—Guggenheim fellow. 1969-70—Fellow, center for advanced studies in the Behavioral Sciences, Stanford.

US-USSR TRADE AND ECONOMIC COUNCIL

The US-USSR Trade and Economic Council is a binational organization formed in 1973 as the result of Washington Summit Meeting discussions between former President Richard M. Nixon and General Secretary Leonid I. Brezhnev. A protocol, acknowledging the mutual need for such an organization to implement trade and economic relations, was signed in June 1973 by then-Secretary of the Treasury George Schultz and USSR Minister of Foreign Trade Nikolai S. Patolichev.

Following the protocol the US side of the Council was formed through the offices of the Secretary of Commerce who convened a meeting of Chief Executive Officers of 15 American companies active in US-Soviet trade, all of whom agreed to serve on the Board of Directors. Similar action was taken at the Foreign Trade Ministry of the USSR and an equal number of Soviet trade and economic officials agreed to serve on the board as representatives of the Soviet side of the binational organization. Since that time, the number of Directors has been increased to 30 from each side. The Secretary of the Treasury of the US and the Minister of Foreign Trade of the USSR are Honorary Directors of the Board.

The Council is a not-for-profit organization incorporated by the laws of the State of New York. It has offices at 280 Park Avenue in New York, and at 3 Shevchenko Embankment in Moscow. The binational staff includes 18 Americans and seven Soviets in New York, and five Americans and 12 Soviets in the Moscow office.

The intent of the Council was spelled out at the 1973 Summit Meeting:

"The US and the USSR regard commercial economic ties as an important and necessary element in the strengthening of their bilateral relations and thus will actively promote the growth of such ties. They will facilitate cooperation between the relevant organizations and enterprises of the two countries and the conclusion of appropriate agreements and contracts, including long-term ones."

The Council is financed one-half on the US side by private sector contributions and dues. The Soviet government contributes its share directly. Dues for US members are based on annual sales volume, and range from \$1,000 to \$9,000 per annum. The USSR contributes one-half of the approved budget.

Service to member companies at both the New York and Moscow offices has been expanding at an increasing rate. Among the principal activities of the Council is market research to determine whether the market exists for specific products in both countries, assisting and advising Council members in the introduction of their products and services and bilateral discussions on US-USSR trade policy.

The Council has helped arrange visits to each country of high-level delegations interested in developing business in specialized fields of industry and technology.

The Council provides in New York and Moscow facilities and assistance for members holding symposia, trade exhibitions and seminars. It offers a range of support services, including conference rooms, secretarial and stenographic assistance, interpreter service and telex facilities.

Last year, 1,952 American visitors received advice at the Council's Moscow offices.

In 1976 the Council sponsored 39 Soviet commercial delegations visiting the United States. In addition, the Council's Moscow office held more than 40 technical seminars.

Co-Chairmen of the Council's Board of Directors are Donald M. Kendall, Chairman of PepsiCo, and Vladimir S. Alkhimov, Chairman of GOSBANK. The Council President and Chief Executive Officer is Harold B. Scott, a former

Assistant Secretary of Commerce. Valeriy A. Pekshev, former Deputy Director of the USSR World Market Research, is Deputy President.

U.S. Council Directors are annually elected by its members from a candidate panel selected by the U.S. Nominating Committee.

All Council members are eligible to vote for candidates of their choice from their respective side.

As outlined in the Statement of Mission, the Council has five major objectives:

1. To create a business and governmental environment in both countries conducive to expanded trade between the United States and the USSR.
2. To facilitate the exploration of opportunities for expanded trade.
3. To conduct research on major issues related to trade between the United States and the USSR.
4. To provide assistance to members in both countries in the execution to commercial agreements.
5. To collaborate and provide liaison with governments of the United States and the USSR on expanding trade relations between the two countries.

