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US-Soviet Trade: Political and Economic Determinants

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An Intelligence Assessment

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*SOV 85-10072X
April 1985*

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An Intelligence Assessment

This paper was prepared by [Redacted]
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Key Judgments

*Information available
as of 10 April 1985
was used in this report.*

The ramifications of the scheduled late May 1985 meeting of the US-USSR Joint Commercial Commission will be more political than economic. Although generally disappointed with the contributions of Western technology and equipment to their overall economy, the Soviets continue to hope for economic benefit in obtaining US technology and goods. More important, they view increased trade with the United States as a necessary adjunct to and facilitator of a general "normalization" of relations. They also view renewed government-to-government trade negotiations as an opportunity to gauge US commitment to the process of normalization.

Moscow probably expects the United States to show some flexibility on trade matters and particularly hopes to obtain access to selected technologies and equipment. Although the Soviets may not expect substantial progress on key issues—export control lists or restrictive trade practices—they will look for, and probably will publicly acclaim, any positive movement. Moscow thinks that any evidence of improved US-Soviet economic relations will contribute to the American public's skepticism about US defense programs and about administration resistance to Soviet initiatives abroad. Last, the Soviets may hope that prospects of increased trade could cause affected US businessmen to urge US policymakers to adopt conciliatory positions on arms control issues or, similarly, to avoid policy decisions that Moscow might view as hostile—such as stronger controls by the Coordinating Committee for Multilateral Export Control (COCOM) or an assertive human rights posture.

Although Moscow will undoubtedly agree to some commercial deals over the next several months, economic realities constrain any rapid growth in bilateral trade over the next several years:

- Moscow has developed alternative suppliers in Eastern and Western Europe to reduce dependence on US goods; their proximity to the USSR, moreover, gives them a marked advantage in raw materials trade and the compensation deals that the Soviets favor.
- The Soviets will have a smaller capacity for hard currency earnings, at least through 1990—largely a result of constraints on oil exports. Even if monies were available, Moscow would continue to be selective in its equipment imports, because of past problems in diffusing Western technology.

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- Efforts to interest US businessmen in Soviet exports will probably continue to be unsuccessful. Under almost any circumstances, however, the United States will continue to be a major supplier of grain to the USSR.



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Preface

At the May 1984 meeting of the US-USSR Trade and Economic Council—a private organization composed of US businessmen and Soviet foreign trade officials—the Soviets pressed hard for the resumption of government-to-government talks, that is, a meeting of the US-USSR Joint Commercial Commission (JCC). Since then, the Soviets have maintained a generally optimistic attitude about the promise of increased bilateral trade. They were especially cooperative at the 8-11 January 1985 meeting in Moscow of the US-USSR Working Group of Experts (under the JCC), and a 20-21 May JCC meeting date—the first in six years—has been set.



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**US-Soviet Trade:
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Trends in US-Soviet Trade Relations

Seeking Mutual Economic Gains

Despite impressive economic growth in the 1960s, Soviet leaders realized that the USSR lagged far behind the West, especially the United States, in areas such as computers, precision machine tools, and energy equipment. They hoped that increased trade with the West would help close the technology gap and spur productivity growth throughout the economy. In late 1973, Leonid Brezhnev described large-scale cooperation between East and West as an absolute "prerequisite" for coping with the "scientific-technical revolution." Moscow apparently also believed that increased trade with the West would help raise domestic living standards. In particular, the Brezhnev program for upgrading the Soviet diet and repeated serious harvest shortfalls required large imports of Western agricultural products.

Expectations for large gains from increased East-West trade were also high among Western businessmen. They viewed the USSR as an outlet for equipment and machinery from underused capital goods industries in the developed West and as a large potential market for consumer goods. They also saw the USSR as an important new source of energy supplies and, to a lesser extent, of timber, various ores and metals, diamonds, and other raw materials.

The Changing US Role

In the early 1970s, Moscow began to give preference to US goods both for economic and political reasons, often instructing its foreign trade organizations to give priority to US firms. Soviet officials acknowledged that machinery and equipment produced in the United States were often the best in both quality and state-of-the-art technology. US firms provided superior aftersales support and service and were often willing to provide long-term, on-site assistance as needed as part of a package deal.

Moscow undoubtedly also hoped that the US business community, which had a growing stake in stable US-Soviet relations, would be able to exert pressure on the

US administration to adopt a more accommodating posture toward the USSR. One US business leader exemplified this hope when he said in the mid-1970s that business leaders formed a strong constituency capable "of standing up to the Jackson/Vanik alliances and telling Congress that it is backing the wrong horse—and in such strength that Congress will listen."

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A series of political and economic events beginning in the mid-1970s changed both the volume and mood of bilateral trade. As the Soviets accumulated experience with Western imports, they became more skeptical that Western equipment and technology could bring large gains in Soviet economic growth. They were particularly disappointed at the slow pace of its assimilation and its limited impact on other sectors. This disappointment made a financially conservative leadership in Moscow loath to support a continued runup in its debt to the West. Soviet gross debt to the West rose from \$1.8 billion at the end of 1970 to nearly \$17 billion at the end of 1978. As a result, the Soviets began to cut back significantly on new orders in an attempt to put their financial house in order.

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US businessmen in general were reluctant to accept deliveries of Soviet nonenergy exports in payment for Western equipment and technology—the so-called compensation agreements increasingly favored by Moscow. Long distances made energy and raw material exports impractical; manufactured exports did not satisfy Western demands for production flexibility, appearance, quality, spare parts availability, and aftersales services.

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Politics also led to a slowdown in trade. The Stevenson amendment to the Export-Import Bank Acts of 1974 made most-favored-nation (MFN) status a prerequisite for access to US Government credits and set a ceiling on the amount of those credits. The Jackson-Vanik amendment to the Trade Act of 1974, in turn,

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Table 1

Million US \$

USSR: Machinery and Equipment Orders

	1976	1977	1978	1979	1980	1981	1982	1983	1984
Total	6,000	3,800	2,800	2,675	2,600	6,870	3,745	2,237	1,091
US dollar share	785	311	560	277	232	267	86	27	71
US percent share	13	8	20	10	9	4	2	1	7
Energy equipment	1,700	323	825	190	400	4,320	1,325	835	67
US dollar share	321	97	368	35	21	54	1	1	1
US percent share	19	30	45	18	5	1	NEGL	NEGL	NEGL
Nonenergy equipment	4,300	3,477	1,975	2,485	2,200	2,550	2,420	1,410	1,024
US dollar share	464	214	192	242	211	213	85	21	70
US percent share	11	6	10	10	10	8	4	2	7

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linked MFN status for Communist countries to more liberal emigration policies. Advocates of increased trade with the USSR did not succeed in removing these Congressional restrictions. US economic sanctions imposed in January 1980 in retaliation for the Soviet invasion of Afghanistan and in December 1981 in response to the Soviet role in the imposition of martial law in Poland were a further restraint on bilateral trade. They also demonstrated the limits on Moscow's ability to enlist US businessmen in support of Soviet efforts to influence US policy. [redacted]

committed itself to the purchase of more than 20 million metric tons of US grain at a cost of about \$3 billion. [redacted]

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These factors led to a stagnation in US-Soviet trade. US machinery and equipment sales suffered the most, plunging from a peak share of 20 percent of Soviet orders in 1978 to about 1 percent in 1983 (see table 1). US-Soviet agricultural trade,¹ despite the partial grain embargo from January 1980 to April 1981, did not suffer as much. Although the Soviets have successfully diversified their sources of grain supplies, Moscow can only partially meet its grain needs elsewhere, especially in years of large grain imports. As a result, the USSR continues to be the single largest buyer of US grain (see table 2). In the July 1984-June 1985 marketing year, Moscow has already

The loss of the United States as a major supplier of machinery and equipment has not been without its costs to Moscow. Despite the fact that US machinery and equipment sales to the USSR have never been significant either in dollars or as a share of total US sales, they sometimes played a key role in selected sectors. For example, large-scale joint projects, such as the Kama River truck plant in the early 1970s and the Kuybyshev drill-bit plant in the mid-1970s, resulted in much-needed products and also provided plant setup and management models for Soviet planners and designers to copy. [redacted]

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Soviet Leadership Attitudes Toward US-Soviet Trade

Brezhnev was an enthusiastic advocate of expanding East-West commercial ties, including those with the United States, as an integral part of his detente policy. As he said in 1976, "economic and scientific-technical ties with the capitalist states strengthen and

¹ US-Soviet grain trade is conducted within the framework of a long-term agreement (LTA) that specifies minimum purchase requirements. The current LTA will run until 1988. [redacted]

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Table 2
USSR: Trends in Trade With
the United States

Million US \$

	1971-75 (average)	1976-80 (average)	1981	1982	1983
Soviet imports					
Total	972	2,523	2,310	2,859	2,120
Agricultural products	590	1,745	1,614	2,146	1,475
Of which:					
Grain	572	1,476	1,533	1,931	1,177
Raw materials	27	30	26	5	11
Manufactures	355	748	670	708	634
Of which:					
Machinery	239	542	279	234	194
Chemicals	39	62	148	257	234
Soviet exports					
Total	153	355	255	214	446
Agricultural products	2	2	3	NEGL	NEGL
Raw materials	44	139	5	1	111
Manufactures	107	214	247	213	335
Of which:					
Chemicals	15	45	89	96	140

Source: Official Soviet foreign trade data.

broaden the material basis of the policy of peaceful coexistence." Bullish prospects for trade with the West were enshrined in the 1976-80 five-year plan. As subsequent events unfolded—growing Soviet indebtedness, the Soviet perception of US linkage of trade with political concessions, and so on—the Soviet leadership developed a more jaundiced view of the benefits of such trade and became acutely aware of their vulnerability to Western economic pressures:

- The draft guidelines for 1981-85 outlined trade only "with those developed capitalist countries that show an interest in cooperation with the Soviet Union." This constraint seemed to be aimed primarily against the United States. Gosplan Chairman N. Baybakov, at the October 1980 meeting of the Supreme Soviet, deliberately omitted the United States from a list of Western countries targeted for product buy-back agreements.

- Premier N. Tikhonov, in a speech to the 26th Party Congress in 1981, made it clear that Moscow would henceforth be more selective in its trading partners. Moscow would give its business primarily to countries taking "a constructive approach to international economic cooperation," which, he added, thus far excluded the United States.

Brezhnev's successors have taken an equally cautious line on East-West trade in general and trade with the United States in particular:

- At a Warsaw Pact Summit in January 1983, General Secretary Yu. Andropov reportedly called for reducing the dependence of all CEMA countries on Western technology and credits. In December 1983,

Soviet Conduct of Trade Relations

The Soviet Union generally sets the tone for and tries to define the scope of its bilateral economic relationships with Western countries by insisting on the establishment of joint (or mixed) commercial commissions. Composed of midlevel and high-level representatives of the respective governments, the delegations to these commissions generally are able to sign long-term trade agreements or to commit their governments to the promotion of bilateral trade through legislation, financing, or other means. For the most part, these commissions meet on a regular basis—at least once a year and often more frequently. The West European and Japanese commissions have—to various degrees—succeeded in stimulating bilateral trade over the years. The January 1985 meeting of the Japanese-Soviet JCC, for example, discussed future cooperation in several large Siberian development projects, and sizable contracts for other projects were actually concluded during the meeting. The construction of turnkey production facilities and increased use of compensation agreements were items on the agenda of the Franco-Soviet Mixed Commercial Commission meeting held in Paris in early April 1985. [redacted]

The US-USSR Joint Commercial Commission (JCC), in contrast, has not met for six years—since the

invasion of Afghanistan—and the Soviets have expressed their unhappiness over this interruption in government-to-government contact. Soviet officials—who think of the JCC as the nonagricultural equivalent of the US-USSR Grain Consultations—cite the absence of such a forum as evidence of the US propensity to link economic and noneconomic issues. They claim that there never has been a good business reason for the commission to cease meeting. Even when the JCC was meeting regularly, however, the USSR complained that the United States did not attach sufficient importance to it. [redacted]

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The US-USSR Trade and Economic Council, a private organization, has maintained commercial ties between the two countries in the intervening period, but the Soviets have found it to be an unsatisfactory alternative to the JCC. The Soviets look at trade with a much longer perspective—thinking in terms of five- and 10-year plans—than do US businessmen, who generally come to the negotiating table ready to discuss a particular sale or contract. Moreover, US businessmen cannot negotiate most of the policy issues involved in overall US-Soviet commercial relations. [redacted]

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Baybakov said that Soviet trade with socialist countries would increase by 10 percent in 1984, implying that trade with capitalist countries would drop by about the same percentage.

[redacted]

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- Under General Secretary K. Chernenko, Moscow continued to blame the United States for the stagnation in US-Soviet trade. Deputy Foreign Trade Minister V. N. Sushkov, for example, said in June 1984 that the decline in bilateral trade relations was the direct result of “America’s continuing attempts to use trade as an instrument of political pressure.”

[redacted] Moscow’s continued attempts to use economic issues to drive a wedge between the United States and its allies. These attempts received encouragement from the failure of US efforts to block West European agreements to purchase large quantities of Soviet natural gas and from the willingness of West European governments and corporations subsequently to defy US efforts to prevent the sale to the USSR of equipment needed for construction of the Siberia-to-Western Europe natural gas pipeline. Moscow believes that it has some degree of leverage with Western Europe because of the relative importance of its trade with the USSR.

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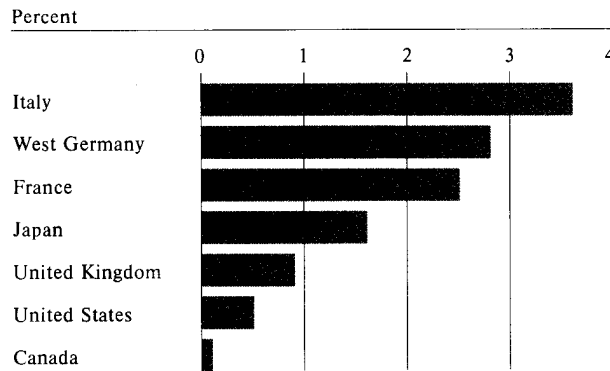
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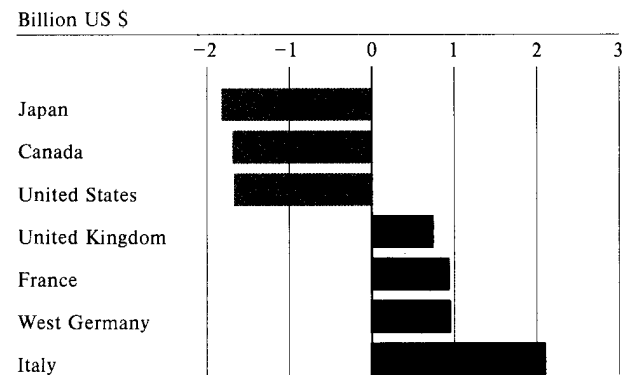
Potential Trade Leverage

Figure 1
Trade With USSR as a Share of
Total Trade Turnover, 1983



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Figure 2
USSR: Hard Currency Trade Balance,
Selected Countries, 1983



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The potential for Soviet trade leverage—the ability to wield influence that results from trade flows—over the Western Allies appears to vary markedly. US trade turnover with the USSR compared with total US trade turnover was little more than 0.5 percent in 1983—one-eighth as much as Italy. The USSR's potential leverage over the United States and Canada is even smaller than this chart indicates because agricultural trade constitutes a substantial portion of total trade. Both Moscow and the West have tried to free this trade from linkage with political issues.

Moreover, the USSR naturally has more leverage over those countries running deficits in trade with it—that is, those partners who depend on the USSR for imports crucial to their domestic economies. Soviet imports of US and Canadian grain and Japanese pipe and pipelaying equipment have contributed to repeated and sizable trade deficits with those countries, while Moscow is running sharp surpluses with those countries that are heavy importers of Soviet energy.

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Renewed Interest in Trade
With the United States

Against this decidedly unfriendly backdrop, Soviet foreign trade officials and industrial managers have recently indicated a renewed interest in expanding trade relations (see the appendix for a review of the Soviets' recent statements on bilateral trade). Although US firms so far have been largely frozen out of the bidding as primary contractors for major projects during the 12th Five-Year Plan (1986-90),

Soviet officials in December 1984 held out prospects that US firms might play a greater role in that plan than they had in the 11th Five-Year Plan. They are, moreover, pressing for rapid resolution of some of the outstanding trade issues so that Soviet enterprises will have time to incorporate US imports in their plan calculations.

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During talks held in early December 1984, a high-ranking Soviet official and US businessmen visiting Moscow discussed 15 potential areas of cooperation—including energy development projects and consumer goods plants. In January 1985, the Soviet delegation to the US-USSR Working Group of Experts meeting in Moscow seemed willing to compromise and to attempt solutions to longstanding problems—attitudes that had been missing from official economic contacts for several years. In fact, a number of small contracts were awarded to US firms in late January and early February, and Soviet foreign trade officials have indicated to the US Commercial Office in Moscow their willingness to once again participate in joint commercial seminars. Also, Soviet trade and industry officials have indicated continued high regard for US technology and equipment. [redacted]

This turnabout in Soviet attitudes roughly coincides with the reversal last fall in Moscow's yearlong refusal to return to nuclear arms control talks with the United States. Some Soviet statements [redacted] strongly suggest that the two issues are closely linked in the minds of the Soviet leadership—that the change in trade policy was prompted in part by the hope that US businessmen could be used to influence the US negotiating position:

[redacted]

- Soviet press reporting on the Politburo meeting of 6 December 1984, which considered the results of visits by two senior US business executives, noted that Soviet leaders "viewed with understanding" the interest of US business circles in "normalization."

[redacted]

Prospects for Increased Bilateral Trade

Trade Impediments

Even if the political atmosphere continues to improve, major impediments to sharp increases in bilateral trade remain. They fall into three categories: shifts in Soviet trade patterns and attitudes that stem directly from the imposition of Western sanctions; unresolved trade issues of longstanding concern; and changes in basic Soviet economic perceptions and capabilities. [redacted]

Trade Patterns and Attitudes. The Soviets raised the issue of contract sanctity in response to Western trade sanctions. They claimed that as long as they are subject to US Government-imposed trade restrictions that might force the abrogation of already signed contracts, they consider US firms to be unreliable suppliers. The Soviets remain especially bitter about the January 1980 withdrawal of US export licensing for the Novo Lipetsk steel mill contract that had been signed only the month before. They have ventured two solutions: that the US Government publicly commit itself to a policy of enforcing sanctions only on future contracts or, in the absence of such guarantees, that US firms be willing to guarantee compensatory payment for interrupted deliveries. Thus far no US firms have acceded to these demands. Precedent has been set, however; in recent trade contracts with West Germany, the Soviets have succeeded in inserting a 10-percent penalty clause for nonperformance that results from any form of government action. [redacted]

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Partly in response to Western sanctions, new trade relationships were developed with alternative suppliers—both Eastern and Western—which reduced the Soviet need and desire for US goods. As Soviet five-year plans indicated, trade with Eastern Europe has increased at the expense of trade with the West. Although East European equipment is generally less sophisticated than that available in the West, in many instances it is better than comparable Soviet machinery. For example, the USSR imports a large share of its computer disk drives from Bulgaria; evidence suggests that these units are superior in both quality and level of technology to Soviet-produced disk drives.

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Moreover, manufactured goods produced in Eastern Europe usually are closer in design and specification to Soviet machinery and equipment than are Western goods. Soviet end users have to make do with less than state-of-the-art technology, but they are sure of eventual delivery, conserve limited hard currency resources, and have easy access to the developers and suppliers of the goods to assist in installation and assimilation. [redacted]

The Soviets also have diverted some of the trade formerly conducted with the United States toward Western Europe and Japan. This policy has allowed the USSR to evade Western export controls: the Soviets correctly perceive that the United States applies controls more strictly than other Western countries. Although this shift can be reversed—if necessary by fiat—many US firms may find themselves competing where they previously had a preferred position in sales to Moscow. [redacted]

Issues of Longstanding Concern. Trade controls and the denial of most-favored-nation status are continuing impediments to bilateral trade. Moscow claims that the export controls imposed by the Coordinating Committee for Multilateral Export Control (COCOM) are unpredictable, because items can be added to or deleted from the restricted list without warning, and are irrational, because there appear to be no reasonable or common criteria for generating the list. In addition, the Soviets complain that they cannot learn whether the items they would like to buy will be granted an export license before they enter into protracted negotiations with US firms. Moscow has called for the limitation of restrictions to items that are clearly and unambiguously strategic in nature. In this connection, Soviet trade officials are closely following the progress of the new Export Administration Act through the US Congress because of its relevance for future US policy in COCOM. [redacted]

The lack of MFN status has been a constant irritant to US-Soviet commercial contacts since the early 1970s and is particularly galling to Moscow because it has been awarded to other Communist countries, for example, Poland and China. Symbolically, it is important to Moscow as an acknowledgment that the United States finally considers the USSR an equal

trading partner. Economically, it would mean lower tariffs on some items as well as access to Eximbank credits (which are government backed and thus frequently implicitly subsidized). Soviet trade officials frequently ask rhetorically why they should do business with the United States when they can obtain credits—often at subsidized rates—elsewhere in the West and also sell elsewhere tariff free. Moscow insists that the US Congress should grant MFN status to the USSR without any conditions attached. Last October, for example, Al'bert V. Mel'nikov, then acting Soviet trade representative in Washington, declared that, if the United States was really interested in the development of bilateral trade, it should treat the USSR as an equal trading partner in US markets and normalize conditions both for US exports to the Soviet Union and for Soviet exports to the United States—achievable only by granting MFN status. [redacted]

Changes in Basic Economic Factors. Since the mid-1970s, the Soviets' disappointment over the contribution of Western technology to industrial productivity growth has cooled their enthusiasm for increased bilateral trade. The expected growth did not materialize, partly because of problems in assimilating both foreign equipment and new models of Soviet machinery. The Soviet system of acquiring and applying new technology is flawed at almost every step. It suffers from inefficient decisionmaking, lack of incentive to innovate, xenophobic leadership, and protracted construction times. As a result, Moscow has become more selective in its legal acquisition of Western technologies, seeking equipment that will, first, increase defense industry capabilities and, second, break bottlenecks in the energy and agro-industrial sectors. [redacted]

The continued trade imbalance with the United States is caused by the dominant US role as a grain exporter and the Soviet inability to interest the US business community in its exports. US businessmen are reluctant to buy Soviet manufactures because of their poor quality and an unreliable service network. The US trade surplus is among the largest of any

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country that trades with the USSR. Between 1980 and 1983, the US trade surplus averaged more than \$2 billion annually, and in 1984 it was close to \$3 billion. Soviet trade officials, as recently as December 1984, have cited this as a factor that inhibits the signing of new contracts with US firms. [redacted]

Finally, the USSR's hard currency import capacity will be limited by declining oil exports and lower world oil prices.² Unless Moscow revises its cautious borrowing policy, constraints on hard currency oil exports could well force the USSR to reduce the volume of imports from hard currency countries at least through 1990. Although grain trade may be protected, this factor will seriously limit a revival of Soviet nongrain imports from the United States. [redacted]

Outlook for Upcoming Negotiations

The Soviets will probably require some forward movement on contentious trade issues when the JCC meets in May 1984 as an affirmation of US willingness to normalize US-Soviet relations. In addition to those items discussed in this paper, they may table such agenda items as the US ban on imports of Soviet furs, the certification of nickel imports from the USSR, continued US 14-day port call requirements, and US refusal to recertify Aeroflot flights into this country. They may be encouraged by recent actions in their favor—the US Government's failure to ban imports of selected Soviet goods on the grounds that forced labor was used in their manufacture, the easing of certain COCOM restrictions—on personal computers, for example—and the March 1985 decision by the International Trade Commission that Moscow was not engaging in market disruption practices. [redacted]

Moscow understands that more serious trade issues—the granting of MFN status, a major reduction in trade controls, or government guarantees of contract sanctity—will probably not be fully resolved soon, but it expects the United States to work toward their eventual resolution. The MFN issue is more symbolic than economic in nature, however, because Soviet exports to the United States probably would be affected only marginally. Soviet goods already enter

[redacted]

Setting the Agenda

Deputy Foreign Trade Minister Sushkov clearly indicated some Soviet expectations for the upcoming Joint Commercial Committee meeting in his discussions with Commerce Secretary Baldrige and Under Secretary Olmer. He expressed:

- *An interest in whether trade would be part of any subsequent summit, citing that progress in the trade area could facilitate discussions in other areas as well.*
- *A desire to have JCC discussions yield useful results and forward progress. Although stating that the USSR was not expecting major improvements, he—"for the sake of public opinion in the USSR"—felt it would be useful to see progress on port access for Soviet ships and easing bans on US imports of Soviet furs and nickel.*
- *The potential for US commercial participation in major industrial projects, while he made it clear that a major criterion would be assurances that contracts would be carried out.* [redacted]

the United States either tariff free or at only slightly higher than MFN rates. Soviet State Bank Chairman V. Alkhimov appeared relaxed on this issue in January, noting in his discussions with US Department of Commerce officials that Eximbank interest rates were approaching the market rate anyway and that the absence of MFN status released Moscow from any obligation to repay its outstanding \$625 million lend-lease debt to the United States. Nevertheless, Soviet negotiators will be looking for some evidence of US willingness to seriously confront these issues and will be ready to publicly trumpet even slight progress. Moscow will also probably expect increased access to some key equipment and technologies. [redacted]

If any progress is made on these issues, we should see some increase in US-Soviet trade from its currently low level. US firms should benefit from the Soviets'

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continued need for large-scale imports of Western technology and manufactured goods despite the disappointing pace of its assimilation and dissemination. The Soviets' domestic resource stringencies continue to make intensive growth their primary goal, which requires the infusion of highly productive new technologies. Soviet programs to improve the efficiency of the agricultural sector will not diminish the demand for US grain imports in the near term. Moreover, the Soviets will continue to hope for political benefits from maintaining trade ties with the United States.

[REDACTED]

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It is extremely unlikely, however, that bilateral trade will ever return to the relative volume or significance that it enjoyed in the 1970s. The shifts in trade patterns that Moscow initiated and its determination not to be vulnerable to Western sanctions are major impediments to its substantial revival. With the exception of a few important areas, such as state-of-the-art offshore drilling equipment, the USSR can go elsewhere for nearly equivalent machinery and technology and have these purchases financed by government-backed credits. Another serious obstacle, which will constrain the expansion of East-West trade in general, is the smaller growth in Soviet import capacity, at least through 1990. Given the Soviets' desire to limit their trade dependence on the United States, this factor will also affect US-Soviet trade. [REDACTED]

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Moreover, the US business community—focused on domestic expansion and burned once on Soviet trade—will probably take a wait-and-see attitude:

- Bankers will remain skeptical of the benefits of financing US-Soviet trade.
- Firms will continue to look for a major change in Washington's attitude toward Moscow before committing themselves to major new trade initiatives.
- Firms will also look for signs from Gorbachev that the Soviets are willing to lay more favorable foundations for trade, such as allowing Western construction teams on turnkey projects or improving quality control on Soviet exports. [REDACTED]

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Appendix

**A Review of Soviet Statements
on US-Soviet Trade, 1982-85**

The tenor of Soviet statements on trade with the United States is difficult to characterize, because Soviet officials have spoken both positively and negatively, depending on the timing and the audience. Their statements also have related to a broad range of goods—from oilfield and other energy equipment to more conventional food-processing equipment and technology. [redacted]

During the US-USSR Trade and Economic Council (TEC) meetings in Moscow, November 1982, Soviet officials said that the USSR intended to expand trade with West European countries and Japan at the expense of US industry. The officials claimed that they were concerned that US trade would become more political and did not want to be left without well-established and reliable trading partners. [redacted]

During those November meetings, the officials mentioned two main areas of trade interest: food processing and agricultural machinery and equipment. The US delegation presented the Soviets with a list of US-made items not needing an export license. The head of Gosplan made it clear that the United States would not get its share of purchases because it was viewed as an unreliable trading partner. [redacted]

In a private meeting with a US member of the TEC in late 1982, the chairman of the Soviet foreign trade organization that imports and exports machine tools and precision instruments inquired about US policy toward trading with the Soviets and asked whether COCOM regulations would be relaxed. He noted that the USSR was extremely reluctant to enter into purchase agreements for equipment that might not be delivered. The Soviets see sanctions denying spare parts and/or service as an additional deterrent to trade with the United States. In a similar vein, Nikolay G. Osipov, Deputy Minister of Foreign Trade and Soviet cochairman of the TEC Small Business Committee, claimed that US machine tools are highly regarded in the USSR but that uncertainty about availability had forced Moscow to manufacture its own machine tools and spare parts or to obtain

equally serviceable equipment from Western Europe or Japan. [redacted]

In early 1983 the Soviet foreign trade organization Mashinoimport purchased 50 well-completion kits from a US firm for delivery late in the year. Despite efforts by Soviet officials to obtain oilfield equipment from other countries, the well-perforation equipment will be manufactured in and shipped from US facilities. The Soviet official responsible for negotiating the purchase said the decision to buy US equipment was made on the basis of price alone. He indicated, however, that Soviet officials were still concerned about a US embargo of oilfield equipment sales to the USSR, because US policy on granting export licenses to the USSR is not clearly defined. [redacted]

In late June 1983, Vladimir N. Sushkov, Deputy Minister of Foreign Trade, said he was pessimistic about the future of US-Soviet trade. He indicated that his pessimism stemmed primarily from conversations he had conducted with Soviet policymakers, who were convinced that officials of the US administration were not seriously interested in developing a disarmament agreement with the Soviet Union. He labeled the disarmament talks as the most important factor affecting US-Soviet trade. [redacted]

Georgiy S. Shchukin, General Director of the Soviet foreign trade organization Prommashimport, stated that one of his reasons for traveling to the United

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States in mid-1984 was to negotiate a contract to purchase a milk carton manufacturing line from a US company. When asked to provide a shopping list of other types of US production line equipment that Prommashimport was interested in purchasing, Shchukin said he was interested in production lines for small electromechanical motors, disposable cigarette lighters, and typewriters. [redacted]

At the World Petroleum Congress in London in August 1983, Viktor I. Mishchevich, Director of the Oil and Gas Equipment Department of the State Committee on Science and Technology, questioned the ability of US suppliers to guarantee that they would be able to honor contractual agreements to supply goods and services to the USSR. Because of this uncertainty, he said, the Soviets would continue to favor purchases of European, Canadian, or Japanese oilfield technology over US goods whenever possible. [redacted]

During the Agribusiness-USA exhibit in Moscow in October 1983, Sushkov stated that he had instructed his subordinates in the Ministry of Foreign Trade and in Soviet foreign trade organizations to attempt to meet import requirements not with one-time large purchases from US companies but with a stream of small purchases from a variety of firms. In this way, Sushkov stated, constant communication could be maintained with the US business community at a time when political tensions might cause diplomatic channels to fail. [redacted]

In late October 1983, Igor' Dubin, deputy chief of the main administration for exploration of offshore oil and gas fields of the Ministry of the Gas Industry, requested price and delivery information on a subsea production (Christmas tree) completion system. He specified that the Christmas tree be of British manufacture to guarantee uninterrupted delivery—a reference to past US embargoes. [redacted]

The Soviet commercial consul at the Soviet Consulate in San Francisco, Boris M. Gustarev, told [redacted] that the USSR planned to be much more selective about the import of US goods, including food products formerly imported from the United States. Gustarev

cited US trade barriers and the failure to grant most-favored-nation (MFN) status to the USSR as the primary reasons for the change in policy, and he also noted the 12-to-1 trade imbalance. [redacted]

In a late December 1984 meeting with the Austrian commercial attache in Moscow, US Embassy officials were told that Deputy Foreign Trade Minister Aleksey N. Manzhulo had played down the prospects for increased Austrian-Soviet trade. Manzhulo indicated that this resulted from a high-level decision to increase the level of business with the United States at the expense of other Western trading partners. [redacted]

In late November 1984, Vladimir A. Yulin, an economist with the Institute of the USA and Canada of the USSR Academy of Sciences, insisted [redacted] that the United States and the Soviet Union must improve their trade relations. He agreed that expanded trade would serve as a "peaceful opener" to bilateral arms negotiations. Above all, Yulin stressed that the USSR desired MFN status, and he extolled the desirability of trade. [redacted]

In a 30 December 1984 article, TASS Washington correspondent Nikolay Turatenko said the US trade deficit represents the unwillingness of the United States to consider the lawful interests of other countries. He stressed that, although US business circles were working energetically to put bilateral trade on a stable basis, lack of MFN status for the USSR and lack of contract sanctity guarantees remained major obstacles to increased trade. Turatenko contrasted the policy of the United States of continuing to exert economic pressure on the USSR with the Soviet policy of striving for normalized commercial relations. [redacted]

Following the conclusion of the Working Group of Experts meeting in Moscow on 8-10 January 1985, Soviet delegation leader and Deputy Foreign Trade Minister Sushkov said the talks confirmed the existence of broad possibilities for expanded trade. He said the talks helped to identify the artificial obstacles—none of which are the fault of the USSR—that

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should be removed to normalize conditions for the development of bilateral trade. Sushkov specifically cited US unreliability as a supplier because of the various sanctions and embargoes of recent years and said this situation had caused the USSR to divert orders to other countries. Sushkov said the Soviet Union stands for the extension of good relations with the United States on the basis of equality and mutual respect and also for increased trade and economic contacts, but only if all artificial obstacles on this path are removed.

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A January 8 *Izvestiya* article by TASS economic analyst Vladimir Dushenkin described the arrival of the US delegation to the January 1985 Moscow meetings and blamed the United States for a unilateral end to official trade contacts. Dushenkin noted the declining share of the United States in Soviet foreign trade, but he remarked on the renewed interest among US firms in doing business with the USSR. He said the progress of the trade talks would depend on how constructive the US approach turned out to be.

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In a private mid-January 1985 meeting with US officials, Soviet Bank Chairman V. Alkhimov was optimistic about the potential for US-Soviet trade, noting especially the new possibilities not present in years past. He likened the commissioning of the Baikal-Amur Railway to the opening of the American West, because it provides new access to valuable raw materials where before there had been no infrastructure. Alkhimov was also relatively relaxed on the lack of MFN treatment. He pointed out that Eximbank interest rates were approaching the market rate anyway and that the absence of MFN status released the USSR from any obligation to repay its outstanding \$625 million lend-lease debt to the United States.

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