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UNITED STATES GENERAL ACCOUNTING OFFICE
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STATEMENT OF
ELMER B. STAATS
COMPTROLLER GENERAL OF THE UNITED STATES
BEFORE THE
COMMITTEE ON COMMERCE
OF THE
UNITED STATES SENATE

ON
[EAST-WEST TRADE]

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MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

WE ARE PLEASED TO BE HERE TODAY TO DISCUSS WITH YOU OUR
RECENT WORK ON THE ROLE OF THE EXECUTIVE BRANCH IN THE RENEWED
TRADING RELATIONSHIPS WITH COMMUNIST COUNTRIES. ON RELATED
MATTERS, IN THE PAST 2 YEARS WE HAVE REPORTED ON THE WHEAT
EXPORT SUBSIDY PROGRAM AND 1972 SALES TO THE SOVIET UNION AND
ON THE COOPERATIVE PROGRAMS BETWEEN THE SOVIET UNION AND THE
UNITED STATES.

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WE FOLLOWED WITH GREAT INTEREST THE TESTIMONY PRESENTED BY ADMINISTRATION OFFICIALS IN DECEMBER BEFORE THIS COMMITTEE. WE SHARE THEIR OPTIMISTIC APPRAISAL OF EAST-WEST TRADE AS A FORCE CONTRIBUTING TO U.S. ECONOMIC BENEFITS AND TO A RELAXATION OF INTERNATIONAL TENSIONS. HOWEVER, WE BELIEVE IMPROVEMENTS CAN BE MADE IN EXECUTIVE BRANCH OPERATIONS TO BETTER PROTECT U.S. NATIONAL AND COMMERCIAL INTERESTS. OUR REPORT ON THE PROBLEMS AND ISSUES OF THE GOVERNMENT'S ROLE IN EAST-WEST TRADE CONTAINS RECOMMENDATIONS FOR EXECUTIVE BRANCH IMPROVEMENTS AND SEVERAL IMPORTANT MATTERS FOR CONSIDERATION BY CONGRESS. WE WOULD LIKE TO DISCUSS THE MAJOR OBSERVATIONS OF THIS REPORT WITH YOU AND THEN BE AVAILABLE TO ANSWER ANY QUESTIONS YOU MIGHT HAVE.

OUR OBSERVATIONS RELATE TO FOUR MAJOR AREAS OF DIFFICULTY IN THE U.S. RESPONSE TO THE ISSUES INVOLVED WITH EAST-WEST TRADE: (1) TRADE POLICY FORMATION, (2) EXPORT PROMOTION AND FINANCING PROGRAMS, (3) EXPORT CONTROLS AND TECHNOLOGY TRANSFERS, AND (4) RECIPROCITY OF BENEFITS.

TRADE POLICY FORMATION

U.S. TRADE POLICY TOWARD COMMUNIST COUNTRIES HAS BEEN MOTIVATED BY A COMBINATION OF POLITICAL AND ECONOMIC FACTORS. THE FOREIGN POLICY INITIATIVES OF THE EARLY 1970s OFFERED A PROMISING NEW PERIOD FOR EAST-WEST ECONOMIC RELATIONS, AND VARIOUS BILATERAL COMMERCIAL AGREEMENTS NEGOTIATED BETWEEN 1972 AND 1974 HAVE PROVIDED A BROAD FRAMEWORK FOR CONDUCTING TRADE.

THE ECONOMIC BENEFITS OF EAST-WEST TRADE ARE DEMONSTRATED BY THE FAVORABLE \$1.3 BILLION BALANCE OF TRADE IN 1974, WITH A LARGER SURPLUS OF \$2.2 BILLION IN 1975. U.S. TRADE WITH COMMUNIST COUNTRIES HAS EXPANDED RAPIDLY SINCE 1971, AND TOTAL TRADE GREW FROM ABOUT \$612 MILLION TO ABOUT \$3.9 BILLION IN 1975. EXPORTS EXPANDED FROM \$384 MILLION TO \$3.0 BILLION AND IMPORTS FROM \$227 MILLION TO \$900 BILLION. EXPORTS OF AGRICULTURAL COMMODITIES ROSE FROM \$217 MILLION TO \$1.8 BILLION AND AVERAGED ALMOST 80 PERCENT OF U.S. EXPORTS IN 1973 BUT DROPPED TO ABOUT

57 PERCENT IN 1975. IT IS ESTIMATED THAT EXPORTS OF AGRICULTURAL COMMODITIES TO THE SOVIET UNION AND EASTERN EUROPE WILL INCREASE AS A RESULT OF LARGE SCALE PURCHASES DURING 1975. AGRICULTURAL EXPORTS TO THE PEOPLE'S REPUBLIC OF CHINA WILL AGAIN BE SMALL BECAUSE OF GOOD HARVESTS AND A PROBLEM WITH FOREIGN EXCHANGE. NONAGRICULTURAL EXPORTS ROSE FROM \$167 MILLION TO \$1.3 BILLION. ALTHOUGH MOST U.S. EXPORTS TO COMMUNIST COUNTRIES ARE NOW AGRICULTURAL PRODUCTS, EXPORTS OF MANUFACTURED GOODS HAVE THE GREATER GROWTH POTENTIAL IN THE LONGER TERM.

THE RENEWED TRADE RELATIONSHIPS REQUIRED THE EXECUTIVE BRANCH TO DEVELOP POLICIES WHICH ATTEMPTED TO RECOGNIZE THE DIFFERENT CHARACTER OF THIS TRADE. A NETWORK OF SPECIAL POLICY GROUPS (THE PRESIDENT'S COMMITTEE ON EAST-WEST TRADE, MARCH 1973 NOW THE EAST-WEST FOREIGN TRADE BOARD, MARCH 1975), A SEPARATE BUREAU IN COMMERCE (BUREAU OF EAST-WEST TRADE, NOVEMBER 1972), AND PRIVATE AND GOVERNMENT COMMERCIAL COMMISSIONS AND COUNCILS (U.S.-U.S.S.R. TRADE AND ECONOMIC COUNCIL, OCTOBER 1973, AND JOINT U.S.-U S.S.R. COMMERCIAL COMMISSION, OCTOBER 1972) WERE ESTABLISHED.

THESE ACTIONS WERE INTENDED TO
ENABLE THE EXECUTIVE BRANCH TO MONITOR AND DIRECT U.S. TRADE
EFFORTS. HOWEVER, THEY HAVE NOT FULLY RESPONDED TO THE UNIQUE
CONDITIONS ASSOCIATED WITH EAST-WEST TRADE.

NEEDED ACTIONS WHICH WOULD IMPROVE THE EXECUTIVE BRANCH'S
CAPACITY TO BETTER RESPOND TO SUCH CONDITIONS INCLUDE (1)
MORE CLEARLY DEFINING DIPLOMATIC AND COMMERCIAL OBJECTIVES,
(2) CLEARLY ESTABLISHING THE U.S. GOVERNMENT'S ROLE IN SUCH TRADE,
AND (3) IMPROVING THE MEANS FOR SAFEGUARDING U.S. NATIONAL
AND CORPORATE INTERESTS.

THE COMMERCIAL AND DIPLOMATIC LINKAGES IN EAST-WEST
TRADE POLICY ARE SOMEWHAT AMBIGUOUS. DURING OUR STUDY WE
FOUND LITTLE EVIDENCE IN THE MAJOR WHITE HOUSE TRADE POLICY
STUDIES OF SYSTEMATIC EXAMINATION OF THE SOURCES AND DEGREES
OF U.S. LEVERAGE AND THE PRACTICAL WAYS OF USING SUCH LEVERAGE
TO ACHIEVE DIPLOMATIC OR COMMERCIAL OBJECTIVES. FURTHER, THERE
IS A LACK OF PRECISION AND CONSENSUS WITHIN THE EXECUTIVE BRANCH

ON THE DIPLOMATIC OBJECTIVES OF SUCH TRADE. COMMERCE OFFICIALS, FOR EXAMPLE, CONSIDER THAT COMMERCIAL RELATIONSHIPS SHOULD BE PURSUED PRIMARILY FOR ECONOMIC REASONS. ON THE OTHER HAND, OFFICIALS WITHIN THE DEPARTMENT OF STATE BELIEVE TRADE SHOULD BE LINKED WITH DIPLOMATIC OBJECTIVES BUT DISAGREE ON WHAT THE DIPLOMATIC OBJECTIVES SHOULD BE.

ANOTHER PROBLEM WITH THE POLICY FORMATION PROCESS IS THE LACK OF CLARITY AS TO WHO IS REALLY IN CHARGE OF RESOLVING ISSUES. EARLY EAST-WEST TRADE POLICIES (1969-72) WERE FORMED UNDER THE AEGIS OF THE NATIONAL SECURITY COUNCIL/COUNCIL ON INTERNATIONAL ECONOMY POLICY STRUCTURE. HOWEVER, IN 1972 THE LEAD ROLE FOR RESOLVING THE QUESTIONS OF GRANTING MOST-FAVORED-NATION STATUS AND SETTLEMENT OF LEND-LEASE DEBTS WAS GIVEN TO COMMERCE. LATER, THE LEAD ROLE FOR DETERMINING ECONOMIC POLICIES TOWARD EASTERN EUROPE WAS ASSIGNED TO STATE. THUS, THERE HAS BEEN NO CONSISTENT PATTERN OF STUDY, ANALYSIS, RESOLUTION, OR IMPLEMENTATION OF POLICY ISSUES. FURTHER,

THE POLICY FORMATION PROCESS HAS NOT INSURED THAT THE POSITIONS OF ALL INTERESTED AGENCIES WERE CLEARLY DEFINED AND PROPERLY ANALYZED BEFORE DECISIONS WERE REACHED OR IMPLEMENTATION PLANS DEVELOPED.

THE PRINCIPAL REASON FOR THESE PROBLEMS IN THE POLICY PROCESS IS THE DIFFERING PERCEPTIONS OF EXECUTIVE AGENCIES, EACH HAVING CERTAIN INTERESTS AND INFLUENCE, ON THE DIRECTION AND OBJECTIVES FOR IMPROVING RELATIONS WITH COMMUNIST COUNTRIES. THE ULTIMATE EMPHASIS AND DIRECTION OF POLICY IS FREQUENTLY SHAPED BY THE AGENCY GIVEN THE LEAD FOR DETERMINING POLICY OPTIONS, AS EVIDENCED BY COMMERCE DETERMINING THE U.S. POSITION IN SOVIET LEND-LEASE NEGOTIATIONS, AND BY STATE FOR U.S. ECONOMIC POLICIES TOWARD EASTERN EUROPE.

ALTHOUGH THERE HAVE BEEN SOME IMPROVEMENTS SINCE 1972, SUCH AS ESTABLISHMENT OF THE EAST-WEST FOREIGN TRADE BOARD, SIGNIFICANT PROBLEMS CONTINUE IN THE POLICY FORMATION PROCESS.

MANY BASIC POLICY ISSUES STILL NEED TO BE RESOLVED, INCLUDING THE DEGREE OF GOVERNMENT INVOLVEMENT WITH THE PRIVATE SECTOR, THE MANNER AND MEANS OF CONGRESSIONAL CONSULTATION, AND THE CRITERIA AND STANDARDS FOR ADMINISTERING EXPORT CONTROLS. FOR EXAMPLE, THE PREVAILING EXECUTIVE BRANCH PHILOSOPHY OF NONINTERVENTION IN THE MARKETPLACE LIMITS EXECUTIVE BRANCH INVOLVEMENT IN U.S. COMPANY-COMMUNIST COUNTRY COMMERCIAL NEGOTIATIONS. GREATER EXECUTIVE BRANCH INVOLVEMENT COULD HELP TO MITIGATE THE PRESENT IMBALANCE IN BARGAINING LEVERAGE ENJOYED BY THE COMMUNIST COUNTRIES. IN OUR OPINION, SUCH INCREASED INVOLVEMENT IS NECESSARY IN ORDER TO FULLY PROTECT U.S. NATIONAL INTERESTS AND TO PERMIT MORE DIRECT AND EFFECTIVE SUPPORT FOR COMMERCIAL INTERESTS.

THERE ARE ALSO TRADE POLICY FORMATION MATTERS WHICH SHOULD RECEIVE CONGRESSIONAL ATTENTION. CONGRESS HAS CONSTITUTIONAL RESPONSIBILITY FOR REGULATING TRADE, AND IT PERIODICALLY LEGISLATES THE ADMINISTRATION OF THIS RESPONSIBILITY TO THE

EXECUTIVE BRANCH. FROM 1967 UNTIL 1974, WHEN THE TRADE ACT WAS ENACTED, THERE WAS NO CONGRESSIONAL DELEGATION OF AUTHORITY TO THE EXECUTIVE BRANCH, SO TRADE ISSUES WERE DISCUSSED OR NEGOTIATED USING PRESIDENTIAL CONSTITUTIONAL AUTHORITY FOR NEGOTIATING WITH FOREIGN GOVERNMENTS. THE PRESIDENT CONDUCTED SUCH DISCUSSIONS AND NEGOTIATIONS WITHOUT SEEKING THE CONSENT OF CONGRESS, BUT GENERALLY KEPT CONGRESSIONAL LEADERS INFORMED THROUGH INFORMAL DISCUSSIONS. IT WAS DURING THIS PERIOD THAT THE MAJOR POLICY POSITIONS AND OVERALL FRAMEWORK FOR EAST-WEST TRADE WERE ESTABLISHED. ALTHOUGH THE TRADE ACT PROVIDES FOR SOME DEGREE OF CONGRESSIONAL INVOLVEMENT IN TRADE WITH NONMARKET ECONOMIES, IT DOES NOT RESOLVE MANY PROBLEMS RELATED TO BILATERAL TRADE AGREEMENTS. FOR EXAMPLE, THE RECENTLY SIGNED LONG-TERM GRAIN SUPPLY AGREEMENT WITH THE SOVIET UNION WAS AN EXECUTIVE AGREEMENT WHICH WAS NOT SUBJECT TO CONGRESSIONAL APPROVAL.

TO CLARIFY THE CONGRESSIONAL ROLE ON TRADE, CONSIDERATION MIGHT BE GIVEN TO ESTABLISHING A JOINT CONGRESSIONAL-EXECUTIVE

BRANCH GROUP TO ADDRESS THE QUESTION OF PRESIDENTIAL AUTHORITY FOR NEGOTIATING TRADE AND ECONOMIC ISSUES. PROCEDURES FOR (1) OBTAINING INFORMATION FROM THE EXECUTIVE BRANCH, (2) RESOLVING QUESTIONS ON THE USE OF EXECUTIVE PRIVILEGE RELATING TO TRADE MATTERS, (3) CONGRESSIONAL PARTICIPATION IN PLANNING FOR TRADE NEGOTIATIONS, AND (4) POSITIONS TO BE TAKEN IN MEETINGS OF BILATERAL COMMISSIONS AND ORGANIZATIONS COULD ALSO BE CONSIDERED.

FURTHER, EAST-WEST TRADE INVOLVES THE ENTIRE SPECTRUM OF POLITICAL, STRATEGIC, AND ECONOMIC ISSUES, AND THESE ARE NOT WITHIN THE JURISDICTION OF ANY SINGLE COMMITTEE OF EITHER HOUSE OF CONGRESS.

FOR EXAMPLE, IN THE SENATE, THE FINANCE COMMITTEE IS CONCERNED WITH THE GRANTING OF MOST-FAVORED-NATION TARIFF TREATMENT AND THE BANKING, HOUSING, AND URBAN AFFAIRS COMMITTEE IS CONCERNED WITH EXIMBANK FINANCING AND EXPORT CONTROLS. IN THE HOUSE, THE WAYS AND MEANS AND THE BANKING

AND CURRENCY COMMITTEES HAVE PARALLEL CONCERNS. THIS SUGGESTS THAT THERE IS NO LEGISLATIVE COUNTERPART TO THE EXECUTIVE BRANCH INTERAGENCY POLICY STRUCTURE WHICH DEALS WITH THE LINKED ISSUES INVOLVED IN EAST-WEST TRADE. CONGRESS, THEREFORE, SHOULD ALSO CONSIDER ESTABLISHING PROCEDURES FOR ADDRESSING THE INTERRELATED ISSUES INVOLVED.

EXPORT PROMOTION AND FINANCING

ONE OF THE GREATEST DIFFICULTIES INHERENT IN TRADE WITH THE CENTRALLY PLANNED ECONOMIES OF THE COMMUNIST COUNTRIES IS THE IMBALANCE FAVORING THE COMMUNISTS WHEN THE WEST'S FREE MARKET POLICIES AND PRACTICES ARE APPLIED.

WITH FEW EXCEPTIONS, THE DEPARTMENT OF COMMERCE HAS ADAPTED ITS NORMAL PROMOTIONAL ACTIVITIES TO THE COMMUNIST MARKETS. THESE EXCEPTIONS OR TAILORED APPROACHES INCLUDED EXECUTIVE-LEVEL AND INDUSTRY-ORGANIZED, GOVERNMENT-APPROVED TRADE MISSIONS. THE APPROPRIATENESS OF EXECUTIVE-LEVEL MISSIONS IS QUESTIONABLE BECAUSE THERE IS AN IMPLIED FAVORITISM ASSOCIATED WITH FIRMS OF THE PARTICIPANTS SELECTED BY THE GOVERNMENT.

THE INDUSTRY-ORGANIZED, GOVERNMENT-APPROVED MISSIONS ARE SUPPOSED TO INCLUDE PRODUCTS OF A SINGLE THEME HAVING GOOD PROSPECTS FOR SALES. HOWEVER, MISSIONS OFTEN ARE CONSTITUTED OF DIVERSE PRODUCT LINES, HAVE CREATED AN ADMINISTRATIVE BURDEN ON EMBASSY OFFICIALS, AND HAVE RESULTED IN FEW SALES.

THE TRADITIONAL TRADE MISSION APPROACH IS NEGATED TO A LARGE EXTENT BECAUSE OF THE CHARACTER OF COMMUNIST MARKETS, WHERE THE PRODUCTS TO BE PURCHASED ARE DICTATED BY NATIONAL PLANNING DECISIONS AND WHERE ALLOCATIONS OF NEEDED FOREIGN EXCHANGE ARE MADE ONLY FOR APPROVED PROJECTS. IN OTHER CASES, DIFFICULTY IN CONTROLLING THE EXHIBITION OF PRODUCTS REQUIRING LICENSES TO EXPORT HAS CAUSED CONFUSION OVER WHETHER PROHIBITED PRODUCTS SUCH AS ADVANCED DESIGN MACHINE TOOLS WERE ACTUALLY EXHIBITED AND OVER THEIR SUBSEQUENT DISPOSITION.

FINANCING PROGRAMS

THE FINANCING FACILITIES OF THE EXPORT-IMPORT BANK OF THE UNITED STATES AND THE COMMODITY CREDIT CORPORATION HAVE PROBABLY BEEN THE MOST SIGNIFICANT STIMULATORS OF TRADE WITH

THE COMMUNIST COUNTRIES. THEY ARE ALSO AMONG THE MOST CONTROVERSIAL ISSUES ASSOCIATED WITH SUCH TRADE.

EXIMBANK FILES FOR THE 16 SOVIET LOANS MADE THROUGH 1974 CONTAIN LITTLE DOCUMENTATION ON THE REASONS EXIMBANK FOUND IT NECESSARY TO MAKE THE LOANS. LACK OF DOCUMENTATION WAS CRITICIZED IN AN EARLIER GAO REPORT WHEREIN WE RECOMMENDED THAT EXIMBANK IMPROVE ITS LOAN-PROCESSING PROCEDURES. BECAUSE OF THE LACK OF WRITTEN CRITERIA FOR DETERMINING WHETHER TO APPROVE OR DENY LOANS, IT IS IMPOSSIBLE TO REACH A JUDGMENT ON WHETHER THE SOVIET UNION HAS RECEIVED PREFERENTIAL TREATMENT IN FINANCING ITS PURCHASES OF U.S. PRODUCTS. THERE ARE INDICATIONS, HOWEVER, THAT OFFICIALS OF EXECUTIVE AGENCIES INTERESTED IN IMPROVING RELATIONS WITH THE SOVIETS HAVE HAD AN INFLUENCE ON EXIMBANK FINANCING DECISIONS. FREQUENT ASSURANCES TO SOVIET OFFICIALS THAT U.S. GOVERNMENT FINANCING WOULD BE FORTHCOMING UNDOUBTEDLY HAS CREATED A MOMENTUM FOR LOAN APPROVALS WHICH EXIMBANK FOUND DIFFICULT TO DENY.

IN 1972 EXIMBANK ENTERED INTO OPERATING AGREEMENTS WITH THE POLISH AND SOVIET UNION BANKS FOR FOREIGN TRADE UNDER WHICH ONLY THOSE BANKS COULD APPLY FOR EXIMBANK PRELIMINARY

COMMITMENTS TO FINANCE POTENTIAL TRANSACTIONS. BECAUSE OF THESE AGREEMENTS, U.S. EXPORTERS, ESPECIALLY SMALL AND MEDIUM-SIZED FIRMS, PROBABLY HAVE BEEN DENIED OPPORTUNITIES TO COMPETE WITH WESTERN COMPETITORS THAT HAVE THE FINANCING SUPPORT OF THEIR GOVERNMENTS.

THE OPERATING AGREEMENTS ARE CONTRARY TO EXIMBANK'S NORMAL PROCEDURE, WHERE THE U.S. EXPORTER OR THE COMMERCIAL INSTITUTION REPRESENTING THE EXPORTER APPLIES FOR PRELIMINARY COMMITMENTS. AS A RESULT, U.S. EXPORTERS ARE EFFECTIVELY PRECLUDED FROM HAVING U.S. GOVERNMENT-SUPPORTED FINANCING PACKAGES IN HAND WHEN NEGOTIATING WITH THE STATE TRADING AGENCIES OF COMMUNIST COUNTRIES. THE AGREEMENTS ALSO PROVIDE AN ENORMOUS SOURCE OF LEVERAGE FOR THESE GOVERNMENTS IN DEALING WITH PROSPECTIVE U.S. SUPPLIERS. COMPANIES COMPLAINED TO US THAT EXIMBANK'S PROCEDURES PERMITTED THE SOVIETS TO PLAY OFF ONE COMPETITOR AGAINST THE OTHER IN ORDER TO OBTAIN THE LOWEST POSSIBLE PRICES.

IN OCTOBER 1972 THE SOVIETS GAVE THE UNITED STATES ASSURANCES THAT CREDIT FACILITIES OF THE SOVIET FOREIGN TRADE BANK AND FOREIGN TRADE ORGANIZATIONS WOULD BE MADE AVAILABLE TO U.S. IMPORTERS. FINANCING WAS TO BE NO LESS FAVORABLE THAN THAT AVAILABLE FROM U.S. GOVERNMENT OR COMMERCIAL SOURCES FOR COMPARABLE TRANSACTIONS. THE AMOUNT OF EXIMBANK CREDITS EXTENDED TO THE SOVIET UNION IS PUBLIC INFORMATION; HOWEVER, THE SOVIETS HAVE NOT PUBLISHED DATA ON CREDIT EXTENDED TO U.S. IMPORTERS NOR HAVE ANY U.S. GOVERNMENT AGENCIES ATTEMPTED TO COMPILE SUCH DATA. ACCORDINGLY, THERE IS NO BASIS FOR DETERMINING THE EXTENT OF RECIPROCITY IN THE FINANCING AREA.

FINALLY, IN OCTOBER 1974, THE UNITED STATES SIGNED AN AGREEMENT, TOGETHER WITH FRANCE, GERMANY, ITALY, JAPAN, AND THE UNITED KINGDOM, WHICH PROVIDED IN PART THAT EXPORT CREDIT TRANSACTIONS OF 3 YEARS OR MORE WOULD NOT BE OFFICIALLY SUPPORTED AMONG THE SIGNATORS NOR WITH OTHER WEALTHY COUNTRIES. ALTHOUGH THE SOVIET UNION IS THE SECOND LARGEST ECONOMIC POWER IN THE

WORLD, IT IS TREATED AS AN EXCEPTION TO THE 3-YEAR, WEALTHY COUNTRY RULE OF THIS AGREEMENT. EXIMBANK'S 1972 OPERATING AGREEMENTS, DISCUSSED EARLIER, COULD EFFECTIVELY DETER THE UNITED STATES FROM ENTERING INTO AN AGREEMENT WITH OTHER WESTERN NATIONS WHICH WOULD CALL FOR A SEPARATE SET OF TERMS FOR COMMUNIST COUNTRIES.

THE GRANTING OF EXIMBANK CREDITS FOR TRANSACTIONS WITH COMMUNIST COUNTRIES HAVE BEEN MINIMAL SINCE MID-1974. PASSAGE OF THE EXIMBANK AND TRADE ACTS IN DECEMBER 1974 LINKED THE PROVISION OF U.S. EXPORT CREDITS TO A REQUIREMENT THAT COMMUNIST COUNTRIES MUST ENTER INTO BILATERAL TRADE AGREEMENTS WITH THE UNITED STATES CONDITIONED ON LIBERALIZING THEIR EMIGRATION POLICIES. AS A RESULT, ONLY POLAND AND ROMANIA ARE CURRENTLY ELIGIBLE FOR EXIMBANK FINANCING. NEVERTHELESS, SHOULD CONDITIONS EXIST FOR RENEWING EXIM PARTICIPATION, WE BELIEVE IT IS IMPORTANT THAT ACTIONS BE TAKEN TO OVERCOME THE "IMBALANCES" WE HAVE NOTED.

EXPORT CONTROL AND TECHNOLOGY TRANSFER

COMMODITIES AND TECHNOLOGY CONSIDERED OF STRATEGIC IMPORTANCE ARE SUBJECT TO U.S. AND INTERNATIONAL SECURITY EXPORT CONTROLS. U.S. CONTROLS APPLY TO DIRECT EXPORTS OF COMMODITIES AND TECHNICAL DATA AND TO REEXPORTS OF FOREIGN MANUFACTURE OF END PRODUCTS USING U.S.-ORIGINATED PARTS OR BASED ON U.S.-ORIGINATED TECHNICAL DATA.

THE MUTUAL DEFENSE ASSISTANCE CONTROL ACT OF 1951 AND THE EXPORT ADMINISTRATION ACT OF 1969, AS AMENDED, PROVIDE THE LEGISLATIVE AUTHORITY FOR CONTROLLING U.S. EXPORTS TO AND EXCHANGES WITH COMMUNIST COUNTRIES. THE UNITED STATES ALSO PARTICIPATES AS A MEMBER IN THE MULTINATIONAL COORDINATING COMMITTEE (COCOM) SYSTEM FOR CONTROLLING STRATEGIC EXPORTS.

COCOM WAS CREATED IN 1949 TO EFFECT A COMMON WESTERN EMBARGO ON SHIPMENTS OF STRATEGIC GOODS TO COMMUNIST COUNTRIES. ITS MEMBERSHIP CONSISTS OF NATO COUNTRIES (EXCEPT ICELAND) PLUS JAPAN. COCOM LISTS AND PERIODICALLY REVIEWS ITEMS WHICH ARE MUTUALLY AGREED TO BE OF STRATEGIC SIGNIFICANCE AND SUBJECT TO

EXPORT CONTROLS. INSTEAD OF THE COCOM LISTS BEING BASED ON U.S. DOMESTIC EXPORT CONTROLS, AS THEY ONCE WERE, U.S. CONTROLS ARE NOW MODIFIED IN ACCORDANCE WITH REVIEWS OF COCOM LISTS. THE RELATIVELY FEW ITEMS REMAINING UNDER U.S. STRATEGIC CONTROLS (ABOUT 500) HAVE A MORE DIRECT MILITARY IMPACT THAN PREVIOUSLY. SINCE 1969, HOWEVER, DIPLOMATIC INITIATIVES RATHER THAN TECHNICAL CONSIDERATIONS HAVE REQUIRED CONTINUED RELAXATION OF THOSE CONTROLS.

THERE IS NO BASIC INTERAGENCY AGREEMENT ON CRITERIA FOR DETERMINING WHICH GOODS SHOULD BE CONTROLLED AND WHETHER FOREIGN POLICY, COMMERCIAL, OR DEFENSE CONSIDERATIONS SHOULD DOMINATE TRADE POLICY. COMMERCE, DEFENSE, AND STATE, THE PRINCIPAL AGENCIES INVOLVED, HAVE FUNDAMENTAL DIFFERENCES REGARDING LICENSING STANDARDS AND PROCEDURES TO BE FOLLOWED IN ADMINISTERING EXPORT CONTROLS. THESE DIFFERENCES HAVE RESULTED IN A CONTINUOUS SERIES OF AD HOC AND INCONSISTENT DECISIONS IN STRATEGIC EXPORT CONTROL CASES. FOR EXAMPLE,

DIVERSE LICENSING STANDARDS ARE APPLIED TO SIMILAR ELECTRONIC COMPONENTS IN DIFFERENT PRODUCTS SUCH AS COMPUTERS IN TELECOMMUNICATIONS EQUIPMENT AND NUMERICALLY CONTROLLED MACHINE TOOLS.

COMMERCE'S OFFICE OF EXPORT ADMINISTRATION IS RESPONSIBLE FOR ADMINISTERING AND ENFORCING EXPORT CONTROLS REQUIRED BY THE EXPORT ADMINISTRATION ACT. THIS OFFICE'S EFFECTIVENESS IS SEVERELY LIMITED BY STAFFING, WHICH HAS BEEN SYSTEMATICALLY REDUCED SINCE 1971, AND BY POLICY DIFFERENCES BETWEEN ITS DIVISIONS OVER WHAT SHOULD BE EXPORTED IN SEVERAL IMPORTANT PRODUCT CATEGORIES, SUCH AS MACHINE TOOLS AND COMPUTERS. THE OFFICE'S ABILITY TO INVESTIGATE ALLEGED DOMESTIC VIOLATIONS IS LIMITED BECAUSE OF THE COMPLEXITY OF THE TASK AND THE LIMITED NUMBER OF INVESTIGATORS. ITS COMPLIANCE ACTIVITIES OVERSEAS ARE SERIOUSLY IMPAIRED BY HAVING TO RELY ON THE DEPARTMENT OF STATE, WHICH HAS CONSCIOUSLY REDUCED ITS EXPORT CONTROL STAFF POSITIONS AND ACTIVITIES AND WHICH DOES NOT INITIATE ANY COMPLIANCE CHECKS ON ITS OWN.

STATE'S OFFICE OF EAST-WEST TRADE IS RESPONSIBLE FOR REPRESENTING U.S. INTERESTS IN COCOM. DIPLOMATIC CONSIDERATIONS DOMINATE ITS THINKING ON EXPORT CONTROLS, WITH LESS CONSIDERATION GIVEN TO COMPLEX TECHNICAL ISSUES. ALTHOUGH THE OFFICE IS ASSISTED BY TECHNICAL TASK GROUPS, WHO CONSIDER THE TECHNICAL PARAMETERS OF SPECIFIC COMMODITIES SUBJECT TO COCOM EXPORT CONTROLS, STATE IS USUALLY NOT REPRESENTED ON THESE GROUPS.

TWO INTERDEPARTMENTAL COMMITTEES COORDINATE EXPORT CONTROL POLICY. THE ADVISORY COMMITTEE ON EXPORT POLICY, CHAIRED BY COMMERCE, ADMINISTERS U.S. EXPORT CONTROLS. THE ECONOMIC DEFENSE ADVISORY COMMITTEE, CHAIRED BY STATE, CONDUCTS U.S. PARTICIPATION IN COCOM. TWO SEPARATE INTERAGENCY REVIEW COMMITTEES SEEM UNNECESSARY. WITH IMPROVED OPERATING PROCEDURES THE ADVISORY COMMITTEE ON EXPORT POLICY COULD ADEQUATELY ADMINISTER BOTH U.S. AND COCOM EXPORT CONTROLS.

MANY U.S. OFFICIALS FAMILIAR WITH EXPORT CONTROLS HAVE LITTLE CONFIDENCE IN COCOM AS AN EFFECTIVE MULTINATIONAL

STRATEGIC CONTROL MECHANISM. COMPETITION FOR BILATERAL TRADE WITH COMMUNIST COUNTRIES AMONG COCOM COUNTRIES HAS INTENSIFIED WITH DETENTE, WHILE THE MULTILATERAL CONSENSUS ON EXPORT CONTROLS HAS NARROWED. FOR EXAMPLE, U.S. POLICY HAS PERMITTED THE EXPORT OF SEMICONDUCTOR-MANUFACTURING TECHNOLOGY TO POLAND AND ROMANIA WHICH IS GREATER THAN THEIR CIVILIAN REQUIREMENTS. THIS WAS DONE IN RESPONSE TO FOREIGN COUNTRY ULTIMATUMS TO WITHDRAW FROM COCOM. U.S. EFFORTS TO RESTRICT SIMILAR EXPORTS ELSEWHERE IN EASTERN EUROPE, WHERE WE HAVE NOT BEEN FACED WITH ULTIMATUMS, ARE NOT UNDERSTOOD. ADDITIONALLY, U.S. BEHAVIOR IN COCOM HAS CAUSED OTHER MEMBERS TO THINK THE UNITED STATES IS USING ITS RIGHT TO APPROVE OTHER MEMBERS' REQUESTS FOR EXCEPTIONS TO PURSUE ITS OWN COMMERCIAL OBJECTIVES. THESE SUSPICIONS STEM FROM SUCH ACTIONS AS THE UNITED STATES SEEKING APPROVAL OF COCOM MEMBERS TO EXPORT U.S. PRODUCTS WHILE DISAPPROVING SIMILAR REQUESTS BY OTHER COCOM COUNTRIES. ACCORDINGLY, THE UNITED STATES ABILITY TO MAINTAIN A CONSENSUS ON EXPORT CONTROL STANDARDS WITH OTHER COUNTRIES HAS BEEN GREATLY REDUCED.

THE UNITED STATES HAS, OVER THE YEARS, SOUGHT TO MAINTAIN A MILITARY TECHNOLOGY GAP WITH COMMUNIST COUNTRIES, PARTLY THROUGH CAREFULLY CONTROLLING THE EXPORT OF STRATEGIC TECHNOLOGIES. THE IMPACT OF TECHNOLOGY TRANSFERS ON COMMUNIST CAPABILITIES AND THE EXTENT TO WHICH A MILITARY TECHNOLOGY GAP HAS BEEN SUSTAINED CANNOT BE DETERMINED IN ANY MEANINGFUL WAY. IT IS CLEAR, HOWEVER, THAT TECHNOLOGY TRANSFER REGULATIONS CANNOT BE EFFECTIVELY ENFORCED UNDER THE PRESENT CONTROL SYSTEM.

THE THREE PRINCIPAL MEANS OF TRANSFERRING TECHNOLOGY ARE THROUGH GOVERNMENT-TO-GOVERNMENT AGREEMENTS, PRIVATE SECTOR-TO-GOVERNMENT AGREEMENTS, AND REGULAR COMMERCIAL CONTRACTS. UNDER PRESENT REGULATIONS, THE PRIVATE SECTOR MUST DETERMINE WHETHER THE TECHNOLOGY IT SEEKS TO TRANSFER REQUIRES AN EXPORT LICENSE AND THUS IS SUBJECT TO GOVERNMENT REVIEW. COMMERCE'S CONTROLS ARE PREDICATED ON THE VOLUNTARY COMPLIANCE WITH REGULATIONS THAT PROVIDE LITTLE CLEAR-CUT GUIDANCE. THE GOVERNING REGULATIONS APPLICABLE TO THE PRIVATE SECTOR ALLOW GREAT DISCRETION AND

LATITUDE IN DETERMINING WHAT TECHNOLOGIES REQUIRE LICENSING. EXECUTIVE BRANCH AGENCIES WHICH ARE RESPONSIBLE FOR MONITORING THE MANY WAYS IN WHICH SUCH TRANSFERS CAN OCCUR DO NOT REQUIRE PRIOR NOTIFICATION OF EVEN POSSIBLE SENSITIVE TECHNOLOGIES THAT MIGHT BE TRANSFERRED NOR REQUIRE THAT COMPANIES SUBMIT INFORMATION ABOUT AGREEMENTS ENTERED INTO OR TECHNOLOGIES EXCHANGED. THUS, MANY OFFICIALS BELIEVE THERE IS NO ASSURANCE THAT SIGNIFICANT TECHNOLOGY SEEPAGE HAS NOT OCCURRED. FOR EXAMPLE, EXECUTIVES OF COMPUTER COMPANIES AND TRADE ANALYSTS HAVE CALLED ATTENTION TO SOVIET CONTRACTING PRACTICES FOR COMPETITIVE REBIDDING OF PROJECTS IN WHICH DETAILED SPECIFICATIONS OF VARIOUS FIRMS ARE COMPARED AGAINST EACH OTHER FOR AN OPTIMAL MIX OF THE TECHNOLOGY INVOLVED. TECHNICAL DATA NECESSARY IN MAKING A SALES BID OR OFFER MAY BE EXPORTED TO COMMUNIST COUNTRIES UNDER A GENERAL LICENSE WHICH DOES NOT RECEIVE GOVERNMENT REVIEW AND APPROVAL.

RECIPROcity OF BENEFITS

IN THE U.S. STRATEGY TO IMPROVE RELATIONS WITH COMMUNIST COUNTRIES, TRADE LIBERALIZATION HAS BEEN SEEN AS AN INCENTIVE

FOR IMPROVED COOPERATION IN POLITICAL AND STRATEGIC RELATIONS. SUCH GENERAL DIPLOMATIC OBJECTIVES ARE FREQUENTLY CITED AS JUSTIFICATION FOR U.S. TRADE INITIATIVES; HOWEVER, THERE IS NO EVIDENCE, FOR EXAMPLE, THAT ANY SOVIET FOREIGN POLICY CONCESSIONS WERE SOUGHT, OR OBTAINED BY THE EXECUTIVE BRANCH IN EXCHANGE FOR THE 1972 TRADE AGREEMENT, 1974 LONG-TERM ECONOMIC COOPERATION AGREEMENT, EXTENSION OF CREDITS, OR FAVORABLE DECISIONS ON EXPORT LICENSES. THE LINKAGE CONCEPT IMPLICITLY ASSUMES EFFECTIVE CENTRAL CONTROL OVER THE SOURCES OF U.S. LEVERAGE AND SOME BUREAUCRATIC CONSENSUS ON WHEN AND HOW TO APPLY THIS LEVERAGE, WHICH PRESENTLY DOES NOT EXIST.

THE EXECUTIVE BRANCH HAS DEVOTED LITTLE ATTENTION OR EFFORT TO TRYING TO MODIFY THE EFFECTS OF SOVIET BUYING POWER ON U.S. PRIVATE ENTERPRISE AND ON MATTERS OF NATIONAL INTEREST. WHEN A CENTRALLY PLANNED ECONOMY LIKE THE SOVIET UNION BUYS FROM A MARKET ECONOMY, IT MAINTAINS A MONOPOLY POSITION WITHIN ITS OWN ECONOMY AND USUALLY FACES A MULTIPLICITY OF COMPETING

SUPPLIERS. THE RESULTING IMBALANCE OF BARGAINING LEVERAGE FAVORS THE BUYER AND HAS A POWERFUL INFLUENCE ON THE BALANCE OF COMMERCIAL BENEFITS BEING ACHIEVED. THE U.S. VENTURE INTO THE SOVIET MARKET HAS RESULTED IN SUBSTANTIAL SALES FOR U.S. COMPANIES AND AN IMPORTANT BALANCE-OF-TRADE INCREMENT, BUT A TRUE NORMALIZATION OF COMMERCIAL RELATIONS AWAITS AN EFFECTIVE RESPONSE TO THE PROBLEM OF NEGOTIATING IMBALANCE.

THE EXECUTIVE BRANCH HAS APPLIED THE TRADITIONAL TRADE POLICY OBJECTIVE OF MARKET ACCESS TO U.S.-SOVIET TRADE AND HAS NOT ACHIEVED GENUINE COMMERCIAL RECIPROCITY IN THE RELATIONSHIP. THE BASIC TRADE AGREEMENTS WERE DESIGNED TO ESTABLISH A POSITION FOR U.S. COMPANIES IN THE SOVIET MARKET, BUT DO NOT CONTAIN COMMITMENTS OR PRINCIPLES INTENDED TO MODIFY THE EFFECTS OF SOVIET BUYING POWER IN DIRECT PURCHASES OF INDUSTRIAL EQUIPMENT, TECHNOLOGY, OR AGRICULTURAL COMMODITIES. ONLY THE RECENTLY SIGNED LONG-TERM GRAIN SUPPLY AGREEMENT RECOGNIZES TO SOME EXTENT THE NEED TO MODIFY THE EFFECTS OF SOVIET BUYING POWER. THE BASIC DIFFERENCES BETWEEN THE TWO ECONOMIC SYSTEMS

LIMITS BOTH THE NEGOTIATING LEVERAGE OF U.S. FIRMS AND THE ABILITY OF THE U.S. GOVERNMENT TO SUPPORT COMMERCIAL INTERESTS OR PROTECT BROAD NATIONAL INTERESTS. WITHIN THE EXECUTIVE BRANCH, THERE IS LITTLE APPRECIATION FOR OR ADJUSTMENT TO THE UNIQUE AND DIFFICULT PROBLEMS OF TRADE BETWEEN THE TWO DIFFERENT ECONOMIC SYSTEMS.

A FURTHER SOURCE OF SOVIET BARGAINING POWER CONCERNS THE LACK OF COORDINATION AMONG THE MAJOR WESTERN COUNTRIES (THE UNITED STATES, EUROPEAN COMMUNITY, AND JAPAN) IN THEIR PURSUIT OF EXPANDED EAST-WEST TRADE. THERE ARE SIGNIFICANT OPPORTUNITIES FOR COMMON WESTERN APPROACHES TO SUCH ISSUES AS EXPORT CREDIT, SOVIET TRADE PRACTICES, AND DESTRUCTIVE CORPORATE COMPETITION FOR THE SOVIET MARKET. HOWEVER, THESE OPPORTUNITIES HAVE NOT BEEN REALIZED AS INDIVIDUAL WESTERN COUNTRIES HAVE NEGOTIATED EXCLUSIVE BILATERAL ARRANGEMENTS WITH THE SOVIETS DESIGNED TO ACHIEVE SPECIAL MARKET PREFERENCE FOR THEIR NATIONAL COMPANIES. FOR EXAMPLE, HARMONIZATION AND OTHER COOPERATIVE EFFORTS ON

EXPORT FINANCING HAVE FAILED CONSISTENTLY DESPITE EFFORTS SINCE THE LATE 1950s.

GIVEN THIS LACK OF WESTERN COOPERATION AND APPARENT SOVIET RESISTANCE TO CHANGE IN ITS TRADE PRACTICES, THE BASIC RESPONSE TO THE IMBALANCE IN COMMERCIAL BENEFITS MUST COME THROUGH MORE ACTIVE U.S. GOVERNMENT PARTICIPATION IN THE TRADE RELATIONSHIP. THE PRESENT LACK OF GOVERNMENT CONTROL OVER AND DIRECT SUPPORT AND ADVICE TO U.S. FIRMS PRECLUDES THE WITHHOLDING OF POTENTIAL BENEFITS IN EXCHANGE FOR IMPROVED TRADE PRACTICE AND LEAVES UNCHANGED THE SOVIET ABILITY TO MANIPULATE THE COMPETITION. THUS, THE EXECUTIVE BRANCH'S ABILITY TO FULLY PROTECT U.S. NATIONAL INTERESTS IS COMPROMISED IN SUCH AREAS AS STABILIZED COMMODITY MARKETS AND PREVENTION OF STRATEGIC TECHNOLOGY SEEPAGE.

WE ARE MAKING A SERIES OF RECOMMENDATIONS TO THE COGNIZANT EXECUTIVE BRANCH AGENCIES AND POLICY COUNCILS DIRECTED TOWARD IMPROVING THEIR ABILITIES TO BETTER RESPOND TO THE DIFFICULT PROBLEMS INHERENT IN THE BILATERAL AND MULTILATERAL RELATIONSHIPS INVOLVED IN EAST-WEST TRADE.

OUR RECOMMENDATIONS INCLUDE (1) GRANTING THE EAST-WEST FOREIGN TRADE BOARD THE RESPONSIBILITY FOR DETERMINING BROAD POLICY OBJECTIVES AND FOR REPORTING THE RESULTS OF ITS DELIBERATIONS DIRECTLY TO THE PRESIDENT, (2) RENEGOTIATING THE BASIC AGREEMENTS ON FINANCING PROCEDURES BETWEEN EXIMBANK AND SOVIET AND POLISH BANKS FOR FOREIGN TRADE, AND (3) STRENGTHENING THE ROLE OF THE DEPARTMENT OF COMMERCE IN UPHOLDING AND LICENSING NATIONAL SECURITY-CONTROLLED COMMODITY EXPORTS AND ALTERING THE DEPARTMENT OF STATE'S ROLE TO CONFORM WITH THE LEAD-ROLE CONCEPT FOR COMMERCE.

IN COMMENTING ON OUR DRAFT REPORT, THE EXECUTIVE BRANCH FELT WE HAD SUCCEEDED IN IDENTIFYING SOME OF THE KEY ISSUES AND DEVELOPING SOME RECOMMENDATIONS WITH WHICH IT COULD AGREE. IT FELT THAT THE REPORT GENERALLY DID NOT ACCURATELY PORTRAY THE SITUATION AND ARGUED THAT EFFECTIVE POLICIES AND PRACTICES WERE IN EXISTENCE. WE CONTINUE TO BELIEVE, HOWEVER, THAT

EXECUTIVE BRANCH ACTIONS AND CONGRESSIONAL CONSIDERATION
CONSISTENT WITH OUR RECOMMENDATIONS ARE NEEDED.

THIS COMPLETES MY STATEMENT. I WOULD BE PLEASED TO TRY
TO ANSWER ANY QUESTIONS YOU MIGHT HAVE.