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DEPARTMENT OF STATE

Memorandum of Conversation

DATE: January 19, 1959

SUBJECT: Expansion of US-USSR Trade

PARTICIPANTS: Anastas R. Mikoyan - Deputy Premier of the USSR
 Mikhail A. Menshikov - Soviet Ambassador to the United States
 V. Smolyaichenko - Aide to Mr. Mikoyan
 Vladimir S. Alkhimov - Commercial Counselor, Soviet Embassy

~~COPIES TO:~~ C. Douglas Dillon - Under Secretary for Economic Affairs
 Llewellyn E. Thompson - United States Ambassador to the USSR
 W. T. M. Beale - Deputy Assistant Secretary for Economic Affairs
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 NEA (3), FE (2), EE (3), OT (4), OFD (2), OR (2), REA, E - Mr. Beale (8)
 For list of diplomatic posts, see attachment (71) (128)

Mr. Dillon: I am delighted to have this opportunity to discuss common problems of trade. We have always favored peaceful trade and an expansion of trade. This attitude is fundamental to our belief that trade is a very useful thing for every country. In particular, insofar as trade with the Soviet Union is concerned, we feel that there would be a special advantage in promoting greater understanding between our peoples which would lead to the relaxation of tensions. We believe that there would be greater value in the latter sense than in the economic sense. Statements made by the President at the meeting in Geneva were in that line and so it was only natural that he replied in the same vein to Mr. Khrushchev's letter and hoped that there would be an expansion of trade. We have noted that in the past few years our trade has not been large and we have bought considerably more from the Soviet Union than you have bought from us. Some people have thought that export controls have made it difficult to buy here in the United States. But actually only about 10 percent of the items moving in international commerce are subject to embargo; the rest can be bought under permits and permits will be granted, so we feel that the way to increase this commerce is to start doing it. We have noticed the arrangement to buy steel which some of our companies recently completed in return for purchases of chrome. That was a fine arrangement. One thing puzzles us a little bit. It is fairly clear that most of the long list of items in Prime Minister Khrushchev's letter are available for purchase in the United States. On the other hand he mentioned items which he said the Soviet Union was ready to sell. Many of those we already produce ourselves or buy from others, so that the market for them

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can't be easily expanded. But perhaps there are some things, more technically advanced, that the Soviet Union have to offer. Our business firms might be interested in such items. We would be interested in knowing more about what those types of goods might be. One thing I think you realize, and that is our business is done by private companies. That is the only way trade can be carried on from the United States. Whether items are available therefore depends upon your negotiations with those private industries and businesses.

I noticed that one of the main things you indicated an interest in was the products of the chemical industry, such as plastics, synthetics, and so forth. Purchases of those products require negotiations with our chemical industry. From the information available to you, you should be aware that the past business relationships of our chemical industry with the Soviet Union have not been satisfactory. This is because in two or three instances they have arranged to make know-how available and to be paid royalties in return, but in none of these cases have those agreements been carried out. I am aware that the Soviet Union has reasons for being unable to complete those arrangements, but nevertheless the chemical industry feels that they have not been treated fairly. This is something that would have to be looked at very carefully and arrangements made for protecting patent rights, etc., of American producers.

I have noticed that some wonder has been expressed as to why an additional answer to Mr. Khrushchev's proposal has not yet been forthcoming from the State Department. We have prepared such a note and it would have gone out but, unfortunately, there were political occurrences in the Far East and in Berlin which, from the standpoint of public opinion, made it impossible to forward the type of response we would have liked to make. While we don't want to feel that political complications are tied into trade, nevertheless it is a fact that they go hand in hand. In a particular case having to do with the extension of credits, there is nothing to prevent normal business credits, that is credits up to six months. Such credits are available. As for other private credits, it is illegal to extend such credits under a law going back to 1934 which was not particularly directed against the Soviet Union but against the defaults of other countries. It would require legislation to change this situation and certainly it would not be possible to undertake such legislation until we had reached agreement on lend-lease products which have not been discussed for some time. I do not know why there have been no further conversations for several years, but the United States is prepared to entertain such conversations at any time the Soviet Union wishes to do so. I cannot think of any one thing that would have a better general effect on public understanding and would do more to advance the cause of expanded trade than a settlement of lend-lease. Now I have talked much too long, and it is your turn.

Mr. Mikoyan: I think you might have said more.

Mr. Dillon: I will answer any questions.

Mr. Mikoyan: When Mr. Dulles suggested that I talk with you, I had expected positive and constructive suggestions would be made. We have heard many sweet words

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words but would expect more constructive ones. I have heard you and others make statements that the Soviet Union is carrying on trade for political reasons. I cannot agree. I am now convinced that the United States is carrying out such a policy. The United States has pursued that kind of policy because the answer has been protracted for eight months only because political occurrences have taken place. You are experienced enough to know that political matters do not decide trade matters although they affect them. There is one basic truth: that bad political relations do not contribute to expansion of trade. There is a second truth: that trade expansion does contribute to good political relations.

Mr. Dillon: I would agree with that.

Mr. Mikoyan: Then if you agree with that, we are for the Christian principle of an eye for an eye and a tooth for a tooth. That is the gist of the matter. You said that you buy more than we buy. Evidently you are convinced of this, but I think you are misinformed. I have heard such things being said and I have therefore asked to have something prepared. When making such a statement you take into account only commodities, but you do not take into account expenditures in dollars. The figures for 1957 completely refute what you have said. The export of goods to the United States from the Soviet Union is valued at \$16 million, whereas imports from the United States to the Soviet Union are valued at about \$10 million. Payments of the USSR to the United Nations are valued at \$6 million. So we pay dollars to the United States. Moreover, capital and interest on credits received after the war amount to \$7.6 million a year. So the total expenditure of the Soviet Union in dollars in the United States is \$23.6 million. The difference of \$7.6 million was covered by money we got by selling gold in other countries. These facts refute your thesis on these matters.

So far as the question as to the possibility of exports is concerned, you refer to goods you are producing yourselves or buying from other sources. We are not offering those. We are exporting goods valued at \$1.4 billion and those are the goods the United States is importing. Some hundreds of millions of dollars might be chosen to be imported into the United States considering the great expansion of our exports. The Soviet Union has increased its external trade with capitalist countries 3.3 times since 1950 and 1957 inclusive.

The United States is no longer a capitalist country but is a semi-capitalist country. That conclusion speaks for the great possibilities existing in the Soviet Union for an increase in exports. The achievement of self-sufficiency and expansion of the economy in the Soviet Union presupposes an increase in foreign trade.

You refer to private companies and firms as deciding what foreign trade shall be carried on. This is true in a general way, but is not true so far as the Soviet Union is concerned. So far as the Soviet Union is concerned, they are tied hand and foot by the State Department. If the State Department did not interfere or if your legislation were repealed then we would have found

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a common language with those firms and would have reached agreement with them. After Mr. Roosevelt became the President there was a commercial agreement. This agreement was a simple one but it played a great role. Although you said that your policy does not determine foreign trade matters, still it was the United States Government that denounced the commercial agreement in 1951. As a result we are placed in a state where we are discriminated against. So far as deliveries to the United States of those goods that the United States is not producing are concerned, after the commercial agreement was denounced new import duties were placed on some commodities from the Soviet Union. It may be that you lack concrete information, but judging from what you have said, you are well versed in these matters. As a result of the denunciation of the commercial agreement import duties on some goods are higher than duties on other goods. The duty on manganese ore is four times as high as before although it was a traditional item of trade. The duties on ferro-chrome and ferro-manganese are three times as high. These are strategic materials which add to your war potential, but we are not afraid to sell them. However, let us stick to the views that non-delivery would impede your armaments. I may even console you in the fact that the list which prohibits exports to the Soviet Union only helps us to produce in the Soviet Union and to supply other countries. Timber is a big export item for the Soviet Union, which is large in timber resources. But some import duties are four times as high as some other countries. The duties on birch plywood are three times as high, on tobacco two times as high, and on liquors, including vodka, four times as high. If you don't want to drink vodka, that's all right with me, but it is such a good drink that it seems improper to discriminate. You produce vodka in the United States and you call it by the Russian word "vodka" but you don't pay any royalties on a fixed percentage basis. You only count your claims against us, not ours against you. I therefore reserve the right to raise the question of patents for vodka in the United States.

Mr. Dillon: Unfortunately it is true, since you produce very good vodka. I know of one American firm that imports it in bulk and bottles it and, as I have found out for myself, it is very good.

Mr. Mikoyan: Why "unfortunately"?

Mr. Dillon: "Unfortunately" because we cannot make vodka as well as you can.

Mr. Mikoyan: It is interesting that you should feel that way.

Mr. Dillon: It is the psychology of friendly competition.

Mr. Mikoyan: What you proceed from is not friendly competition. One more point relating to Soviet furs. Soviet furs do not undermine capitalism. Indeed, they only make your beautiful ladies more beautiful, so they do not undermine your system. Your Congress has banned imports of furs since 1951 without reason. Seven kinds of Soviet furs have been banned but no reasons were stated. Presumably no reasons were given because it is expected that every fool will understand the reasons. But we do not consider ourselves in

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the category of fools and we can't understand it. Perhaps the reason is that your finance ministry had no other useful business to do. I do not mean your present finance minister, who is a pleasant fellow.

With reference to crabmeat, so far as I know Americans are fond of crabmeat. I have done my best to find why crabmeat imports are prohibited. It was stated that according to exact information available to the United States crabmeat was produced by Japanese prisoners of war or Soviet prisoners. Evidently the minister of finance was a capable man to invent this. It is well known that our canned crabmeat is produced on floating factories. There has never been a single Japanese on those floating factories, and you cannot find a reasonable businessman who will be letting prisoners into his factory to work. There are many civil workers who can do that kind of a job. Last, but not least, we don't have a single Japanese prisoner of war. But the United States Government keeps out the goods. The same argument can be generally applied and then there will be no trade. You might declare that all workers in the Soviet Union are prisoners. Such decisions are not an ornament to your government. If I had revealed these facts on a television program, your people would have laughed at you. You speak in favor of expansion, but is it possible to trade under such circumstances? I expected when I came that you would make some suggestions for eliminating the obstacles existing since 1951.

So far as the claims of the chemical companies concerning disputable matters, there is some foundation for what you say, but your information is outdated. I have been informed on one problem connected with the Dupont Company. Although we had all the rights to insist on our position, nevertheless our economic organization is prepared to reach an agreement. So it should not be a long time before the dispute no longer exists. I have been informed that 17 oil and chemical firms had patent claims after the War. All claims disputes have been completely settled with 15 out of those 17. There is a difference of opinion with the two remaining firms so far as the sum of compensation is concerned. They didn't like the figures on the Soviet side but, instead of negotiating with us, they interrupted the negotiations. We are not responsible for that. Negotiations on sums is the usual thing in a business. Therefore, these kinds of disputes can't be considered real obstacles.

I don't want to go into this depth on an analysis of the list of goods which require permits. You are aware of many things that should be corrected in those lists if we are to develop trade. At one of the meetings I had with your businessmen, I quoted some of the items on the list and there was a great deal of laughter, not at us but at the State Department. It was not my purpose to cause laughter but to convince them that some reason should be applied. I don't know what steps businessmen contemplate should be taken, but they will get there. It is said that your State Department enjoys very great powers, in fact dictatorial powers as it is the fashion to say.

You have referred to chemical firms. They behave better with respect to our trade organizations and our importing organizations have been negotiating to place orders. Chemical firms agreed to accept orders for petrochemical plants but said they had to ask the

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State Department. Quite a period has elapsed but the firms have informed us that the State Department has neither refused or taken a decision. This is a very flexible approach, very fine, not rough, there is lots of elegance in this.

So far as credits are concerned, you said that it is possible to get six months credits. I do not quite understand this. Is there an instruction or legislation that makes six months possible and seven months impossible? If you pass that rule on the way we repay our debts why does the rule affect six months credit and not seven months? Certainly six or seven months are of no practical importance. You also emphasize the Johnson Act.

Mr. Dillon: It is the same law.

Mr. Mikoyan: That is right. It is not directed especially against the Soviet Union. Incidentally, we were granted bigger credits by the United States in spite of the fact that we never stated our intention to repay the Czarist debts. Certainly Americans are reasonable enough not to expect us to pay the debts of the Czars. If you mean repaying Czarist debts, then that is another object of laughter. But under your present interpretation of law we are put in the category of those who are not exact payers. An idea has just struck me. We are making payments to you on our obligations. That is our 1945 credit. The entire sum with interest amounts to about \$300 million. We have actually paid more than \$60 million. Maybe it is necessary in order to support your statement that we have to stop paying interest and capital on this sum. If you stick to that, and your opinion evidently supports it, you have no right to make claims on us and we could save over a quarter of a billion dollars. Your idea is worth study but we consider ourselves accurate payers.

So far as lend-lease is concerned, in the lend-lease agreement it is not particularly stated that we are to pay. There is not a single word to that effect. The gist of the idea in that agreement is that if the efforts are compensated that would be enough for the United States. If we compare our efforts with yours we know that we bore the brunt of the burden of war. So we compensated by our sacrifices several times the efforts of the Americans. In his message of October 9, 1941 Mr. Roosevelt stated: "I solemnly declare to you that in the event the present war plans of Hitler are successfully carried into effect, we the Americans shall be impelled to carry on the same devastating war as he is now waging on the Russian front". Mr. Acheson, in July 1942, said "Is it possible that you want to put on one side of the scale costs of tanks and ammunition and on the other side the cost of the lives of those who died in these tanks? What comparison is there between such costs and the lives of those people who perish in snow, etc., etc.?" ^{1/} These quotations make quite clear the position in these matters. You should offer long-term credits to increase the orders that the Soviet Union might place in the United States, and you have promised that firms could make available six months credit. You have also suggested at the same time that we should settle the lend-lease. Evidently we must make payments to you. There is no mutual trade in this, just a one-way street. I draw the conclusion that for reasons of a political nature the cold war continues and you are not prepared to expand trade but to make statements only to

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^{1/} Notes are not exact for this quotation.

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console people. In spite of the friendly expressions you have used and the quiet, business-like way you have talked, I am still disappointed. As a matter of fact, as we are not carrying on negotiations I do not see that there is something the United States is willing to do. Let us, therefore, wait until better times. Perhaps they will come.

Mr. Dillon: Thank you, Mr. Minister, for your full explanation which has been very revealing. As regards the use of trade for political purposes, I have not mentioned that subject in talking with you. There have been statements made publicly in which I have referred particularly to the action of your Chinese friends in cutting off trade with Japan, which they admitted was done for political reasons.

Mr. Mikoyan: But you told untruths when you referred to Soviet-Yugoslav trade. It is not true. We have not stopped trade. It is at the same level as before. But you evidently needed to make that statement.

Mr. Dillon: I'm glad to hear that the actions of the Soviet Union toward Yugoslavia and Finland have no political motivation. Many people have thought otherwise.

Mr. Mikoyan: We did not pursue the purpose of developing trade. We have deferred payments but trade has continued.

Mr. Dillon: However, the subject does not have much to do with what we are talking about. You mentioned that popular opinion is important; that political events do affect public opinion; and that political events affect trade. Two events, the abrogation of the trade agreement and legislation concerning furs, were both the result of action of Congress and were not the result of suggestions by the Executive Branch.

Mr. Mikoyan: When then shouldn't you make a suggestion to Congress that these be corrected?

Mr. Dillon: Such a suggestion would be possible, but it is a question whether it would be useful until Congress is ready to act, and Congress is responsive to public opinion. Therefore, it couldn't happen until relations are better than they are now.

Mr. Mikoyan: I don't think I am wrong in my impressions from businessmen that they seem to be in favor of an expansion of trade.

Mr. Dillon: You are in favor, and we feel that trade can be expanded in many items. You gave me a long list of items on which our tariffs are higher against Soviet products. I could make one equally long in which there is no tariff difference and in which there could be an expansion of trade, for example, chrome ore. But surely you would not feel that we should stop buying these products from the underdeveloped countries, that we should stop such trade and immediately switch the business to you.

Mr. Mikoyan:

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Mr. Mikoyan: I don't demand that. But your requirements are growing; or are they not?

Mr. Dillon: Yes, and possibly an expansion could take place through growth.

You mention difficulties in getting permits. If you take the figures for the past year, out of \$22 million for which export permits were asked by various companies, only \$3.5 million were not granted. So the great majority are granted.

Mr. Mikoyan: I would like to know what the sum is for those petrochemical requirements that are under consideration. That is another matter.

Mr. Dillon: They don't add up to any particular sum because most of the permits under consideration are for engineering and technical services. These are sub-contracted out and they say that they don't know just how big these are.

Mr. Mikoyan: The sum of this category will be bigger.

Mr. Dillon: You should not feel that these will not be granted as no decision has yet been reached on these items.

Mr. Mikoyan: It may happen that there will be no need for permits since we shall either produce these things or buy them somewhere else. This delay is in fact a form of refusal.

Mr. Dillon: Regarding crabmeat, imports are embargoed under law which goes back to 1930. The law does not apply only to the Soviet Union and we are ready to consider its removal and allow the entry of crabmeat if you will allow the Treasury Department to obtain the necessary information to be sure that the conditions existing in 1951 do not exist any more.

Mr. Mikoyan: You haven't got the data to prove your conclusions. You would evidently like to send controllers to be placed at each floating factory. We are fond of crabmeat ourselves and will keep it.

Mr. Dillon: You might talk further with Ambassador Thompson about this and something might be done.

We are glad to hear your figures on trade balance for 1957. Our figures show that exports are valued at \$4.5 million, while our figure for imports is very close to the figure you used. I am surprised to hear that you consider that United Nations expenditures are part of trade with the United States.

Mr. Mikoyan:

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Mr. Mikoyan: It is a matter of the balance of payments in dollars. We have to sell in the UN countries in order to get dollars. How would we get them otherwise?

Mr. Dillon: Can't you pay in gold?

Mr. Mikoyan: If Hammarskjold were sitting in Moscow, you would have to pay him.

Mr. Dillon: We would pay in gold.

Mr. Mikoyan: We do not want your gold.

Mr. Dillon: Regarding the Johnson Act, the law provides that there can be no loans. The Attorney General has ruled that ordinary commercial credits, that is up to 180 days, are not loans.

As for lend-lease, as you know we have reached accords with all other countries. We don't ask for anything they acquired during the course of the fighting. All we are asking for is settlement of civilian items delivered after lend-lease trade had ended.

Mr. Mikoyan: You might be mistaken in your facts. After the war ended America stopped deliveries with only one day's notice. The civil supplies affected after that valued at \$210 million were continued under credit arrangements.

Mr. Dillon: Our figures are based on the date on which we considered that lend-lease was over. We do feel that there is an obligation on the Soviet Union for an undetermined amount. This to be paid over a period of time. We do feel that it should be honored as a valid obligation. Regarding your suggestion concerning a possibility of ceasing payments on your post-war debt, we would regret such action, but it would have the effect of making it perfectly clear that the Soviet Union does not always honor its obligations.

Mr. Mikoyan: I don't understand.

Mr. Dillon: What I said was that Mr. Mikoyan had said that the Soviet Union might not honor the obligations under the credit and that we would regret that but it would have the effect of making it perfectly clear that the Soviet Union does not always honor its obligations.

Mr. Mikoyan: There was no such intention on the part of the Soviet Government. The idea just came to me personally in connection with your statement that we are not accurate payers.

Mr. Dillon: I never said that the Soviet Union were not accurate payers but merely that we couldn't proceed with other obligations until settlement under the lend-lease had been made.

You mentioned items under export control which you considered foolish. We are aware of the items you mentioned to American business people as being under control. The facts are that they are not under control. We
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didn't want to take issue publicly with what you said, but you were misinformed.

Mr. Mikoyan: We are not going to weaken your strategic position.

Mr. Dillon: We do feel very seriously that there is a great deal of room for a substantial increase in trade and, as the President said in his letter to Prime Minister Khrushchev, all that is necessary is to make contact with private people. If there is no such effort on your part we can regretfully draw the same conclusions that you have drawn, but in reverse, that the Soviet Union is not really interested in expanding trade but merely send us letters for political purposes. We would hope that times would become better and that we would be able to reach a point where trade can expand because it would be a useful thing.

Mr. Mikoyan: In order quickly to place big orders one has to have credits. In reply to that suggestion you say pay for lend-lease. What kind of trade is that?

Mr. Dillon: Lend-lease must be settled before any credits can be extended in large amounts. Nevertheless, we can increase our trade without large, long-term credits and such an increase would be useful.

Mr. Mikoyan: Well, without repealing some of those laws, there would be some expansion but not a big expansion of trade. Concerning lend-lease I ask you to think over the sacrifices that the Soviet people had to make, the destruction of war and the millions that perished. And then put on the scale the expenditures you went into during the war. You should also consider the outcome -- that is, the defeat of Hitler.

Mr. Dillon: The Soviet Union has never until now said that it was not prepared to settle lend-lease. In the past it has made concrete offers and only the exact amount has been in dispute. I am surprised at the Minister's position that the Soviet Union is not prepared to make any payment at all. This is certainly a change in the Soviet position.

Mr. Mikoyan: We are not obliged to pay anything on lend-lease. We want to trade. But first you must give us credit so that we can start. If you can't make credit available, then we must do without trade. Our plans don't take into account credits, but if you give us credits we can make changes in our plans.

(NOTE: This memorandum is not a verbatim transcript but is based on detailed notes. In reporting Mr. Mikoyan's remarks the first person pronoun has been substituted for the third person pronoun used by the interpreter.)

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