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EAST-WEST TRADE

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HEARINGS

BEFORE THE

COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE

EIGHTY-NINTH CONGRESS

FIRST SESSION

PART II

FEBRUARY 24, 25, AND 26, 1965

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CONTENTS

Statements of—

	Page
Berman, Harold J., professor of law, Harvard University, Boston, Mass	105
Blackie, William, president, Caterpillar, Inc	22
Danielian, N. R., president, International Economic Policy Association, Washington, D.C	170
Dobriansky, Dr. Lev E., department of economics, Georgetown University, Washington, D.C	94
Frank, Isaiah, Clayton professor of international economics, School of Advanced International Studies, the Johns Hopkins University, Washington, D.C	133
Hardy, Howard, president, Great Plains Wheat, Inc., Garden City, Kans	67
Haynes, Elliott, executive vice president, Business International Corp	56
Javits, Hon. Jacob K., Senator from New York	2
Kennan, Dr. George F., institute for advanced studies, Princeton University, Princeton, N.J	147
Meyer, John M., Jr., executive vice president, Morgan Guaranty Trust Co., New York, N.Y	83
Nickerson, A. L., chairman of the board, Socony-Mobil	10
Page, W. H. senior vice president, Morgan Guaranty Trust Co., New York. N.Y	83
Insertions for the record:	
Table: Soviet bloc petroleum production	10
Table: Volume of Soviet bloc oil exports to the free world	11
Table: Oil exports from U.S.S.R. in 1963	13
Article from Time magazine	39
Memorandum dealing with Presidential waiver provisions of certain laws relating to East-West trade	146
Letters and statements for the record:	
Letter to Senator Fulbright and related report from Curtis G. Benjamin, McGraw-Hill Book Co	199
Letter to Senator Fulbright from William Rhea Blake, National Cotton Council of America	204
Letter to Committee on Foreign Relations from Neden Cummings, Continental Illinois National Bank & Trust Co. of Chicago	205
Letter to Senator Fulbright from Roger C. Damon, president, the First National Bank of Boston	207
Letter and related material from Gen. George H. Decker, president, Manufacturing Chemists' Association	208
Letter to Senator Fulbright from Gordon M. Freeman, international president, International Brotherhood of Electrical Workers	214
Statement by J. P. Gaines, executive vice president, the Rice Millers' Association	214
Statement of the National Grange by Harry L. Graham, legislative representative	216
Letter to Senator Fulbright from William H. Heflin, president, Western Electronic Manufactures Association	219
Letter to Senator Fulbright from Douglas Hewitt, executive secretary, Farm & Industrial Equipment Institute	220
Letter to Senator Fulbright from Anson Horning, president, National Association of Wheat Growers	220
Letter to Senator Fulbright with related study from William Kolodney, executive director, American Fur Merchants' Association, Inc	221
Statement of Robert C. Liebenow, president, Chicago Board of Trade	229

Letters and statements for the record—Continued
Page
Letter and related material from Janine T. Lien, Business International 232
Letter to Senator Fulbright from George Meany, president, American Federation of Labor & Congress of Industrial Organizations, enclosing a statement of the AFL–CIO executive council 235
Statement of Dr. Hans. J. Morgenthau, Albert A. Michelson distinguished service professor of political science and modern history, the University of Chicago 237
Letter from A. L. Nickerson, chairman of the board, Socony-Mobil Oil Co 238
Letter to Senator Fulbright from Robert M. Norris, president, National Foreign Trade Council, Inc 240
Letter to Senator Fulbright from Julian C. Pease, president, National Machine Tool Builders' Association 242
Letter to Senator Fulbright from Jacob S. Potofsky, Amalgamated Clothing Workers of America 243
Letter and statement from James A. Ramsey, president, International Affairs Associates 244
Letter to Senator Fulbright with related statement from Walter P. Reuther, president, International Union, United Automobile, Aerospace, & Agricultural Implement Workers of America 248
Letter to Senator Fulbright with related statement from Ben D. Segal, director, International Union of Electrical Radio & Machine Workers 251
Letter to Senator Fulbright from Charles B. Shuman, president, American Farm Bureau Federation 253
Letter to Senator Fulbright from Edward F. Snyder, Friends Committee on National Legislation 253
Letter and statement from Howard R. Stephenson, executive director, the San Francisco Area World Trade Association 254
Statement of Robert Strausz-Hupé, director, Foreign Policy Research Institute, University of Pennsylvania 258
Letter to Senator Fulbright from Stuart G. Tipton, president, Air Transport Association 265
Statement of M. P. Venema, chairman of the board, Universal Oil Products Co 266

APPENDIXES

A. Department of State memorandum on credits from free world to Communist countries 269
B. Department of State memorandum on outstanding obligations of, and credits for Soviet bloc countries, Yugoslavia, and Cuba 270
C. Department of State memorandum concerning most-favored-nation treatment by the United States of imports from Communist countries 274
D. Department of State memorandum concerning U.S.S.R. tariff treatment of U.S. goods 276
E. Department of State Bureau of Intelligence and Research memorandum, October 23, 1964, "The Foreign Trade of the Soviet Union in 1963" 276
F. Department of State memorandum on Soviet bloc exports of oil to the free world 284
G. U.S. trade with principal countries of eastern Europe, 1962, 1963, and January–September 1964 287
H. Free world trade with Sino-Soviet bloc, 1962, 1963, and January–June 1964 295
I. Total free world trade with the Sino-Soviet bloc, 1948 and 1959–63 295
J. Free world exports to the Sino-Soviet bloc, by country groups and areas, 1962 and 1963 and January–June 1964 296
K. Free world imports from the Sino-Soviet bloc, by country groups and areas, 1962 and 1963, and January–June 1964 297
L. Trade of NATO countries with Communist countries, 1963 298
M. International trade of European Communist countries, 1963 298

EAST-WEST TRADE

WEDNESDAY, FEBRUARY 24, 1965

UNITED STATES SENATE,
COMMITTEE ON FOREIGN RELATIONS,
Washington, D.C.

The committee met, pursuant to notice, at 10 a.m., in room 4221, New Senate Office Building, Senator J. W. Fulbright (chairman) presiding.

Present: Senators Fulbright, Lausche, Symington, and Williams.

The CHAIRMAN. The committee will come to order.

CONTINUATION OF 1964 HEARINGS

In March and April of last year, the Committee on Foreign Relations held five hearings on the general subject of East-West trade and received testimony from the Secretaries of State, Treasury, Commerce, and Agriculture, and the President of the Export-Import Bank. Due to the pressure of other business, however, the committee was unable to complete its hearings, and did not have an opportunity to hear testimony from nongovernmental witnesses.

The three hearings which are scheduled for today, Thursday, and Friday will continue the committee's consideration of the important subject of East-West trade. They will also give committee members an opportunity to explore points raised by businessmen, bankers, and academic experts whose views are contained in a compilation published as a committee print last November.

TRADE DEVELOPMENTS IN THE LAST YEAR

A number of significant developments in trade between the free world and Communist countries have taken place since last year. Long-term credits have been made available by our allies to finance sales of complete plants to the U.S.S.R. and the satellites; the U.S. wheat shipments to the Soviet Union have been completed and other sales of farm products have been made—$11 million in soybeans, for example, in the last month; Rumania has been accorded relaxed export control treatment comparable to that for Yugoslavia and was made eligible for Export-Import Bank credit guarantees; satellite discontent over bloc trade policies is being manifested by increased trade overtures toward the West; and the Soviet Union has made it clear that she seeks expanded trade with the United States.

Moreover, President Johnson, in his state of the Union message, said that ways are being explored to increase trade with the Soviet Union and other nations of Eastern Europe, and that the Congress would

be advised of the findings. In this connection, there is a possibility that the President will ask the Congress to consider legislation designed to liberalize restrictions on East-West trade.

All of these developments raise important policy questions which are of proper concern to the Committee on Foreign Relations. Trade policy cannot be divorced from political policies in our relations with Communist countries, and the committee is concerned with the foreign policy implications of any proposals relating to East-West trade. Through this series of hearings, it is hoped that the committee will obtain valuable information which will be helpful to the Congress and the public in considering any future legislative and administrative action in this area.

We are very pleased this morning to have the distinguished senior Senator from New York, Senator Javits, who will open the hearings.

STATEMENT OF HON. JACOB K. JAVITS, A U.S. SENATOR FROM THE STATE OF NEW YORK

Senator JAVITS. Mr. Chairman, I would not presume to testify upon this issue if I just had my own opinions as a Senator to lay before the committee. But I have had very considerable opportunity to work on it in a rather specialized way and with the Chair's permission, I would like to detail that first.

LONGTIME INTEREST IN FOREIGN TRADE MATTERS

In 1961, at the direction of the chairman of the Joint Economic Committee, then Representative Patman, I undertook with a group of experts a trip to the Soviet Union and Poland in order to look into this question. I note for the record that my report "The Political Stakes of East-West Trade" made as a result of that fact-finding mission, dated 1962, is available as a joint committee print for study if any of the members desire it.

Also, Mr. Chairman, for several years, from 1957 to 1964, inclusive, I served as chairman of the Economic Committee of the NATO Parliamentarians' Conference, where I had the great privilege of working closely with the present occupant of the chair, as well as others, on the question of East-West trade. Our committee had the benefit of the views of the representatives of the NATO countries, parliamentary representatives, and also of reports and resolutions by that committee and by the NATO Parliamentarians' Conference, giving some indication of the sentiment of our NATO allies with respect to this matter.

In addition, Mr. Chairman, I have taken a rather studious look at the picture over many years, with the aid of my own experience as a member of the Senate Banking and Currency Committee and the House Foreign Affairs Committee before that and with the aid of specialized experts in the field. I also call attention to the Congressional Record of October 3, 1963, which will show a very detailed analysis which I made of the facts and figures and the arguments pro and con on expansion of East-West trade.

It is with that background, Mr. Chairman, that I shall testify rather briefly this morning, and would appreciate it if my full statement, which includes the text of a draft code of fair practices, would be printed in the record of these hearings.

SUGGESTIONS FOR EAST-WEST TRADE POLICIES

My experience, Mr. Chairman, leads me to believe that the most urgent need in East-West trade is for an agreement between the United States and the principal industrially developed nations of the free world to harmonize East-West trade policies and to establish a code of fair trade practices to be followed in carrying out these policies.

I also believe that expanded trade in nonstrategic goods between Western nations and the European Soviet bloc can have a useful impact on overall East-West relations, and is definitely indicated for the future. It is also apparent, in my view, that there is a definite limit to increased United States-Soviet bloc trade, a limit imposed by requirements of U.S. foreign policy, by existing U.S. legislation, by the nature of the Soviet bloc economy and by the traditional trade relationship between the United States and the U.S.S.R.

While many Western nations, including the United States, have increased trade in nonstrategic goods with the European Soviet bloc in the last 5 years, this increase has taken place in a policy vacuum, with the drive for expansion being dictated principally by economic considerations.

The enormous political value of a common Western economic policy toward the Soviet bloc, however, dictates that the United States take the leadership in the formulation of a code for the conduct of Western trade policy in this area. This code must realistically deal with such factors as a resurgent Europe, with the loosening of ties between the European Communist satellite nations and the U.S.S.R., and with the changing attitude of the American people and the U.S. Government toward trading in civilian nonstrategic goods with the Soviet bloc.

Mr. Chairman, I would like to interject two thoughts at this point.

POLITICAL IMPORTANCE TO UNITED STATES OF EXPANDED TRADE

One, the main attraction of a new East-West trade policy for the United States is, in my judgment, political rather than economic. To our allies this policy is based principally on economic considerations. That is very important, because we can afford to stretch a point or two on the materials involved in such trade, on terms and on other things, in order to get agreement on this question. In economic terms, it does not mean a great deal to us either way. We never did enjoy, except in the days when Russia was first building up its industrial potential in the 1928–31 period, any broad trade with the Soviet Union.

The absence of a common Western policy on East-West trade is a very disruptive factor, especially in the Atlantic Alliance. Unfortunately, we have not been able to do much with our allies on this. For my judgment, the reestablishment of a common Western policy on this should have a very high priority. I believe, and I am not in any way being critical, Mr. Chairman—I know the number of priorities the State Department has—I believe they have an excellent chance for success in this matter if it is really undertaken as a very strong drive.

The other thought, Mr. Chairman, is that in my own experiences with the leaders in the Soviet Union, especially the economic leaders,

inflexible restrictions on nonstrategic trade is one of the most demeaning aspects of U.S. policy. This gives them that grain of entitlement. It is the barest grain, but it is all they need for propaganda to treat us as merchants rather than as statesmen. They are constantly telling us, well, here is our shopping list, what do you want to sell? What's the use of talking about principles involved? We can buy anywhere, why don't you sell it to us, and so on. Most often, that turns out to be true.

So for both those reasons, I think this matter is entitled to very high priority consideration. Considering the prestige of this committee, Mr. Chairman, I think it is a splendid contribution to the national interest that the committee has taken the matter up at this time.

FAIR TRADE PRACTICE CODE FOR INTERNATIONAL TRADE

As a practical technique for bringing about a successful negotiation, I suggest, and this is not just my suggestion—it has been recommended by the Economic Committee of the NATO Parliamentarians and by the Plenary Conference as well—the adoption of a code of fair trading practice as a starting point for negotiations toward a unified Western policy for trading with the Soviet bloc. This code would have the effect of limiting the scope of disruptive economic activities by the Soviet bloc and at the same time would prescribe a more satisfactory basis for commercial dealings between market economy countries like our own and those of our allies and state trading countries. I am fully cognizant of the fact that the Western response to the problems of trade with the Soviet bloc must continue to be varied and flexible, and that there is no single solution to the problem of protecting the national interest in this field. But I suggest adoption of this code as a satisfactory basis for negotiations with our industrialized allies toward closing the policy gap among us in this vital area.

This code need not try to cover all questions at issue in East-West trade. It should serve as a guide and as a unifying influence for free world countries in their bilateral trade negotiations with bloc countries. It might evolve into a concrete set of proposals that could be presented for agreement to the bloc countries and be incorporated in future trade agreements between bloc countries and Western nations.

It would be advisable to first explore such a proposal with the countries alined in the North Atlantic Treaty Organization since they include most of the principal industrialized countries having important trading relationships with the Communist bloc. At a suitable future date, the adherence of all OECD countries to the code should also be sought.

OUTLINE OF FAIR TRADING PRACTICE CODE

I would like to discuss briefly the principal components of this proposed code:

Now, I will not endeavor, Mr. Chairman, to detail every item of this code except to give the Chair the headings, which I had in mind in respect of it.

1. *Facilitating access to markets.*—Obviously, if you are going to do business in the Communist bloc countries, you have to be able to move around, produce your samples, and so forth.

2. *Patent and copyright protection.*—This is one of the most vexing aspects of relations between the United States and the Soviet Union. They do not respect, in the main, patents and copyrights. Again, my own experience indicates that it is likely to be one of the matters which is the easiest to agree upon within the context of a broadened trade policy.

3. *Rules of state trading.*—One of the principal obstacles in the normal conduct of trade relations with Soviet bloc countries is the unequal relationship between state enterprises and private corporations. In the negotiation of contracts between them, it is essential that Soviet bloc state trading organizations give up their exclusive or special privileges and immunities stemming from their position as state enterprises and negotiate such contracts on the basis of commercial considerations.

4. *Dumping and market disruption.*—Soviet agreement on adherence to GATT rules pertaining to dumping would be most important to allay Western fears of a repetition of past Soviet actions with respect to the international tin, flax, aluminum, and oil markets.

5. *Settlement of commercial disputes.*—This question is very important, because arbitration is an established technique in Western trade and it would be very important to make an established technique with respect to the negotiations with the Soviet Union.

6. *Reexportation.*—A system of safeguards with respect to the transshipment of Western goods to embargoed areas should also be agreed upon.

Now, those are, Mr. Chairman, other than the terms of credit, the major aspects of a code.

TERMS OF CREDIT

The terms of credit, of course, are very important and it is here that the fissures in the West have shown up most sharply and with the greatest discredit. Great Britain and Japan have already broken the Berne Union rules on limiting supplier credits to 5 years. France and Italy have offered to give credit terms to the U.S.S.R. up to 7 years although they did not yet sign agreements with the U.S.S.R. on this basis. Should other countries follow their example, a credit race may easily follow from which only the Communist bloc would benefit.

Terms of credits to the Soviet bloc should be limited so as not to allow them undue flexibility in continuing hard currency imports despite balance-of-payments problems. The effect of longer term credits to the bloc would be to permit the bloc countries to conserve limited foreign exchange and gold reserves and thus have a very free hand in planning the allocation of their internal resources. In addition, Western ability to meet the urgent needs of less developed countries for credit and for economic and technical assistance may be reduced in direct proportion to increased long-term credits to the Soviet bloc.

TRADE NEGOTIATIONS NEEDED

By way of conclusion, Mr. Chairman, I am under no illusions as to how long a negotiation of the character which I have described would take or the complexities and difficulties involved. But I point out that these negotiations are no more complex and difficult than

those which resulted in the nuclear test ban treaty, and that the mutual self-interest of the Soviet bloc and the United States may very well be such, at this time, as to speed such negotiations and make them fruitful.

This is a step on the road to normalizing the relations between the Soviet bloc and the free world. It can give focus to the fact that the Soviet Union is traveling a different route from that of Communist China. If this can be done, without at the same time compromising our profound determination to win the struggle for freedom, then I see no reason why trade negotiations cannot offer a real chance for a further advance along the road to peace.

May I say, Mr. Chairman, that it is almost a logical sequel, as the day follows the night, that perhaps after the Kennedy round is well on its way we should make a major effort in this field in the respect of harmonization of our policy with our allies and then proceeding to see what can be done with the Soviet Union and the Communist bloc.

Thank you, Mr. Chairman.

(The prepared statement of Senator Javits follows:)

STATEMENT OF JACOB J. JAVITS, SENATOR FROM NEW YORK

JAVITS URGES FAIR PRACTICES CODE FOR EAST-WEST TRADE

I have devoted considerable attention to the problem of East-West trade over the years both as a member of the Joint Economic Committee and, until last year, in my capacity as Chairman of the Economic Committee of the NATO Parliamentarians' Conference. In November 1961 I traveled to the U.S.S.R. and Poland to make an assessment of economic policy problems that arise in connection with East-West trade. In the subsequent 3 years this problem was thoroughly discussed in the Economic Committee of the NATO Parliamentarians' Conference. In 1963 I took an active part in the Senate debate on the wheat sale to the Soviet bloc and in the Banking and Currency Committee's deliberations on the extension of Export-Import Bank guarantees to the Soviet bloc.

My experience leads me to believe that the most urgent need in East-West trade is for an agreement between the United States and the principal industrially developed nations of the free world to harmonize East-West trade policies and to establish a code of fair trade practices to be followed in carrying out these policies.

I also believe that expanded trade in nonstrategic goods between Western nations and the European Soviet bloc can have a useful impact on overall East-West relations, and is definitely indicated for the future. It is also apparent, in my view, that there is a definite limit to increased United States-Soviet bloc trade, a limit imposed by requirements of U.S. foreign policy, by existing U.S. legislation, by the nature of the Soviet bloc economy, and by the traditional trade relationship between the United States and the U.S.S.R.

While many Western nations, including the United States, have increased trade in nonstrategic goods with the European Soviet bloc in the last 5 years, this increase has taken place in a policy vacuum, with the drive for expansion being dictated principally by economic considerations.

The enormous political value of a common Western economic policy toward the Soviet bloc, however, dictates that the United States take the leadership in the formulation of a code for the conduct of Western trade policy in this area. This code must realistically deal with a resurgent Europe, with the loosening of ties between the European Communist satellite nations and the U.S.S.R., and with the changing attitude of the American people and the U.S. Government toward trading in civilian nonstrategic goods with the Soviet bloc.

I recommend a code of fair trading practices as the starting point of negotiations toward a unified Western policy for trading with the Soviet bloc. This code would have the effect of limiting the scope of disruptive economic activities by the Soviet bloc and at the same time would prescribe a more satisfactory basis

for commercial dealings between market economy countries like our own and those of our allies and state trading countries. I am fully cognizant of the fact that the Western response to the problems of trade with the Soviet bloc must continue to be varied and flexible, and that there is no single solution to the problem of protecting the national interest in this field. But I suggest adoption of this code as a satisfactory basis for negotiations with our industrialized allies toward closing the policy gap among us in this vital area.

This code need not try to cover all questions at issue in East-West trade. It should serve as a guide and as a unifying influence for free world countries in their bilateral trade negotiations with bloc countries. It might evolve into a concrete set of proposals that could be presented for agreement to the bloc countries and for incorporation in future trade agreements with Western nations.

It would be advisable to first explore such a proposal with the countries alined in the North Atlantic Treaty Organization, since they include most of the principal industrialized countries having important trading relationships with the Communist bloc. At a suitable future date, the adherence of all OECD countries to the code should also be sought.

I would like to discuss briefly the principal components of this proposed code:

1. *Facilitating access to markets.*—The Soviet bloc countries should agree to allow the free world businessman direct access to the particular enterprise he hopes to serve. Such a right of direct contact, now enjoyed by the bloc countries in the free world, should also be extended to include the right to maintain commercial representatives on the territory of the state trading countries.

2. *Patent and copyright protection.*—Although attempts have been made, no agreement has ever been reached with the Soviet Union over this issue. We must go beyond the recognition of the principle of legal protection of patent rights; including the obligation to pay the owner of the patent a consideration based on the cost of the development of a new product, as well as the cost of installations used in launching industrial production. Such protection should also cover the payment of royalties to the patent holder for the use of patents in the U.S.S.R. Such recognition of accepted practices should include, furthermore, the right of creative writers to compensation for the translation of works covered by copyright.

3. *Rules of state trading.*—One of the principal obstacles in the normal conduct of trade relations with Soviet bloc countries is the unequal relationship between state enterprises and private corporations. In the negotiation of contracts between them, it is essential that Soviet bloc state trading organizations give up their exclusive or special privileges and immunities stemming from their position as state enterprises and negotiate such contracts on the basis of commercial considerations.

4. *Dumping and market disruption.*—Assurances must be obtained from the Soviet Union and its European satellites that they will abide by GATT rules, and would refrain from behavior generally unacceptable in the normal course of trade among Western nations. Soviet disruptive activity in international trade in tin, flax, aluminum, and fuel oil markets is still fresh in the minds of Western businessmen. Soviet bloc adherence to GATT rules of fair competition would therefore go a long way to allay Western fears in this regard, yet would not impose impossible obligations on them.

5. *Settlement of commercial disputes.*—There has been continuing concern in the minds of American and other Western businessmen about the practices of arbitration tribunals in Communist countries. It would be desirable, therefore, if commercial disputes between Soviet state trading corporations and private Western firms be submitted to impartial arbitration. It should also be expected that bloc governments will not prevent their commercial agencies from agreeing to neutral arbitration.

6. *Reexportation.*—It should be an objective of Western negotiators to reach a specific understanding regarding a system of safeguards against the transshipment of Western goods to embargoed areas. We obviously cannot prevent the Soviet Union or its satellites from shipping their own goods to these countries and I am under no illusions that an airtight plan of this character can be worked out. But we certainly can do a good deal about this matter and we must try to do all possible.

Great Britain and Japan have already broken the Berne Union rules on limiting supplier credits to 5 years. France and Italy have offered to give credit terms to the U.S.S.R. up to 7 years although they did not yet sign agreements with the U.S.S.R. on this basis. Should other countries follow their

example a credit race may easily follow from which only the Communist bloc would benefit.

Terms of credits to the Soviet bloc should be limited so as not to allow them undue flexibility in continuing hard currency imports despite balance-of-payments problems. The effect of longer term credits to the bloc would be to permit the bloc countries to conserve limited foreign exchange and gold reserves and thus have a very free hand in planning the allocation of their internal resources. In addition, Western ability to meet the urgent needs of less developed countries for credit and for economic and technical assistance may be reduced in direct proportion to increased long-term credits to the Soviet bloc.

By way of conclusion, Mr. Chairman, I am under no illusions as to how long a negotiation of the character which I have described would take or the complexities and difficulties involved. But I point out that these negotiations are no more complex and difficult than those which resulted in the nuclear test ban treaty, and that the mutual self-interest of the Soviet Union and the United States may very well be such, at this time, as to speed such negotiations and to make them fruitful

This is a step on the road to normalizing the relations between the Soviet bloc and the free world. It can give focus to the fact that the Soviet Union is traveling a different route from that of Communist China. If this can be done, without at the same time compromising our profound determination to win the struggle for freedom, then I see no reason why trade negotiations cannot offer a real chance for a further advance along the road to peace.

TRADE: A POLITICAL VEHICLE

The CHAIRMAN. Thank you, Senator Javits. I was very interested in your first comment, that trade policies have great political implications. I agree with that. While we have not had very much trade with the Soviet Union, it is a vehicle for improving our relations. That is one reason why it is the committee's proper role to undertake these studies. I need not tell you there are gathering storm clouds, as there always are in various parts of the world. But if we are ever to break this attitude of hostility, it seems to me trade could be a very important vehicle for doing so.

Senator JAVITS. I think, Mr. Chairman, if I might suggest another thought which the chairman is just as acquainted with as I am, it is very noteworthy that the people who are best received in the Soviet Union, get the quickest audiences with the most important people, are businessmen, especially the heads of companies engaged in goods production of the kind which the Soviet wants nothing more than to emulate. This is an indication of the high premium placed on economic matters in the Soviet Union and perhaps of an interest to settle certain outstanding economic issues with the United States.

POSSIBILITY OF COOPERATIVE AID PROGRAM WITH U.S.S.R.

The CHAIRMAN. One comment you made about the possibility of long-term credits prejudicing our program of assistance to undeveloped countries—why would it not be feasible to explore with the Soviet Union the possibility of making this a cooperative or a multilateral aid program? They have an aid program in some of the same countries, do they not?

Senator JAVITS. Of course, they concentrate much of their aid on fewer countries. As a matter of fact, that has been one of the big troubles of our aid program in the past.

Such an idea as you propose divorced from the kind of political overtones that they have, for example, in their aid to Middle East

countries and similar operations, if that could ever be done, might conceivably work through the International Bank or some other international agency where we, too, are important contributors. For example, the International Development Association, the IDA—I think that that might be a feasible counterweight.

I fear, though, that Soviet aid is so closely linked to political purposes that, first, it would be an enormous job to overcome the suspicion of in any way joining with them in an aid program, even indirectly in this country, and second, that that suspicion might very well be warranted.

So, though I agree with the Chair that it is a possible way out of that situation, my comment is directed to the fact that when we are making such a big effort in the interest of our balance of payments, and for other reasons, to enlist OECD countries in the aid picture—they obviously make themselves less able to do that if they are diverting important goods production on long-term credit to the Soviet and Communist bloc. It was in that sense that I used that idea.

RELATIVE INTERESTS OF BUSINESS AND LABOR OVER TRADE POLICIES

The CHAIRMAN. One last question. Do you think there is much difference in the attitude of business people toward opening up trade and, say, the labor unions?

Senator JAVITS. I think that the labor unions have not yet really begun to think seriously about it, Mr. Chairman. The business people, in a very interesting way—and I think it is a credit to the general enlightenment of American business—have undertaken to be the moving force in bringing about a revision of our views with respect to East-West trade. I think that is what has given this whole idea new life.

I believe that they will probably bring the trade union movement along. But the trade movement up to now has either been quiescent or trying to make up its mind. I think perhaps, if I may be presumptuous enough to suggest, Mr. Chairman, the crystalization of the attitude of the trade union movement, which may well come because of these hearings, could be a matter of very great benefit and importance with respect to these hearings.

The CHAIRMAN. In connection with that, the committee has written to quite a long list of not only business associations but labor unions and farm organizations, asking them for their written comments on this subject in an effort to stimulate their thinking about it and perhaps get them to take a position on it.

Senator JAVITS. I think it would be very, very fine, if they would and I hope the Chair will persevere in that and even give them a chance to testify if they want it.

The CHAIRMAN. Well, we may hear them if they wish.

Senator Lausche, do you wish to ask Senator Javits a question?

Thank you, very much, Senator Javits. With your long experience in this field and also representing the principal trading State in the Union, I think your testimony is very significant.

Senator JAVITS. Thank you, very much.

The CHAIRMAN. Our next witness is Mr. A. L Nickerson, chairman of the board of Socony-Mobil Oil Co.

STATEMENT OF A. L. NICKERSON, CHAIRMAN OF THE BOARD, SOCONY-MOBIL OIL CO., INC.

The CHAIRMAN. Mr. Nickerson, we are very pleased to have you. I may say for the record that we invited Mr. Nickerson to testify and we are very pleased to have him here.

Mr. NICKERSON. Thank you, very much, Mr. Chairman.

My name is Albert L. Nickerson I am the chairman of the board of Socony-Mobil Oil Co., Inc. I appreciate the opportunity to testify before you today. I think before giving my testimony, however, I should observe that I am a member of the National Petroleum Council's Committee on the Impact of Exports from the Soviet Bloc, but I am not appearing as an official witness representing the National Petroleum Council.

SOVIET OIL PRODUCTION

You are inquiring into East-West trade. You have heard a good deal in previous testimony about the effect of actual and potential exports of goods from the United States and from other countries of the free world to the countries of the Communist world, that is, from West to East. The subject on which you have invited me to testify, Soviet bloc oil exports, is a part—an important part—of the return flow from East to West.

Russia is the most important producer of oil in the Soviet bloc, as you can see from this table which has been taken from the National Petroleum Council's report on Soviet oil. Here you have actual production for 1962 and estimated figures for 1965 and 1970. As you can see, Russia is expected to become relatively more important as we move into the future, accounting for 92 percent of the bloc's petroleum production in 1970.

(The table referred to follows:)

Soviet bloc petroleum production

[Thousand barrels per day]

	1962		1965 Estimate		1970 Estimate	
	Volume	Percent	Volume	Percent	Volume	Percent
U.S.S.R.	3,720	89.6	4,980	91.1	7,380	92.0
East Europe	334	8.0	348	6.4	398	5.0
Communist China and Far East	100	2.4	140	2.5	240	3.0
Total bloc	4,154	100.0	5,468	100.0	8,018	100.0

NOTE.—Figures include natural gas liquids and synthetics—negligible in the U.S.S.R. in 1962.

The map shows what are considered the most significant oil producing regions in the U.S.S.R. today. The oldest is the Baku region which was a major producer in the czarist period. Just north of it lies the North Caucasus region. The North Caucasian region has also been producing since pre-Bolshevik days. Farther north, we come to the Ural-Volga area which was discovered and developed under the Communist regime and which today supplies over 70 percent of the Soviet Union's total oil production. Still in the process of development is the West Turkmenian region and the adjacent offshore areas at the southern end of the Caspian Sea. This appears to be an

easterly extension of the old Baku region. Similarly, the Bukhara-Khiva region here is perhaps simply an extension of the North Caucasus region across the Caspian Sea. The West Siberian region has been described by the Russians as a highly promising area on several occasions in the last 2 years. However, there are some doubts in the minds of geologists that this region really belongs in the same top classification as the others which I have mentioned. There is a consensus among free world geologists that Russia's present proved plus prospective oil reserves are more than adequate to support their planned production through 1970.

RUSSIAN OIL PIPELINES

To move this oil around their own country, to the European satellites, and to free world markets, the Russians have constructed an extensive network of pipelines, which are also shown on the map.

Crude oil pipelines into Europe are highlighted on the next map. Solid lines mean completed pipelines. Broken lines indicate pipelines under construction, including the line to the port of Ventspils on the Baltic, which is an export terminal. The tentacles which reach from the Ural-Volga region into Poland, East Germany, Czechoslovakia and Hungary will serve to tie the economies of these countries more closely to the Russian economy. They are also being used to facilitate the movement of Russian oil or of products manufactured therefrom by the satellites into adjacent free world countries—notably West Germany and Austria. Lines carrying oil to the Black Sea, to the Baltic Sea, and the Pacific Ocean are being or will be used to load tankers to carry Russian oil to free world customers.

The bulk of the oil which flows into the free world from behind the Iron Curtain comes directly from Russia itself. These figures are also based on the National Petroleum Council report.

(The table referred to follows:)

Volume of Soviet bloc oil exports to the free world

[Thousands of barrels per day]

	Estimate		
	1955	1965	1970
Crude oil from the U.S.S.R.	18	420	750
Products from the U.S.S.R.	63	322	550
Crude and products from U.S.S.R.	81	742	1,300
Products from Eastern Europe	35	125	160
Total from bloc	116	867	1,460

IMPORTANCE OF RUSSIAN PETROLEUM EXPORTS

The rapid growth of these exports can readily be seen as can the preponderance of Russian oil in the total. Furthermore, some of the oil shown here as coming from countries other than Russia consists in fact of petroleum products manufactured in the satellite countries from Russian crude oil. Consequently, the Russian role is even more significant in the total picture than these figures of direct shipments from Russia to the free world indicate. The satellites are, as a group,

net importers of oil from Russia. It is of interest to note that Russia is herself building, or is causing to have built by others for her, a fleet of tankships adequate to carry her planned offshore exports of oil to free world customers.

In the National Petroleum Council report, we concluded that oil is the largest single item in Russia's export trade to the free world. It accounts for about 20 percent of Russia's earnings from East-West trade. It is estimated that in the past year (1964) the Russians earned roughly $400 million worth of foreign exchange from their oil exports to the West. These exports displaced oil which otherwise would have come from free world countries.

Although the Russians make a great to-do about their economic cooperation with the satellites and have talked about pooling their resources with them, there is little indication that they will share any major part of their earnings of convertible foreign exchange with the satellite countries. Nearly all of the millions which Russia earns in the free world from sales of oil and other merchandise go into the Russian treasury and are used by Russia strictly for Russian purposes.

DIFFERENCES IN TRADE EXPANSION POTENTIAL OF U.S.S.R. AND SATELLITES

Considering oil in the broad context of East-West trade, we must try to distinguished trade with the East European satellites from trade with the Soviet Union itself. Cautious expansion of trade with the satellites in nonstrategic goods can be an effective political device for weakening Soviet control over these countries. U.S. policy has sought to encourage and strengthen tendencies toward satellite independence; increased trade has been a means to encourage and reward such an evolution.

The expansion of trade with the Soviet Union is another matter entirely. Soviet Russia's foreign trade policy has never aimed at the development of trade relations with the free world for purely economic reasons. Rather, Moscow's primary aim is to strengthen the power of the Soviet state.

One way in which this is done is to use foreign trade to finance carefully selected imports—

To meet specific emergency needs such as food;

To acquire scientific knowledge and technology developed in the more advanced industrial countries of the West;

To purchase prototype plants or buy specialized machinery and equipment.

SOVIET OIL PRODUCTION BENEFITED BY INCREASED FOREIGN TRADE

The Soviet effort to maximize its power as against the free world through acquisition of scientific knowledge and advanced equipment applies in a special way to oil technology. In the latest revision of its report on Soviet oil, the National Petroleum Council devoted a special section to the technical lag in the Soviet petroleum industry, which NPC found deficient with respect to deep drilling rigs, drill bits, and pipe requiring special steels, pumps and compressors for pipelines and advanced types of refinery processes and catalysts. Soviet oil production and exports could be significantly increased by rapid installation of such new technology, and the NPC report found good reason to believe that a significant portion of their requirements

for technology and specialized equipment is to be met by imports—i.e., by stepped-up purchases from the West. Worse, to the extent that they can gain increased understanding of the Western petroleum producing, refining technology, they can increase their export of Soviet oil and increase the operation of the cycle to their benefit.

The U.S.S.R. has a particular need for advanced types of refining processes. This would seem to be the reason why the Soviets approached United States and British contractors in 1963 with proposals for construction of a 12 million ton capacity complete refinery. This refinery would include the latest catalytic cracking, reforming, hydrocracking, and lubricating oil processes and a catalyst manufacturing plant. These are process units of types believed to be new to the Soviet industry. As far as is known, their purchase efforts have not as yet been successful.

Modern producing and refining technology is of considerable strategic importance to the Soviet Union, with relation to its own military needs and those of other Communist countries. For example, the U.S.S.R. provides an essential supply of crude and refined products to Cuba, China, and North Vietnam, as you can see from the following official Russian figures, which in this table are expressed in terms of thousands of metric tons in the year 1963.

(The table referred to follows:)

Oil exports from U.S.S.R. in 1963

[In thousands of metric tons]

	Crude	Products	Total oil
Cuba	3,766	454	4,220
China, mainland	----------	1,408	1,408
North Korea	----------	451	451
North Vietnam	----------	92	92
Total above	3,766	2,405	6,171

The argument has been made that the Russians eventually can develop all the technology and manufacture all the equipment themselves, and that denying it merely accomplishes a certain delay. There is an element of truth in this argument, although we should not minimize the importance of this delay. The basic knowledge for some—but not all—of the facilities they want is available in literature that is publicly available. But even where the basic knowledge is available, the know-how may be lacking. However widely the basic knowledge may be distributed, know-how makes all the difference in sophisticated design and efficient operation.

CONSEQUENCES OF SOVIET OIL EXPORTS

There are other consequences of Soviet oil exports which are serious.

The Soviet Union enters the international market through the medium of state trading organizations which enable Moscow to dictate economic terms of trade which reinforce its political objectives. This is especially dangerous in the less-developed countries of the free world. Moreover, such state trading undermines the growth of multilateral trade which has been a consistent objective of U.S. and free world policy since the end of World War II.

It attacks the whole concept of private enterprise.

It fits perfectly the Soviet Union's objective to undermine the Western international oil industry. The Soviet Union has been using every means to encourage government operation of the oil business in free world countries, especially in the developing countries.

In sum, I have tried to show:

That the economic benefits of oil exports from East to West accrue mostly to Russia itself; and not to its satellites.

That oil exported from Russia displaces oil from free world sources.

That there is a danger to free world countries, especially developing countries, that allow their economies to become dependent on Russian oil exports.

That as Soviet oil exports increase, the free, competitive basis of international trade is put under an attack to which it is highly vulnerable.

That Russia uses the exchange gained from her oil exports in large part to obtain advanced Western technology, including petroleum technology.

That the Russian oil industry is the source of oil for a number of countries which are actively hostile to the United States.

I respectfully suggest that, under the circumstances, the increase of oil exports from the Soviet Union—and the concomitant supply of advanced equipment and technology to that country—is of far greater strategic benefit to them than it is to us and so is not in our national interest.

Thank you.

The CHAIRMAN. Thank you, Mr. Nickerson. I have one or two questions.

EUROPEAN USE OF RUSSIAN OIL

I believe you stated Russia's share of the Western Europe market. As the total increased, has the percentage of Russian oil used increased? Or has a similar or greater increase in usage come about through increased purchases from the oil deposits in northern Africa and the Middle East?

Mr. NICKERSON. Russia's share of the free world oil market has been increasing, Senator Fulbright. The Russian share of the Western European market today is about 8 percent. In 1964, the National Petroleum Council estimated that that share will increase to 10 percent, despite increased production of oil in that area in the interim.

The CHAIRMAN. Which Western European countries have been substantially dependent on Soviet oil in recent years?

Mr. NICKERSON. I think that one of the largest is Germany. I have a record of exports to individual European countries, if you would like me to supply it for the record, Senator Fulbright.

West Germany is a large importer. Italy is a large importer, as is Finland, and also Iceland.

The CHAIRMAN. Are these sales largely by bilateral trade agreements or under barter agreements?

Mr. NICKERSON. Well, I think that the Russian state trading organization will approach each country individually about a shopping list of materials which they hope to receive in exchange for the export

of crude and products which they in turn hope to supply these individual countries.

In response to your last question, Senator Fulbright, for the record, the supply of Soviet crude and products to Austria represents 31 percent of that country's requirements; 80 percent in the case of Finland; 33 percent in the case of Greece; 82 percent in the case of Iceland; 19 percent in the case of Italy; 20 percent in the case of Sweden; 13 percent in the case of Yugoslavia. They are the largest customers in Western Europe for Soviet crude and products.

Senator LAUSCHE. May I ask a question on this point?

The CHAIRMAN. Yes.

Senator LAUSCHE. Do these percentage figures reflect the imports by the European countries or the percentage of the total exports of crude oil and petroleum by Russia?

Mr. NICKERSON. Senator Lausche, this is the percent of the total demand of those countries for petroleum products and crude satisfied by Russian exports to those countries.

Senator LAUSCHE. Yugoslavia imports 13 percent of its needs from Russia?

Mr. NICKERSON. Exactly.

Senator LAUSCHE. Thank you.

DETERMINATION OF PRICES OF SOVIET OIL

The CHAIRMAN. Do you know about the prices that the Soviets offer? Are they generally lower than those offered by Western suppliers?

Mr. NICKERSON. The prices of oil and products which Russia supplies to free world countries is dictated in every instance by prevailing market prices of free world crude and products in those countries. Russia will sell to those countries at whatever price she is required to in order to make a market for herself. She will try, we believe, to sell those products at prices which gain the highest exchange available for her.

But on the other hand, she will usually have to quote the lowest price to make the sale.

The CHAIRMAN. Do you know whether or not they charge the Communist countries in Eastern Europe the same prices which they charge for example, in Sweden or West Germany? Is there any knowledge about the relative scale of prices?

Mr. NICKERSON. Yes, there is, Senator Fulbright. The price which Russia sells to satellite countries is, in my recollection, something like $1 a barrel higher than the prices she quotes to the free world.

In other words, she charges her satellites substantially higher prices than for the same products which she makes available to Western countries.

The CHAIRMAN. $1 a barrel is a very large percentage. What is that, 20 percent or higher?

Mr. NICKERSON. It is about 35 to 40 percent higher.

INCREASING OIL SHIPMENTS IN SOVIET TANKERS

The CHAIRMAN. You mentioned oil shipment in tankers. Are their sales to countries like Iceland and other countries carried in their own

tankers or tankers that belong to American oil companies or other free world shipping concerns?

Mr. NICKERSON. This is one of the more interesting phenomena, because of late years, Russia has been building a very substantial deep sea fleet. Most of this fleet, incidentally, is being built in free world countries for her account. But the latest information we have available to us is that this year, 1965, Russia will have a tank ship fleet available to her sufficient to carry 85 percent of her offshore shipments in her own vessels. We think that as time goes on, she will be entirely self-sufficient in terms of her own ships.

ONLY CERTAIN TRADE WITH SATELLITES ADVISABLE

The CHAIRMAN. We saw recently an account in the newspaper of the signing of a large—or at least they were discussing a large sale—by an American oil products company with Rumania for the building of a cracking plant. Do you know anything about that?

Mr. NICKERSON. No, sir; I am not familiar with that sale.

The CHAIRMAN. Do I understand that you take a different view between sales with Rumania and the other Eastern European countries and with Russia itself? You take a different view as to the wisdom of selling, for example, a petrochemical plant to Rumania or to Yugoslavia as opposed to Russia itself?

Mr. NICKERSON. I have very grave reservations about the sale of petrochemical plants to the satellites. I do make a distinction in nonstrategic trade between Russia and the satellites. But I fear that if we sell specialized equipment and make specialized knowledge available to the satellites, Russia will find means of making that knowledge available to herself. It has great leverage over the satellites. We cannot assume that confidential information made available to the satellites will not be passed on to the Russians. To do otherwise would be wishful thinking, in my opinion.

The CHAIRMAN. You heard Senator Javits testimony, did you not?

Mr. NICKERSON. Yes, I heard it quite well, sir.

The CHAIRMAN. He stated that this trade has great political possibilities—in influencing political relationships. Do you agree with that?

ADVISABILITY OF TRADE WITH RUSSIA

Mr. NICKERSON. Again, I make a distinction between trade with the satellites and trade with Russia. As I said in my testimony, I think a reasonable amount of nonstrategic trade with the satellites can have the effect of orienting their economies to some extent, at least, more in the direction of the free European countries and less in the direction of Russia. But increasing trade with Russia, it seems to me, plays entirely into Russia's hands by making exchange available to her to spend on those highly specialized processes and the products of Western research, which is so essential to her for the continuing development of her industrial and military strength.

The CHAIRMAN. Do you assume that there is no possibility of improved political relations with the Russians?

Mr. NICKERSON. No, sir; I do not assume that, because I have a naturally hopeful outlook. But I do not think that any relaxation in relationships between us and Russia will come as a result of our

making large quantities of foreign exchange available to her. I think it will come when she believes that it is in her national interest to improve relationships with the West. When that will come, or if, indeed, it ever does come, I do not know; but to me, it will arise in part because of her increasing difficulty in her relationships with the Chinese. She will perhaps find a greater area of interest with the free world arising from her increased tensions with her neighbors to the east—not as a result of our making monetary exchange to her available for the strengthening of her economy.

The CHAIRMAN. If you do not assume that there is an irreconcilable antagonism between the Russians and ourselves, why would steps toward relaxation of restrictions on trade not encourage a more friendly attitude on the part of the Russians with the West? It seems to me that if we are to continue to follow a restrictive trade policy, there is little hope of improvement in our relations or any reconciliation of our differences.

Mr. NICKERSON. If I could visualize a trade with the U.S.S.R., now, in distinction to that with satellites, if I could visualize a trade with the U.S.S.R. which did not involve knowledge and equipment important for the strengthening of her military system, and the provision of strategic materials and knowledge to her; if I could visualize that type of trade, I might consider that this would be in the interest of promoting some further detente with the Russian society.

Unfortunately, the past record does not indicate that she is interested in this kind of trade. Her future intentions seem to be very clear that what she is trying to acquire from us is just those parts of our Western technology which she has been unable to develop herself and this technology and equipment to her seems to me, in this stage of our relationships with Russia, seems to me to be very much to her advantage and not to ours.

DISTINCTIONS BETWEEN STRATEGIC AND NONSTRATEGIC GOODS

The CHAIRMAN. I find it difficult to draw these distinctions between strategic goods. There is involved here, I think, an element of timing. They have already developed sophisticated military weapons clearly distinguishable from such things as wheat and oil. But I find it very difficult to distinguish between oil and wheat. If we sell them wheat, it enables them to divert their energies into whatever they wish which may be of a highly strategic nature. I am very frustrated by this kind of distinction. It seems to me that in pursuance of the idea of Senator Javits, this trade should be regarded as merely one of the elements in trying to improve the political climate. If our differences are so deep seated that there is no possibility of that, then we ought not to trade at all. If this is a religious crusade in which one or the other has to destroy the other, then we ought not to have any trade at all, should we?

Mr. NICKERSON. To me, the great issue at stake here is the question of the provision of strategic materials and knowledge to Russia. If there were some way to exclude this from the picture, I think there is a great deal to be said for the points you have made and the points Senator Javits has made. I see no way of doing this. Consequently, as we increase trade, I am afraid that unless some element enters into

the picture which is not present at this time, we will be strengthening their position to a greater extent than we are strengthening our own. If we had some tangible evidence that Russia was anything but an enemy, then my attitude toward the question that you propound would be different. But there are many things that Russia could do today to indicate friendliness with us if she were so disposed. It is my impression, however, that the evidence is all on the other side. And until we get some definite evidence that Russia is, in fact, evolving in a way which could be described as increasing friendliness, I think we have to keep our guard up. This means taking such measures as are available to us to prevent this specialized knowledge, specialized equipment, specialized technique, from being made available to Russia. I believe we have evidence that this is enormously important to them. If they can divert their very considerable fund of scientific genius and research from these areas of industrial development where we are so strong into those areas of development of space exploration, weapons development, foreign aid to countries such as the Congo and South America, opposing our interests in those areas, then I think we are playing her game and falling into a trap which she is laying for us.

CHANGE IN UNITED STATES-U.S.S.R. RELATIONS SINCE 1962

The CHAIRMAN. Do you think there has been no noticeable change in our relations since the Cuban affair in 1962 and the present?

Mr. NICKERSON. Until very recently, Senator Fulbright, I would say yes. But I would not attribute this to any trade policies which we have with the Russians. I would in the first place attribute it to the fact that she is having trouble with her Chinese partner. As that trouble increases, she naturally changes her attitude toward the West.

I would attribute it further to the fact that I think she is finding that her centralized planning mechanism is cumbersome, inefficient, and noncompetitive with our own economy. So she may be evolving very gradually and tentatively in the direction of changes by the adoption of certain incentive schemes in Russia, for example: I do not know how widely they are being experimented with. I think, too, she was very much impressed by the position of strength we took in Cuba and she realized we were not going to be pushed around. These are the things which to me are important in the changing relationships and sentiments that perhaps we have all sensed, again until very recently, with the Russians. But I do not attribute it to the question of developing trade policies which I think she is using as an instrument against us.

The CHAIRMAN. Senator Lausche, any questions?

Senator LAUSCHE. Yes.

RESTRICTIONS ON TRADE UNDER THE BATTLE ACT

In the statutes of the United States at present, we have what is known as the Battle Act. Under present provision the United States in the declaration of policy states:

> Recognizing that in a world threatened by aggression, the United States can best preserve and maintain peace by developing the maximum national strength and by utilizing all of its resources in cooperation with other free nations, (and) hereby declares it to be the policy of the United States to apply an embargo on

the shipment of arms, ammunition, and implements of war, atomic energy materials, petroleum, transportation materials of strategic value, and items of primary strategic significance used in the production of arms, ammunition, and implements of war to any nation or combination of nations threatening the security of the United States, including the Union of the Soviet Socialist Republics.

Now, do I understand your position to be that the present attitude of Russia has not changed to warrant a departure from this principle enunciated in this law?

Mr. NICKERSON. That is my position, Senator.

Senator LAUSCHE. Do you consider crude oil material to be a matter of importance in the development of implements of war?

Mr. NICKERSON. Yes, I do. I think the importance, almost the most important element of these Russian oil exports to the free world, is that in looking ahead to the future and bearing in mind the figures we saw on the table earlier, oil gives promise of being the greatest source of foreign exchange for the Russians in the future. This is the export which she can develop most rapidly. Consequently, I think she is counting on this resource more than any other single one to provide her with the exchange she needs to try to acquire this knowledge and technology which you just referred to.

Senator LAUSCHE. Now then, if we relax this principle which I just read to you with respect to Russia, what shall we do about it with respect to China and to Cuba?

Mr. NICKERSON. Well, I should not relax it with respect to Russia in the first place.

Senator LAUSCHE. If you differentiate Communist Russia from Communist Cuba and Communist China, how do you rationalize that differentiation?

Mr. NICKERSON. I am not attempting to differentiate among them, Senator.

Senator LAUSCHE. It is your opinion that this principle still is sound?

Mr. NICKERSON. Yes, sir.

TRADE WITH SATELLITES MIGHT BENEFIT RUSSIA

Senator LAUSCHE. I read recently that a member of the Department of Commerce, speaking in Florida to some group, suggested that scrap iron sold to the Communist nations, if free trade were resumed, would increase our gross national product. Do you remember whether or not the sale of scrap iron to Japan was a matter of great discussion after we got into war with Japan?

Mr. NICKERSON. I remember that; yes.

Senator LAUSCHE. Scrap iron was being bought in great quantities by Japan; sold, shipped out of our ports, and used to prepare Japan for World War II. Do you recall that?

Mr. NICKERSON. Yes, I do; very well.

Senator LAUSCHE. Now then, your position is that the sale of this know-how to Rumania in all probability will finally be captured by Russia; is that correct?

Mr. NICKERSON. I very much fear that that will be the case.

Senator LAUSCHE. And to think the contrary, you have described to be merely wishful thinking?

Mr. NICKERSON. That is right.

Senator LAUSCHE. Frankly, I would have to cast aside your rationalization to conclude that if we sold this know-how to Rumania, Russia would not finally capture it. That is your position, is it not?

Mr. NICKERSON. That is my feeling.

Senator LAUSCHE. This principle which you apply to the petrochemical technique, would you apply it also to other matters—other types of know-how that have the same relationship to developing the economy and the strength of Russia?

Mr. NICKERSON. I would, sir. I think that a definition needs to be made of strategic materials which are important to the Russian economy in terms of strengthening it, which does not apply, of course, to all industries that we have. Some are obviously more sensitive than others.

RUSSIAN IMPORTS AID TECHNOLOGY OF OIL PRODUCTION

Senator LAUSCHE. Now, then, you state that Soviet oil production and experts could be significantly increased by rapid installation of such new technology and the NPC report—

found good reason to believe that a significant portion of their requirements for technology and special equipment is to be met by imports.

Will you elaborate on that statement?

Mr. NICKERSON. Russia has very adequate oil reserves, as was indicated by some of the tables earlier in my statement. But it is one thing to have oil underground and it is another thing to have it available for export in the form of crude oil and in the form of merchantable products. Our information is that her technology is deficient in terms of the deep drilling which is going to be necessary to exploit quite a large percentage of these reserves. It is deficient in terms of the large diameter pipe which is needed to transport it and the pumps which are required for those pipelines. It is deficient in terms of the large-diameter pipe which is needed to transport it and ucts which are truly competitive with Western products. She is trying, through the exchange made available to her for oil exports, to purchase this refining equipment, these pumps, this large-diameter pipe, these deep-drilling bits, these bits and drill stems from us. If she succeeds, there is every reason to believe that she is going to be able to very substantially increase her exports, thereby repeating the whole cycle. This is typical of what can happen in other industries.

RUSSIAN OIL INTERESTS IN DEVELOPING COUNTRIES

Senator LAUSCHE. You state further that the Soviet Union has been using every means to encourage government operation of the oil business in free world countries, especially in the developing countries.

Why are they doing that?

Mr. NICKERSON. I think she has, frankly, very strong political motives to do that. A number of these developing countries are so-called one-crop countries and frequently those countries have difficulty in putting those crops into market, particularly if the prices for those products have declined. Russia is in a position to be the trading organization to accept the entire output of that country and bring her oil products in return. This makes the economy of that developing country completely dependent on Russia, point No. 1.

Point No. 2, with the receipt of these products and crude oil to the developing country, Russia will frequently offer to construct a refinery, supply that country with technicians and others to help develop the oil business in that country, and so have a prime opportunity to subvert that country politically.

Senator LAUSCHE. Now, getting to another thing, you are of the belief, or you distinguish between selling nonstrategic materials to the satellites from selling them to Russia?

Mr. NICKERSON. I have made that distinction.

INCREASED TRADE AFFECT RUSSIAN-SATELLITE RELATION

Senator LAUSCHE. Have you given thought to what impact our development of trade with these satellite nations will have on the hopes of those people to ever regain their independence and their freedom from Communist domination? To elaborate: in the Atlantic Charter, it was declared that these nations shall have the right to select their governments by open free elections. I think it was at Potsdam and Yalta that it was again declared. When the United Nations was formed, that principle was redeclared.

Now my question is: If you begin doing trade with these Communist governments of the satellite nations, what will happen to the hopes of their people to ever regain this liberty and freedom?

Mr. NICKERSON. Well, I do not know that I can answer the question as you propound it, Senator. But I believe increased normal commercial communications and trade in nonstrategic goods with the satellites is in the interest of perhaps creating some strain between the satellite countries and Russia itself and some increased sympathies and interest in further developing communication between the satellites and the free Western countries. I think this is to our advantage. If I thought there was an opportunity of developing a similar trade in nonstrategic materials with Russia, I would have expressed myself about Russian trade differently than I have to Senator Fulbright. But I do not at present believe that this is realistically possible.

Senator LAUSCHE. Just one more question: Do you know whether there are any petroleum companies that are now negotiating to sell this technical know-how of plants to either the satellite nations or to Russia?

Mr. NICKERSON. Not of my own direct knowledge, Senator Lausche. I have heard rumors of negotiations but nothing I could place in the record.

Senator LAUSCHE. Have you read in the newspapers of any plan to sell?

Mr. NICKERSON. I have no specific knowledge.

Senator LAUSCHE. That is all. Thank you very much for your very sincere presentation.

Mr. NICKERSON. Thank you.

RELATIVE DEMAND TO SUPPLY OF FREE WORLD OIL

The CHAIRMAN. Mr. Nickerson, is the consumption of oil in the free world keeping up with the development of sources? Is this in balance? Do we have a better or greater supply for consumption today relative to requirements than we had 10 or 20 years ago?

Mr. NICKERSON. Your question had to do with reserves available for the free world?

The CHAIRMAN. Yes. Is the supply available today in the free world larger or smaller than it was, relative to demand? Consumption is increasing, is it not?

Mr. NICKERSON. It continues to grow. It is very large. My recollection is that free world approved reserves at this time are judged to be in the neighborhood of 300 billion barrels. This figure has been increasing. But it does not include the effective techniques which are presently available for the industry, the so-called secondary recovery of depleted reservoirs. Neither does that figure include estimates of reserves that will be developed, we are confident, as a result of exploration which is currently going on. So the reserves for the free world at the present time are very large and continuing to grow in relation to demand.

The CHAIRMAN. Reserves are growing more rapidly than demand, is that true?

Mr. NICKERSON. Yes.

The CHAIRMAN. In other words, today the reserves are greater relative to demand than they were 10 or 20 years ago?

Mr. NICKERSON. I would have to check the record to give you a precise answer to that and I shall be glad to do it, but my impression is that the ratio is just as favorable and perhaps more so.

(See p. 238 for letter from Mr. Nickerson containing additional information.)

The CHAIRMAN. So that there is no probability in the near future that there will be any deficit in our supplies? We have more than you think we will need?

Mr. NICKERSON. To the contrary, Senator Fulbright.

The CHAIRMAN. Is the oil consumption growing fairly rapidly in the world today?

Mr. NICKERSON. Yes, it is. Consumption in this country is growing at the rate of something between 2 and 3 percent a year. In the free foreign area forecast growth is 6 to 7 percent a year; the free world total is between 4 and 5 percent a year.

The CHAIRMAN. There isn't much probability, then, that we will need atomic energy and other substitutes for fuels, is there?

Mr. NICKERSON. No, sir.

The CHAIRMAN. Thank you, very much, Mr. Nickerson.

The next witness is Mr. William Blackie, president of the Caterpillar Co.

Mr. Blackie, we are pleased to have you. You have a written statement, I understand.

STATEMENT OF WILLIAM BLACKIE, PRESIDENT, CATERPILLAR, INC., TESTIFYING ON BEHALF OF U.S. CHAMBER OF COMMERCE

Mr. BLACKIE. I have. In the interest of time, I will omit certain portions of it, with the hope that you will permit them to go into the record.

The CHAIRMAN. We will put the entire statement into the record and you can dwell upon or emphasize those parts you think of most importance.

Mr. BLACKIE. I will. Thank you very much.

REPRESENTATIVE OF CHAMBER OF COMMERCE OF THE UNITED STATES

I am William Blackie, president of Caterpillar Tractor Co. I represent the Chamber of Commerce of the United States, and I gather that I am also here because I was one of a group of about 90 businessmen who visited Moscow in November for a series of meetings with Soviet governmental official concerned with matters of trade. Those meetings were held under the auspices of Business International, a concern which is represented here by Mr. Elliott Haynes, who graciously permitted me to precede him here on the program so I could catch a plane and go back to work. I am not an expert of Soviet trade or Kremlinology, but I shall be pleased to try to answer questions at the end of my remarks.

My remarks will attempt to present the essence of the national chamber's declared policy on the subject and also on the consensus among the businessmen who visited Moscow. In the latter part of my remarks, I will, however, diverge in order to venture some opinions which are more personal—and not necessarily shared by the others—for which I alone must accept responsibility.

First, it is necessary to exclude from present consideration any matters having to do with relationships involving Red China, North Korea, North Vietnam, Cuba, and Albania. (Albania is placed in this group because it is deemed to be more closely allied ideologically with Red China than with the other Socialist countries in Eastern Europe.) For our present purpose, the other part of the Communist or Socialist world would then consist of Soviet Russia and the six Eastern European countries: Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, and Rumania. Soviet Russia has a population of about 200 million, and the other Eastern European states (excluding excommunicated Yugoslavia) have a population of about 120 million. Together, they comprise a sort of loose "common market," though with somewhat greater political overtones. The member countries do not levy tariffs in trade between themselves. But they do not necessarily present a common front to the rest of the world. That is one part of a theme upon which I will later elaborate.

CHAMBER'S OFFICIAL DECLARATION ON EAST-WEST TRADE

The official declarations of the National Chamber of Commerce on trade with the Communist bloc are concise:

COMMUNIST BLOC TRADE

The United States should take all suitable measures, including contingency planning, through its own foreign economic policy and in concert with other free world nations, to minimize disruption by the Communist bloc of the normal flow of trade and its use of trade as a political weapon, particularly with respect to the developing free world economies.

TRADE WITH THE U.S.S.R. AND ITS EUROPEAN SATELLITES

With respect to export trade with the U.S.S.R. and its European satellites, the U.S. Government should adopt programs, consistent with the national interest, which have the following objectives.

1. In coordination with other free world countries, to improve agreed and enforcible trade policies and measures which will effectively inhibit and prevent the buildup of Communist warmaking potential. These policies and measures should prevent sales that increase the capacity of the Soviet bloc to disrupt free world economic and military security, or provide long-term credits.

2. To undertake a prompt reexamination and reevaluation of the present system of export controls with the objective of strengthening some controls and of eliminating others which are not necessary for the security of the United States and which result in discriminations harmful to its competitive position.

There are three main thrusts in the chamber policy declaration. First, it calls for more effective intergovernmental cooperation in restricting trade in strategic items. Second, it asks denial of long-term credits. And third, because traditional mechanisms for cutting off Communist access to nonstrategic goods have become less effective, the declaration asks that U.S. restrictions on trade with the U.S.S.R. and the so-called bloc be removed where the primary effect of our refusal is simply to divert sales to our allies.

INFORMAL REPORT MADE BY BUSINESSMEN WHO VISITED MOSCOW

Contrasted with the huge membership which approved these declarations of policy, the businessmen who went to Moscow did so only as individuals representing their respective companies, and in the ordinary course there would have been no reason for any development of a consensus of their views. The subject was, however, of sufficient interest to so many, including responsible officials in our own Government, that it became desirable to assemble the observations of the group into an informal report which could be used where appropriate. Permission to do this was given by the Soviet Russian authorities who apparently shared the idea of the businessmen's group that not only was there nothing to conceal in the discussions but that it might be well if some of the more important matters discussed were made public.

The resulting observations of the businessmen were reported in some detail to governmental officials here in Washington on January 7, 1965, and at the conclusion, I was "drafted" to present a very much briefer report to the President. For this purpose, I used a summary of the views which had been developed within the group of businessmen and is, therefore, already in the public realm. I quote that summary:

SUMMARY OF BUSINESSMEN'S REPORT TO THE PRESIDENT

Our first observation is that the Soviet Union desires greater trade with the United States, and has indicated a willingness to discuss the settlement of whatever obstacles there may be to that trade, including the lend-lease obligation.

As businessmen we naturally are interested in any opportunities there might be for advancing the growth and prosperity of our companies and through them our country. But we are much more interested in the security and welfare of the United States and the rest of the free world. We would not have gone to Moscow without the approval of our Government, and we would not be willing to seek greater trade with Soviet Russia unless our Government's policy would encourage us to do so.

The basic problems between the United States and Soviet Russia are political, and trade can never be a complete substitute for continuous effort to solve these problems. But in this context trade policy could be made an instrument of national policy, and it is in that light that we would prefer it be regarded.

Mutually beneficial trade is normally a desirable goal in and of itself, but in the case of trade with the Soviet Union under today's conditions, it could have added meaning. It presents an opportunity to bridge a communications gap, to establish more contacts, and to develop greater understanding between the two countries. It seems to us very possible that more trade could improve the climate for political settlement, just as political settlement might pave the way for more trade.

It also occurs to us that our objective should be to seize every reasonable opportunity to influence the evolution of Soviet society toward goals that are

more acceptable to the West. And if capitalism and free enterprise be as good as we think we are proving they are, they should also be better for the Soviet people than world communism dominated by the Kremlin. This could be part of our continuing effort to persuade Soviet leaders that the goals of peace and higher standards of living for their people can be achieved more surely and more quickly by their accepting the permanence of the political economic systems of the West, by seeking assurances of security at the conference table, and advancing economic growth through mutually beneficial trade.

The opportunity to influence this kind of evolution of Soviet attitude obviously depends on the number and quality of the contacts we are able to make. As matters stand today, contacts between American business and the Soviet Union are limited almost entirely to governmental officials on both sides. If the United States does not see fit to modify some of its present policies, then we can expect that Soviet Russia will continue to obtain most of what it wants from other Western Powers and will continue to build plants to produce what it is unable to obtain either from them or from us.

This might slow its economic growth somewhat, but in the long run might have the effect of putting the Russians in better position to compete with us in third markets (where major competition is most likely to occur); to deny economic benefits to the United States that rise from mutually beneficial trade; to further strain relations between the two countries; to further separate U.S. policy from cooperation with that of our allies; and to deny opportunities for contact and influence over the evolution of Soviet attitude, policy, and practice.

If, within the limits of military security, we were now to open the channels of trade with the Soviet Union, contact with Soviet officials, with foreign trade organizations and Soviet industrial managers would multiply. Mutually beneficial deals, licensing arrangements, and possibly even joint ventures might be developed. Through successful experience in cooperation, successful for both sides, it would be our hope that some present fears would fade and that confidence might grow.

These views, it should be understood, were derived from meetings only with Soviet Russian officials in Moscow. No representatives of any other government—ours or of other members of the bloc—were present.

At this point, I proceed to depart somewhat from consensus judgment; and while I believe that most who subscribe to the statements quoted would not differ, I alone must accept responsibility for the thoughts I now offer.

U.S. POLICY OF EMBARGO SEEN INEFFECTIVE

Insofar as it goes beyond the inclusion of goods and materials of a more strictly military nature, our U.S. policy of boycott, embargo, or quarantine of the European Socialist countries is simply not working. Few, if any, of the other countries in the so-called free world believe that our policy, as now practiced, is a good one, and they do not choose to observe it. Their distinction between strategic and nonstrategic in the classification of goods or materials is much different than ours, and I think it might be said that in their definition, "strategic" would include only items of a strictly military nature. In our U.S. classification, however, "strategic" encompasses many, many more items, and our so-called B list consists of nonmilitary items which nevertheless might have some strategic significance. The result is that while the United States stands aloofly and somewhat helplessly aside, other countries are filling the orders for those goods which by their definition but not ours are not strategic. Apart from military material, the countries of the Socialist bloc are, accordingly, being deprived of little or nothing that cannot be obtained from some other external source. Communism is not being, nor is it likely to be, blockaded out of existence.

REASONS FOR REEXAMINATION OF EAST-WEST TRADE POLICIES

In this respect, it appears most unlikely that the other free world democracies will subscribe to our policy, and if this be so our policy is doomed to failure. A policy which is not effective is not realistic and it should be reexamined in the light of its ineffectiveness to accomplish the objectives sought.

In such a reexamination of policy, I suggest that consideration should be given to any changes which might have some significant influence upon the relationships among all or any of the European Socialist countries and the other nations of the Communist world. At this time, these changes would include what appears to be a serious schism in the relationship between Red China and Soviet Russia. This, in turn, is producing changes in the attitudes of the other Eastern European states. Among these is an increasing awareness of greater opportunity for independence. Some are even showing signs of a renaissance whereby patriotic nationalism might become a more important factor, and where the desire to be a Pole or a Rumanian might become even stronger than any aspiration to be a Communist. In this connection, it might be kept in mind that in all the Socialist countries of Eastern Europe card-carrying members of the Communist Party are believed to be in the minority.

According to what I learn from recent writings, Soviet efforts to press for more intensive economic integration through COMECON have been meeting with unexpectedly strong and partially successful resistance. Rumanian leaders have declined to sacrifice what they deem to be their national interests for the alleged betterment of a larger Communist community; and in Poland, poor performances in both agriculture and industry have operated to increase a growing alienation between the people and the Gomulka regime. In Czechoslovakia, dissension and mistrust are mingled with criticism and protest; and in both Bulgaria and East Germany, there would seem to be some reason for at least a hope that intelligence will be allied with enough courage to face up to the folly of pursuing policies which are not producing good results.

This is not to say that such developments are necessarily caused or accompanied by any declining adherence to Communist ideology. They may more likely be prompted by a mere taking advantage of the Sino-Soviet schism. In any event, Yugoslavia and Tito may be offering the example and the way to a degree of independence and a mode of thought which will turn other Socialist countries more toward the West and, correspondingly, less toward the East.

In the light of these developments, it does not seem too farfetched to assume the possibility of significant change in the balance of power. Should the big "showdown" come, who will be with the East and who with the West?

CHANGES IN SOVIET ECONOMIC SYSTEM

Recognition should also be given to the changes which are occurring in the operation of the Soviet economic system. The more interesting of these involve adoption of some of the most basic elements of free enterprise capitalism: price as a functional mechanism reconciling production with consumption; profit as both a motivating force and

a measure of efficiency; personal material incentives as a means of stimulating increase in productivity; and interest as a factor to be recognized at least in determining the development of resources and the effectiveness of capital investment.

The intention to let small farmers retain ownership and operation of their farms is probably not as significant as the decision to let them sell their surpluses on the free open market at prices of their own setting. And it is at least of interest to observe a trend whereby more individuals operating in business services of a more personal nature will be allowed to do so as independent entrepreneurs rather than as servants of the state.

FORMER FAILURES IN SOVIET ECONOMY ENCOURAGE CHANGE

Lest it be thought otherwise, I should perhaps add here that the changes mentioned are apparently being introduced not out of admiration for free enterprise capitalism, as such, but in recognition of the failures of the Soviet system to produce equivalent results. It is my impression that the Soviet economic system is one of sheer pragmatism. If underlying communistic ideas could be made to work effectively, they would be retained; if they do not succeed, alternative methods will be tried—even though this may mean the adoption of what had earlier been considered despised capitalistic practices. The one and only basic tenet seems to be public ownership of the means of production and distribution as opposed to our concept of free enterprise based on private property.

Planning, though partly decentralized under the force of necessity, is still sufficiently centralized to be bogging down in an unmanageable morass of paper and statistics. The planners are seeking to be rescued from their dilemma by computers. And they know that the mathematical reconciliation of statistical production with statistical consumption will not put garments on the backs or shoes on the feet of people who do not want to buy or wear them. Plant managers are accordingly, being given more autonomy, together with instructions not to ignore something getting close to what we would consider to be the influence of the marketplace—of a free and even competitive market.

The very fact that such changes within the bloc are a matter of common interest and open debate is, in itself, a remarkable turn of events. It surely is something we have been hoping for—even though greater resort to free enterprise techniques would probably have the ultimate effect of making Soviet exports more competitive with ours in third party markets.

MAGAZINE ARTICLE ON EAST-WEST TRADE

One of the best short writings I have seen on this particular phase of the subject appears in Time magazine, issue of February 12, 1965, and with your permission, Mr. Chairman, I would like to place the article in the record as an appendix to my statement.

The CHAIRMAN. It is so ordered.

Mr. BLACKIE. I trust, incidentally, that all members of this important committee will have already read the short collection of lectures by Mr. George F. Kennan published for the Council on Foreign Relations under the title "On Dealing With the Communist World."

TRADE PROVIDES CHANNELS OF COMMUNICATION

Given the foregoing as premises for a reexamination of our policy, I would respectfully suggest that consideration be given to the idea that trade with at least some of the designated Eastern European Socialist countries might be made an effective instrument—supplementing all other efforts—to counterattack the thrust of international communism. At the very least, such trade would open up channels of communication; and to reach through to the peoples who are, in our opinion, being misled by their ruling leaders, it would seem desirable that we attempt to use every form of communication available to us. Such trade would, of course, involve two-way communication, but there need be little fear that Communist influence would undermine American belief. On the other hand, there does appear to be justification for an opinion that greater exposure to our ways of doing things might serve to show how and why free enterprise capitalism is more successful than Communist-directed socialism. The beauties of our economic system and our political freedom are best seen in the light of demonstrated example.

TREAT SATELLITE COUNTRIES INDIVIDUALLY ON TRADE POLICIES

When considering this possibility that trade might be made an effective instrument of national policy, it should not, in my inexpert opinion, be assumed that changes in our policy need necessarily be applied to all or none of the Eastern European Socialist countries. Instead, it is my thought that our cause might be better served, first, if we were to stop regarding these countries as mere units of a monolithic bloc. If they were treated more as independent sovereign states, does it not seem possible that there might be a better prospect of accelerating the tendency which, in several instances, is already beginning to rise to the surface?

In this connection, it was interesting to hear a high Russian official decry the description of these other Eastern countries as Soviet "satellites." He maintained that all of the European Socialist countries are equal and independent. Whether this be true or not, it would certainly seem to be to our interest not to contradict the idea, and surely we should not act to drive the members of the bloc closer together by confining them in an intramural isolation which would preclude illuminating contact with the best practices of free enterprise. Instead, would it not be better to insert the incisive chisel of honorable trade into any cracks that might portend a disintegration of the monolith?

At this point, I might interject a thought prompted by Senator Javits' presentation. While I can subscribe to much of what he said, it seemed to me that his proposal would continue to treat the bloc more than ever as a bloc, whereas it is a major part of my theme that our effort should be to break up the bloc.

The CHAIRMAN. Do you refer to the code of practices he mentioned?

Mr. BLACKIE. Yes; I gather that Senator Javits' proposal would require a bloc to bloc negotiations.

The CHAIRMAN. Senator Symington?

Senator SYMINGTON. As I understand it. What you want is more trade with these countries? I do not quite understand your comment with respect to Senator Javits' statement, which I have just

read. Are you interested in the political approach, or the economic approach?

Mr. BLACKIE. I am in a position as a businessman to deal only with the economic approach, but I recognize the decision to be a political one and I offer trade only as an instrument to further political objectives.

DIFFERING ATTITUDES AND NEEDS FOR TRADE OF SATELLITES

Senator SYMINGTON. I am not criticizing, only asking for information. If you object to working on a bloc basis, why would that——

Mr. BLACKIE. Because I believe it would drive the Soviet countries closer together and I would like to see them separated.

I should, however, add that the divisive tendencies which have been arising to erode the monolithic control of Russia over its European allies are of indigenous growth. Our effort should be to foster but not supplant that kind of growth. The Iron Curtain, like the more tangible Berlin wall, will inhibit freedom as long as it exists. But the best ultimate result will surely be obtained by having both barriers torn down by and from the other side. Our objective should be to have international communism liquidated—but very preferably by itself.

The sort of thinking which I express would suggest that in a reexamination of our policies we should attempt to recognize and take appropriate advantage of whatever differences there may be among the several countries of Eastern Europe in their attitudes toward Soviet Russia, toward Red China, and toward the United States and its allies. This might mean that the distinction made between strategic and nonstrategic goods would differ as between countries; and it could involve the idea that the granting or withholding of most-favored-nation treatment be made a matter of discerning discrimination. Similar country-by-country distinction might be made in the matter of credit or credit guarantees, if the latter were ever deemed to be desirable under U.S. Government auspices.

To a limited degree, some of the foregoing distinctions are already being made, but the idea could be carried further if our policy were to be changed from one of passive negativism to one of more positive pursuit of the objectives which we seek to achieve.

In such a change, it would also be necessary to recognize not only the need for distinction among countries in the bloc but also that the conditions and the attitudes of the peoples vary from country to country. Some, like Rumania, have recently been showing substantial progress, and this seems to be accompanied by a weakening rather than a strengthening of relationship with the U.S.S.R. Czechoslovakia, on the other hand, is still falling short of an earlier economic standing while its leadership maintains a closer affiliation with Moscow.

It should not, furthermore, be accepted as a fact that all of the peoples of Soviet-Socialist Europe are equally or deeply imbued with any fundamental belief in communism or indeed in any particular ideology. For the most part, the ordinary peoples of the world are not deeply concerned with "isms." They want the better life and they want it now. In many respects, it would not seem unreasonable to believe that speed is considered by them to be more important than method.

EXPAND TRADE TO SHOW COMMUNIST WEAKNESSES AND TO AID FREE ENTERPRISE

And we are not obliged to accept any idea that communism might not ultimately be liquidated as a result of its own wrongness and failure. Our purpose should, therefore, be to try to have the weaknesses of Communist-directed socialism identified for what they are while at the same time proving by comparative success the virtues and advantages of the system which we favor. Neither should it be forgotten that our own reasons for favoring free enterprise capitalism are not always wholly ideological—although it might now be somewhat difficult to separate precept from practice. The basic fact is that our system is good because it produces the best results, and if this be true, we should not be afraid to promote it vigorously in the face of any other system.

CHAMBER'S POLICY RE U.S. RELATIONS WITH COMMUNIST NATIONS

On this, the national chamber has another incisive statement of policy. It says, under the title of "U.S. Relations With Communist Nations":

> The United States should demonstrate to international Communist leadership that its goal of world conquest is unattainable because of the determination of the United States and its allies to preserve freedom. We should seek to convince Communist governments that their own self-interest requires that they enter in good faith into constructive cooperation with the rest of the world.
>
> Accordingly, the United States must—
>
> 1. Increase free world understanding of the nature of the present conflict with international communism.
> 2. Expose the false economic and social claims of communism.
> 3. Utilize to the advantage of the free world the weaknesses and inconsistencies of communism.
> 4. Demonstrate the strengths of free competitive enterprise.
> 5. Effectively coordinate its diplomatic, economic, military, and individual resources to win the struggle.

If this subject has not already been given full consideration by the responsible U.S. authorities, I would respectfully suggest that this should now be done as soon as possible. The European Socialist countries can obtain much of their requirements from within the bloc and all of them can obtain most of what is not available internally by imports from outside the bloc. Other countries, both inside and outside the bloc, are, accordingly, obtaining a trade advantage by reason of U.S. abstinence.

In any practice emerging from a revision of policy, it should be recognized that there can be no such thing as an effective export sales program with order acceptance made contingent upon later approval in Washington. The decisions as to what may or may not be sold and to which countries should be made definitively, and the need for governmental intercession should then be reduced to a minimum.

TRADE AS INSTRUMENT OF MORE AGGRESSIVE NATIONAL POLICY

It will, I hope, be noted (especially by the news media) that in these remarks I have not advocated trade for the sake of trade—with all or any members of the bloc. Nor have I favored any action which should be construed as "appeasement." Instead, it is my thought

that trade be considered first and foremost as the possible instrument of a more aggressive national policy. At the same time, there is no need to ignore the fact that if trade were utilized as such an instrument, then it would bring with it the usual concomitant benefits of greater domestic employment, profits, taxes, and possibly a more favorable balance of trade and payments. The latter would, of course, depend upon the degree of trading reciprocity. Soviet Russia would probably be most insistent upon some form of quid pro quo since its defense of the ruble or its gold seems to rest on a basis of bilateral trade. This need not, however, be necessarily so true of some of the other European Socialist countries, and it is to them that I would suggest attention first be directed.

SUMMATION OF CHAMBER'S VIEWS

Summing up:

1. Our present policy of controlled embargo on trade with the European Socialist countries is not effective; and any policy which is not effective should be reexamined and replaced, if possible, by one which is more likely to achieve our national objectives.

2. The reason for the ineffectiveness of our policy lies mainly in the refusal of our allies to subscribe to our definitions of the distinction between nonstrategic goods which may be exported and strategic goods which may not. This is not a matter of absolute right and wrong; it is one of opinion—and our allies are not likely to change theirs, especially when they are gaining advantage from the difference between us.

3. Among the alternative possibilities in a reformulation of policy would be one that trade might be utilized as a means of strengthening the claims and aims of capitalism and thereby weakening the contrary claims and aims of communism.

4. The timing of any change in our policy should, if the opportunity presents itself, take maximum advantage of changes in the circumstances surrounding the case. This might possibly be a propitious time in the turning of the tide—one to be taken at the flood. The schism between the U.S.S.R. and Red China cannot fail to have some effect upon the balances of allegiance and power; there are definite signs of a desire for more freedom, independence, and autonomy among the Eastern European countries; and the Soviet adoption of some of the elements of successful free enterprise economics cannot fail to weaken the unproved theories of Communist doctrine.

5. Any change in our policy should be dependent upon the state of relationships among the countries involved. Thus, should the present hostilities in Vietnam be escalated into an international war in which we are one of the combatants, there should be no trade of any kind between the United States and those on the opposite side. In such event, it is then to be expected that we and our allies would subscribe to a common, uniform policy.

6. There may be matters of diplomacy or defense which have a bearing upon this subject, but upon which I, like the general public, am not informed. It is for this reason that I have couched some of my remarks in a conditional tense. Those who are better informed should, of course, consider the matter only in the light of their superior knowledge.

Mr. Chairman, I thank you for the opportunity to offer these observations to you and your colleagues on this important committee; and I ask that my complete statement be included in the record of these hearings. Now, if it be your pleasure, I would be pleased to answer questions. I am at your service.

(The complete statement of Mr. Blackie follows:)

STATEMENT BY WILLIAM BLACKIE, PRESIDENT, CATERPILLAR TRACTOR CO.

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"Mutually beneficial trade is normally a desirable goal in and of itself, but in the case of trade with the Soviet Union under today's conditions, it could have added meaning. It presents an opportunity to bridge a communications gap, to establish more contacts, and to develop greater understanding between the two countries. It seems to us very possible that more trade could improve the climate for political settlement, just as political settlement might pave the way for more trade.

"It also occurs to us that our objective should be to seize every reasonable opportunity to influence the evolution of Soviet society toward goals that are more acceptable to the West. And if capitalism and free enterprise be as good as we think we are proving they are, they should also be better for the Soviet people than world communism dominated by the Kremlin. This could be part of our continuing effort to persuade Soviet leaders that the goals of peace and higher standards of living for their people can be achieved more surely and more quickly by their accepting the permanence of the political economic systems of the West, by seeking assurances of security at the conference table, and advancing economic growth through mutually beneficial trade.

"The opportunity to influence this kind of evolution of Soviet attitude obviously depends on the number and quality of the contracts we are able to make. As matters stand today, contacts between American business and the Soviet Union are limited almost entirely to governmental officials on both sides. If the United States does not see fit to modify some of its present policies, then we can expect that Soviet Russia will continue to obtain most of what it wants from other Western powers and will continue to build plants to produce what it is unable to obtain either from them or from us.

"This might slow its economic growth somewhat, but in the longrun might have the effect of putting the Russians in better position to compete with us in third markets (where major competition is most likely to occur); to deny economic benefits to the United States that rise from mutually beneficial trade; to further strain relations between the two countries; to further separate U.S. policy from cooperation with that of our allies; and to deny opportunities for contract and influence over the evolution of Soviet attitude, policy and practice

"If, within the limits of military security, we were now to open the channels of trade with the Soviet Union, contact with Soviet officials, with foreign trade organizations and Soviet industrial managers would multiply. Mutually bene-

ficial deals, licensing arrangements, and possibly even joint ventures might be developed. Through successful experience in cooperation, successful for both sides, it would be our hope that some present fears would fade and that confidence might grow."

These views, it should be understood, were derived from meetings only with Soviet Russian officials in Moscow. No representatives of any other government—ours or of other members of the bloc—were present.

At this point, I proceed to depart somewhat from consensus judgment; and while I believe that most who subscribe to the statements quoted would not differ. I alone must accept responsibility for the thoughts I now offer.

Insofar as it goes beyond the inclusion of goods and materials of a more strictly military nature, our U.S. policy of boycott, embargo, or quarantine of the European socialist countries is simpy not working. Few, if any, of the other countries in the so-called free world believe that our policy, as now practiced, is a good one, and they do not choose to observe it. Their distinction between strategic and nonstrategic in the classification of goods or materials is much different than ours, and I think it might be said that in their definition, strategic would include only items of a strictly military nature. In our U.S. classification, however, "strategic" encompasses many, many more items, and our so-called B list consists of nonmilitary items which nevertheless might have some strategic significance. The result is that while the United States stands aloofly and somewhat helplessly aside, other countries are filling orders for those goods which by their definition but not ours are not strategic. Apart from military materiel, the countries of the Socialist bloc are, accordingly, being deprived of little or nothing that cannot be obtained from some other external source. Communism is not being, nor is it likely to be, blockaded out of existence.

In this respect, it appears most unlikely that the other free world democracies will subscribe to our policy, and if this be so our policy is doomed to failure. A policy which is not effective is not realistic and should be reexamined in the light of its ineffectiveness to accomplish the objectives sought.

In such a reexamination of policy, I suggest that consideration should be given to any changes which might have some significant influence upon the relationships among all or any of the European Socialist countries and the other nations of the Communist world. At this time, these changes would include what appears to be a serious schism in the relationship between Red China and Soviet Russia. This, in turn, is producing changes in the attitudes of the other Eastern European states. Among these is an increasing awareness of greater opportunity for independence. Some are even showing signs of a renaissance whereby patriotic nationalism might become a more important factor, and where the desire to be a Pole or a Rumanian might become even stronger than any aspiration to be a Communist. In this connection, it might be kept in mind that in all the Socialist countries of Eastern Europe card-carrying members of the Communist Party are believed to be in the minority.

According to what I learn from recent writings, Soviet efforts to press for more intensive economic integration through Comecon have been meeting with unexpectedly strong and partially successful resistance. Rumanian leaders have declined to sacrifice what they deem to be their national interests for the alleged betterment of a larger Communist community; and in Poland, poor performances in both agriculture and industry have operated to increase a growing alienation between the people and the Gomulka regime. In Czechoslovakia, dissension and mistrust are mingled with criticism and protest; and in both Bulgaria and East Germany, there would seem to be some reason for at least a hope that intelligence will be allied with enough courage to face up to the folly of pursuing policies which are not producing good results.

This is not to say that such developments are necessarily caused or accompanied by any declining adherence to Communist ideology. They may more likely be prompted by a mere taking advantage of the Sino-Soviet schism. In any event, Yugoslavia and Tito may be offering the example and the way to a degree of independence and a mode of thought which will turn other Socialist countries more toward the West and, correspondingly, less toward the East.

In the light of these developments, it does not seem too farfetched to assume the possibility of significant change in the balance of power. Should the big showdown come, who will be with the East and who with the West?

Recognition should also be given to the changes which are occurring in the operation of the Soviet economic system. The more interesting of these involve adoption of some of the most basic elements of free enterprise capitalism: price as a functional mechanism reconciling production with consumption; profit as

both a motivating force and a measure of efficiency; personal material incentives as a means of stimulating increase in productivity; and interest as a factor to be recognized at least in determining the deployment of resources and the effectiveness of capital investment.

The intention to let small farmers retain ownership and operation of their farms is probably not as significant as the decision to let them sell their surpluses on the free open market at prices of their own setting. And it is at least of interest to observe a trend whereby more individuals operating in business services of a more personal nature will be allowed to do so as independent entrepreneurs rather than as servants of the state.

Lest it be thought otherwise, I should perhaps add here that the changes mentioned are apparently being introduced not out of admiration for free enterprise capitalism, as such, but in recognition of the failures of the Soviet system to produce equivalent results. It is my impression that the Soviet economic system is one of sheer pragmatism. If underlying communistic ideas could be made to work effectively, they would be retained; if they do not succeed, alternative methods will be tried—even though this may mean the adoption of what had earlier been considered despised capitalistic practices. The one and only basic tenet seems to be public ownership of the means of production and distribution as opposed to our concept of free enterprise based on private property.

Planning, though partly decentralized under the force of necessity, is still sufficiently centralized to be bogging down in an unmanageable morass of paper and statistics. The planners are seeking to be rescued from their dilemma by computers. And they now know that the mathematical reconciliation of statistical production with statistical consumption will not put garments on the backs or shoes on the feet of people who do not want to buy or wear them. Plant managers are, accordingly, being given more autonomy, together with instructions not to ignore something getting close to what we would consider to be the influence of the marketplace—of a free and even competitive market.

The very fact that such changes within the bloc are a matter of common interest and open debate is, in itself, a remarkable turn of events. It surely is something we have been hoping for—even though greater resort to free enterprise techniques would probably have the ultimate effect of making Soviet exports more competitive with ours in third party markets.

One of the best short writings I have seen on this particular phase of the subject appears in Time magazine, issue of February 12, 1965, and with your permission, Mr. Chairman, I would like to place the article in the record as an appendix to my statement. I trust, incidentally, that all members of this important committee will have already read the short collection of lectures by Mr. George F. Kennan published for the Council on Foreign Relations under the title "On Dealing With the Communist World."

Another aspect of the matter which may be of some significance is the wish of the Soviet authorities not just to participate in expanded international trade but to do so for the expressed purposes of raising the standard of living of their people and of obtaining the benefits of an international division of labor—one based more strongly on the classical economic ideal. This theme appeared throughout all of our meetings in Moscow, and at no time was any mention made of Mr. Khrushchev's claim that Soviet Russia would use its foreign trade as an instrument with which "to bury us." Mr. Khrushchev was, in fact, very much an "unperson"—although it will be apparent that many of the changes to which he subscribed are being retained and developed by his successors.

Given the foregoing as premises for a reexamination of our policy, I would respectfully suggest that consideration be given to the idea that trade with at least some of the designated Eastern European Socialist countries might be made an effective instrument (supplementing all other efforts) to counterattack the thrust of international communism. At the very least, such trade would open up channels of communication; and to reach through to the peoples who are, in our opinion, being misled by their ruling leaders, it would seem desirable that we attempt to use every form of communication available to us. Such trade would, of course, involve two-way communication, but there need be little fear that Communist influence would undermine American belief. On the other hand, there does appear to be justification for an opinion that greater exposure of our ways of doing things might serve to show how and why free enterprise capitalism is more successful than Communist-directed socialism. The beauties of our economic system and our political freedom are best seen in the light of demonstrated example.

(There will, of course, be those who see any East-West trade only as advantage and even defection to the enemy. They will deem the Soviet "quid" more valuable than the Western "quo" whether the transaction be one of purchase or sale; and they will ignore the fact that the very reason for entering into a business transaction lies in the belief of each party that it is getting the better of the exchange. Some, though lacking any basis of knowledge or proof, will also be quick to impugn the motives of businessmen—charging that national interest is being subordinated to a greedy and even perfidious pursuit of profit. But American businessmen are well aware of their overriding responsibilities in our society; and who, other than they, could be better judges of the possible effectiveness of the uses of trade—beyond the earning of profit? I believe that the United States and its businessmen are sufficiently wise and patriotic to know where our best national interest lies and how to act accordingly.)

When considering this possibility that trade might be made an effective instrument of national policy, it should not, in my inexpert opinion, be assumed that changes in our policy need necessarily be applied to all or none of the Eastern European Socialist countries. Instead, it is my thought that our cause might be better served, first, if we were to stop regarding these countries as mere units of a monolithic bloc. If they were treated more as independent sovereign states, does it not seem possible that there might be a better prospect of accelerating the tendency which, in several instances, is already beginning to rise to the surface?

In this connection, it was interesting to hear a high Russian official decry the description of these other Eastern countries as Soviet "satellites." He maintained that all of the European Socialist countries are equal and independent. Whether this be true or not, it would certainly seem to be to our interest not to contradict the idea, and surely we should not act to drive the members of the bloc closer together by confining them in an intramural isolation which would preclude illuminating contact with the best practices of free enterprise. Instead, would it not be better to insert the incisive chisel of honorable trade into any cracks that might portend a disintegration of the monolith?

(Incidentally, one small contribution toward such a disintegration might be made by us if we were to abolish use of the terms "bloc" and "satellite" and also abandon the whole concept of an Iron Curtain. These terms have become cliches which, like most cliches, tend to inhibit more purposeful thinking. Instead of regarding the curtain as one of impenetrable iron, I suggest that we would do better to treat it as a mere fabric which should, if possible, be torn down. When Sir Winston Churchill first used the term, he merely said that a curtain "had descended across the continent." "Behind that line," he said, "lie all the capitals of the ancient states of Central and Eastern Europe—Warsaw, Berlin, Prague, Vienna, Budapest, Belgrade, Bucharest, and Sofia." But he did not say that the curtain should remain down. Vienna and Belgrade are no longer behind it, and Berlin is half free.)

I should, however, add that the divisive tendencies which have been arising to erode the monolithic control of Russia over its European allies are of indigenous growth. Our effort should be to foster but not supplant that kind of growth. The Iron Curtain, like the more tangible Berlin Wall, will inhibit freedom as long as it exists. But the best ultimate result will surely be obtained by having both barriers torn down by and from the other side.

Our objective should be to have international communism liquidated—but very preferably by itself.

The sort of thinking which I express would suggest that in a reexamination of our policies we should attempt to recognize and take appropriate advantage of whatever differences there may be among the several countries of Eastern Europe in their attitudes toward Soviet Russia, toward Red China, and toward the United States and its allies. This might mean that the distinction made beween strategic and nonstrategic goods would differ as between countries; and it could involve the idea that the granting or withholding of most-favored-nation treatment be made a matter of discerning discrimination. Similar country-by-country distinction might be made in the matter of credit or credit guaranties, if the latter were ever deemed to be desirable under U.S. Government auspices.

To a limited degree, some of the foregoing distinctions are already being made, but the idea could be carried further if our policy were to be changed from one of passive negativism to one of more positive pursuit of the objectives which we seek to achieve.

In such a change, it would also be necessary to recognize not only the need for distinction among countries in the bloc but also that the conditions and the attitudes of the peoples vary from country to country. Some, like Rumania, have recently been showing substantial progress, and this seems to be accompanied by a weakening rather than a strengthening of relationship with the U.S.S.R. Czechoslovakia, on the other hand, is still falling short of an earlier economic standing while its leadership maintains a closer affiliation with Moscow.

It should not, furthermore, be accepted as a fact that all of the peoples of Soviet-Socialist Europe are equally or deeply imbued with any fundamental belief in communism or indeed in any particular ideology. For the most part, the ordinary peoples of the world are not deeply concerned with "isms." They want the better life and they want it now. In many respects, it would not seem unreasonable to believe that speed is considered by them to be more important than method.

And we are not obliged to accept any idea that communism might not ultimately be liquidated as a result of its own wrongness and failure. Our purpose should, therefore, be to try to have the weaknesses of Communist-directed socialism identified for what they are while at the same time proving by comparative success the virtues and advantages of the system which we favor. Neither should it be forgotten that our own reasons for favoring free enterprise capitalism are not always wholly ideological—although it might now be somewhat difficult to separate precept from practice. The basic fact is that our system is good because it produces the best results, and if this be true, we should not be afraid to promote it vigorously in the face of any other system.

On this, the national chamber has another incisive statement of policy. It says, under the title of "U.S. Relations With Communist Nations":

"The United States should demonstrate to international Communist leadership that its goal of world conquest is unattainable because of the determination of the United States and its allies to preserve freedom. We should seek to convince Communist governments that their own self-interest requires that they enter in good faith into constructive cooperation wih the rest of the world.

"Accordingly, the United States must:

"1. Increase free world understanding of the nature of the present conflict with international communism.

"2. Expose the false economic and social claims of communism.

"3. Utilize to the advantage of the free world the weaknesses and inconsistencies of communism.

"4. Demonstrate the strengths of free competitive enterprise.

"5. Effectively coordinate its diplomatic, economic, military, and individual resources to win the struggle."

If this subject has not already been given full consideration by the responsible U.S. authorities, I would respectfully suggest that this should now be done as soon as possible. The European Socialist countries can obtain much of their requirements from within the bloc[1] and all of them can obtain most of what is not available internally by imports from outside the bloc. Other countries, both inside and outside the bloc, are, accordingly, obtaining a trade advantage by reason of U.S. abstinence.

In any practice emerging from a revision of policy, it should be recognized that there can be no such thing as an effective export sales program with order acceptance made contingent upon later approval in Washington. The decisions as to what may or may not be sold and to which countries should be made definitively, and the need for governmental intercession should then be reduced to a minimum.

And it would be poor regulatory practice to require that before governmental permission is granted for a U.S. export, it must be shown that others are already supplying equivalent goods. This would require the more difficult recapture of a market already invaded by others. Similarly, it should not be made a condition of such permission that U.S. goods must be claimed by the seller to be not superior to the competitive alternatives.

It should also be appreciated that, in any opening up of East-West trade, U.S. goods would frequently have to compete in all respects with those offered by other countries. And to the extent that any country—especially the U.S.S.R.—

[1] Three-fourths of Soviet Russian trade is with the Eastern European Socialist countries.

were to insist upon balanced bilateral trade, there would be a further limitation arising from the lack of need for, or the difficulty in selling, Soviet goods in the United States of America. American salesmanship might also be handicapped by an unwillingness to extend as much credit as others would; and this would be compounded by an absence of guarantees such as are available for exports from other countries. In these circumstances, it would be wrong to build up or act upon any exaggerated assumption about the volume of business which might be expected from U.S. trade with the European Socialist markets.

It will, I hope, be noted (especially by the news media) that in these remarks I have not advocated trade for the sake of trade—with all or any members of the bloc. Nor have I favored any action which should be construed as "appeasement." Instead, it is my thought that trade be considered first and foremost as the possible instrument of a more aggressive national policy. At the same time, there is no need to ignore the fact that if trade were utilized as such an instrument, then it would bring with it the usual concomitant benefits of greater domestic employment, profits, taxes, and possibly a more favorable balance of trade and payments. The latter would, of course, depend upon the degree of trading reciprocity. Soviet Russia would probably be most insistent upon some form of quid pro quo since its defense of the ruble or its gold seems to rest on a basis of bilateral trade. This need not, however, be necessarily so true of some of the other European Socialist countries, and it is to them that I would suggest attention first be directed.

I might perhaps mention one further thought. Should ideas such as those I offer for consideration find favor within our own governmental authority, then I would suggest that the appropriate actions be taken without any particular fanfare. If the present obstacles to trade were to be eased one by one, country by country, according to careful and purposeful selection, all that would then seem necessary is to have American business informed that, should it be willing to undertake permitted business with designated countries, this would be welcomed not only as a matter of private enterprise but also as desired implementation of a creative U.S. foreign policy.

Summing up:

(1) Our present policy of controlled embargo on trade with the European Socialist countries is not effective; and any policy which is not effective should be reexamined and replaced, if possible, by one which is more likely to achieve our national objectives.

(2) The reason for the ineffectiveness of our policy lies mainly in the refusal of our allies to subscribe to our definitions of the distinction between nonstrategic goods which may be exported and strategic goods which may not. This is not a matter of absolute right and wrong; it is one of opinion—and our allies are not likely to change theirs, especially when they are gaining advantage from the difference between us.

(3) Among the alternative possibilities in a reformulation of policy would be one that trade might be utilized as a means of strengthening the claims and aims of capitalism and thereby weakening the contrary claims and aims of communism.

(4) The timing of any change in our policy should, if the opportunity presents itself, take maximum advantage of changes in the circumstances surrounding the case. This might possibly be a propitious time in the turning of the tide—one to be taken at the flood. The schism between the U.S.S.R. and Red China cannot fail to have some effect upon the balances of allegiance and power; there are definite signs of a desire for more freedom, independence, and autonomy among the Eastern European countries; and the Soviet adoption of some of the elements of successful free enterprise economics cannot fail to weaken the unproved theories of Communist doctrine.

(5) Any change in our policy should be dependent upon the state of relationships among the countries involved. Thus, should the present hostilities in Vietnam be escalated into an international war in which we are one of the combatants, there should be no trade of any kind between the United States and those on the opposite side. In such event, it is then to be expected that we and our allies would subscribe to a common, uniform policy.

(6) There may be matters of diplomacy or defense which have a bearing upon this subject, but upon which I, like the general public, am not informed. It is for this reason that I have couched some of my remarks in a conditional tense. Those who are better informed should, of course, consider the matter only in the light of their superior knowledge.

Mr. Chairman, I thank you for the opportunity to offer these observations to you and your colleagues on this important committee; and I ask that my complete statement be included in the record of these hearings. Now, if it be your pleasure, I would be pleased to answer questions.

(The article from Time magazine follows:)

[From Time, Feb. 12, 1965]

RUSSIA—BORROWING FROM THE CAPITALISTS

"The economy," said Lenin, "is the main field of battle for communism." In a fashion the old revolutionary could hardly have intended, the Soviet economy has become today a battlefield of explosive ideas that threaten nearly every precept and practice of Communism in the past generation. Whether conservatively toeing their Marx or boldly advocating such heretical Western-style reforms as the primacy of profits, every important planner, apparatchik and economist in Russia is caught up in communism's greatest debate since Stalin set backward Russia on its cruel—but successful—forced march into the 20th century industrial world.

Russia's flirtation with market mechanisms comes at a time of swift and startling economic change across the whole Communist-bloc spectrum. Hotel lobbies from Warsaw to Bucharest are jammed with Western businessmen scrambling to get into Communist markets. The "imperialist agents" are getting an interested reception in ways unthinkable a few years before. Negotiators for West Germany's giant Krupp empire last week were tidying up a deal to build plants in Poland that will be German owned but will employ Polish labor, and Hungary and Rumania have expressed lively interest in similar permanent, paying capitalist boarders of their own.

Pepsi-Cola is negotiating with at least four satellite countries, and both Firestone Tire & Rubber and Universal Oil Products will build major plants in Rumania. Hardly a week goes by without the announcement of a new trade agreement between a Western nation and a member of the East bloc, typically for double the amount of previous trade. Last year commerce between East and West soared to $9 billion—a 100-percent jump in 7 years. In his state of the Union address, President Johnson asked the Nation to explore new ways "to increase peaceful trade" with Communist countries—a goal that may well multiply twelvefold American exports to Russia alone in the next 5 years.

COMMAND ECONOMY

As the increasingly independent Eastern European satellites are opening up to the West, so they are boldly opening up their own internal economies to Western techniques. Fortnight ago, Czechoslovakia inaugurated a massive decentralization program drawn up by Prague Economics Prof. Ota Sik. Except for general growth goals set by the state and controlled prices in some key sectors, each Czech factory will have wide freedom for its own development. East Germany, too, has relegated planning to groups of enterprises, freed the prices of some raw materials, is toying with profit incentives. Hungary has introduced a form of profit sharing, and in a deviation from Marxist ideology unique in the bloc, has imposed an interest rate of 5 percent on capital. To push exports, Poland has permitted three firms to set up their own foreign-trade pipelines, bypassing Warsaw to deal directly abroad. Yugoslavia long ago created a "Socialist market economy"—relatively competitive enterprise under state ownership.

Russia itself has lagged behind the satellites in the economic shift toward Western ways. At stake is nothing less than Russia's vast "command economy," with its Kafkaesque, topheavy bureaucratic fiefdoms regulating every pulse and throb of the nation's economic engine. And though Marx never mentioned central planning and Lenin came to it only late in life, such is Stalin's historical shadow that at stake, too, are a generation of ideological maxims boastfully vaunting the superiority of Socialist planning over capitalism, the pervasive power—and perhaps the jobs—of some 10 million planners large and small, and ultimately perhaps the amenities of life of millions of ordinary Russians.

Clearly, such unsettling prospects would not even be countenanced in the Kremlin were it not for yet a grimmer vista already looming. That vista is a continuing turnabout in the Soviet growth rate, whose longtime double-figure performances led by Nikita Khrushchev as recently as 1961 to assure the world that

the U.S.S.R. would overtake the United States by 1970 as the world's mightiest economy. It has been slowing down ever since. Last week Moscow reported that industrial output grew at 7.1 percent, a sizable figure for a mature economy but the lowest in Russia since 1946. And each year the evidence of waste, mismanagement, inefficiency, and planning gone berserk multiply.

UKRAINIAN CONTRIBUTION

Russia's growing community of pragmatic, highly professional economists and engineers understands very clearly what has happened, and is sure that it has the cure—even if much of it has to be borrowed from the capitalists. Among the foremost is Kharkov Economics Prof. Evsei Liberman, 67, whose quizzical smile masks an imperious and demanding intelligence, and who as much as any other Russian is credited by the West with initiating Russia's great debate. A stocky Ukrainian with a quick and witting command of English, Liberman is typical of Russia's new breed that has used the freedom of the post-Stalin era to correspond with and receive Western economists, is as at home in Moscow's ministries as conducting a postgraduate seminar.

The crux of their arguments for change comes down to the fact that the Soviet economy has grown too complex and sophisticated to be efficiently manipulated by pushbutton from Moscow. The economic reformers are not out to undermine communism but to improve its efficiency. Nonetheless, the solutions they have proposed are distinctly Western: the use of profits on invested capital as the single best indicator of factory performance, flexible prices responding to the market forces of supply and demand—and, of all things, charging interest on the use of Government money by shops and factories.

Sensible pragmatism or rank heresy? Khrushchev himself provided the reformers with a text, if not an answer, late in 1962, when the debate was beginning to gather momentum. He reminded the Central Committee of "Lenin's directive that we be able, if necessary, to learn from the capitalists, to adopt whatever they have that is sensible and advantageous."

Eighteen months later, it had plainly become "necessary." Moving the debate off the pages of Pravda and into the industrial arena, Khrushchev gave the reformers a place to test their theories. Two clothing factories—Moscow's Bolshevichka and Gorky's Mayak—were cut loose to negotiate prices and sell their suits and dresses directly to 22 retail stores. The stores told the two factories what kinds of goods the consumers wanted, and the factories were judged by the profits made on what goods were actually sold.

Bolshevichka and Mayak showed such a resounding improvement in efficiency—and such "deviationism"—that many Kremlinologists assumed they had contributed to Nikita's downfall. Not at all. One of the first acts of Premier Kosygin's new leadership was to extend the experiments. Kosygin announced that in gradual stages the new system would be spread throughout the whole of the consumer goods industry. Last month the first 400 clothing and shoe firms scattered across Russia were authorized for the changeover—together, significantly, with 78 of their raw-material suppliers, who also had to be freed from the restrictions of the planners if the Kremlin really meant business in the reforms. Kosygin went even further, asserting that eventually the reforms would be extended to all of Soviet industry.

THE CAR URGE

What the reforms seek to do is liberate the Soviet economy from the stifling economic dictatorship that Stalin imposed on it as a mirror image of his political tyranny. Determined to rush the transition to industrial power that had taken the United States and Britain 200 years to accomplish, he turned Russia into a gigantic state corporation that ruthlessly seized every bit of excess capital it produced in order to feed it back into its heavy industries—above all, steel—which are the sinews of a modern economy. With such a single-minded goal, planning was relatively easy.

But by the time Stalin died, the economy had grown so complex that no army of planners, however large, could possibly keep up with Russia's exploding technology. And for the first time, the Soviet consumer began to have enough money, and enough of shoddily made goods, to refuse to buy what failed to please him—and to want more of everything from hand cream and weekly hairdos to haute couture. As Izvestia unabashedly admitted fortnight ago: "The urge to have one's own car is as compelling as technical progress itself." This was a

kind of consumer pressure that the Kremlin planners had never before encountered.

HYDRA-FOILED

In his pursuit of "goulash communism," Khrushchev tried to cope with it, and with all his economy's mounting problems, by replanning the planners. No fewer than six times in 10 years, he scrambled the organization table, veering from decentralization back to recentralization in the vain hope of finding the magic mix for what he called "better utilization of the country's industrial potential." It eluded him each time—and his constant shufflings left the Russian economy at the mercy of the monster planning Hydra, with its multiple-overlapping bureaus on the national, regional, and local level, even more than before.

Soviet planning's faults are chiefly two: too many cooks from the Supreme Economic Council on down, and more often than not the wrong recipe in 15 copies. Two months ago, a Supreme Soviet Deputy cited the example of the Izhora factory, which received no fewer than 70 different official instructions from nine state committees, four economic councils, and two state planning committees—all authorized to issue Izhora production orders.

Since factory output goals are either laid down in weight or quota by the planners a knitwear plant ordered to produce 80,000 caps and sweaters naturally produced only caps: they were smaller and thus cheaper and quicker to make. A factory commanded to make lamp shades made them all orange, since sticking to one color kept the assembly line uncomplicated. Tire production one year was fixed without checking the plan for motor vehicle output. Taxi drivers were put on a bonus system based on mileage, and soon the Moscow suburbs were full of empty taxis barreling down the boulevards to fatten their bonuses.

NO CEILING

The tonnage norms particularly piqued Khrushchev's peasant commonsense. Machine builders used 8-inch plates when 4-inch plates would easily have done the job. "We make the heaviest machines in the world," sighed Nikita. His choice complaint, however, had to do with a Moscow chandelier factory: the more tons of chandeliers the plant produced, the more workers earned in bonuses. The chandeliers grew heavier and heavier, until they started pulling ceilings down. They fulfilled the plan, admitted Khrushchev angrily, "but who needs this plan? To whom does it give light?"

Many able economists and engineers had long known that much of the Soviet economy was a joke, and started saying so. Typical was the protest about the construction of the Novo-Lipetsk steel mill. The plans took up 91 volumes comprising 70,000 pages, specified precisely the location of each nail, lamp or washstand—everything, in fact, except whether the project was economically sound. An engineer estimated perhaps half in jest that at the rate the paper-wafflers were multiplying, by 1980 the planning agencies might well employ every man and woman in the Soviet Union. One mathematician made the astonishing calculation that Russia's GNP might well be doubled simply by cleaning up the planning mess.

Last year, in Russia's largest republic alone, deliveries of 257 factories had to be suspended because their goods simply would not be bought. Moreover, state trade organizations returned or marked down 20 percent of all clothing, 10 percent of hoisery and 9 percent of shoes produced. Russian refrigerator factories received 56,000 written complaints about faulty products—including refrigerators from the Baku factory lacking refrigerant gas in their coils. As a result of the consumer's stiffening standards and an increased inclination to complain, an incredible $3 billion worth of unsellable junk has accumulated in Soviet inventories.

THE RIGHT MAN

As early as 1956, Evsei Liberman had published an article in "Kommunist" suggesting that local plant efficiency and quality could be improved by greater emphasis on profitability. For Liberman, then still an obscure scholar in a provincial school, it was merely the modest proposal of a man who knew the day-to-day problems of a plant manager.

Born in the Ukraine's Volyn in 1897, Liberman attended a "gymnasium" and took a law degree at Kiev University, went on to study engineering in Kharkov. For some 15 years he worked in various factories nearby, including 6 years as planning chief in a large farm machinery plant. After a wartime stint in a

Moscow government job, Liberman went back to the engineering institute in Kharkov as a teacher and part-time factory consultant, earning his doctorate in economics in 1956 and the title of professor in 1959.

The provincial professor's 1956 essay went virtually unnoticed—except by some far more influential economists in Moscow who had already been rethinking the system. Perhaps the most important was Vasily Nemchinov, a mathematical éminence grise regarded as the dean of Soviet economists. He saw in Liberman a potential stalking horse for all the reformers, invited him to Moscow. When in 1962 the economy's growing malaise could no longer be ignored by the Kremlin, Nemchinov persuaded Khrushchev to give Liberman's theories a showcase in Pravda. On September 9, 1962, Liberman's "The Plan, Profits, and Bonuses" was published, and the great debate began.

WHAT'S GOOD FOR THE FACTORY

Profits had long been used in Russia, but only as one among a dozen capriciously applied yardsticks for determining plant efficiency. Liberman urged that profit be made the prime element, arguing that "the higher the profits, the greater the incentive" to quality and efficiency. "What is good for the factory is good for the society," Liberman insisted.

One by one, other economists leaped into the fray, blasting the cult of the plan, and insisting that plant managers be given more autonomy. The eminent Nemchinov himself, fast going blind and nearing the end of his life (he died last October at the age of 70), called for something very close to a state-owned market economy. Planning decrees would be replaced by contracts between enterprises and the government, with the lowest bidder getting a particular job—and setting its prices as a result.

CHARGING INTEREST

Except for the cardinal Red principle of state ownership of property, no part of the Soviet economic edifice was eventually spared the reformers' wrecking balls. One editor proposed abolition of Russia's 50 percent consumer goods tax, argued that all Soviet revenues could be derived from a profits tax once profit was made the universal indicator. Denouncing the fact that under planning today, over one-fifth of Russia's factories operate at a subsidized loss, he urged that government funds be rechanneled into firms running in the black.

An important bureaucrat took these ideas a logical step further, demanding an interest charge on capital and prices rooted in economic reality rather than planning fiction. Academician Vadim Trapeznikov, revered in Russia as the "father of Soviet automation," threw his weight in with the reformers all along the line, noting that "one hears the view that interest on capital is a concept of capitalistic society." Wrong, he insisted. "In fact, the form here is identical, but the essence is different."

LOST: 500,000 DAYS

It was by no means only economists who poured through the breach that Liberman had opened. The manager of a giant construction complex even went so far as to use the phrase "supply and demand" in pleading for a freewheeling open market for consumer goods, admitting that it would necessitate major reliance on that old capitalist technique of market research by firms. A director of Odessa's Red October Plant wrote to Pravda that the machine-tool industry in the Black Sea was working at less than three-fourths the capacity called for in the plan. The reason, he complained acidly, was the "host of directives" from the planners, which caused "insurmountable barriers and innumerable hindrances." Leningrad managers complained that they lost 500,000 man-days of work during 1964 running back and forth to Moscow to get decisions from central planners.

Liberman himself pased on a foundry's complaint that it lost $11,100 worth of metal because its plan would not permit an additional outlay of $2,500 for salvage workers. In another instance, the plan specifies that workers at the Victory Candy Factory (1964 quota: 5,460 tons) at Vilna, in Lithuania, wear sanitary white smocks and caps at all times. Though they handle each piece of candy at least four times, nowhere are they asked to wash their hands. So absurd have planning's excesses grown that even some of the planners themselves were converted to the reformers' cause. One regional planner complained

angrily that his bosses had amended his 1962 Voronezh sovnarkhoz plan 133 times within 9 months.

GREAT DANGERS

To the entrenched planners and old-line ideologues, such prerevolutionary crticisms were a screaming red flag, and soon outraged rebuttals began to fill the columns of the press. "If we give up centralized planning of salaries, work production, production costs, investments," complained the prestigious Academy of Sciences' Kirill Plotnikov, "we give up regulation by the state of the most important parts of the economy—in fact, of economic planning. This path is full of great dangers."

"The aim of socialist production is not to make a profit," objected one critic. "Lenin put forward the principle of organization against laissez-faire and petit bourgeois negligence," said another, "against opportunism and anarchy, liquidatorism, dumping." Amen, cried Academician Fedorenko: "We must never forget that unique economic 'planification' which is centralized is one of the great victories of the socialist regime. We must not weaken but improve central planning."

A STRANGE UTOPIA

For support, many of those who resist the Liberman philosophy are allying themselves with Russia's computer specialists, who argue that central planning can be saved by the use of modern machines.

Solving the equation of the Soviet economy would clearly be a computer expert's supreme triumph, since it would involve programing some 50 million unknowns and 5 million constants all in motion. The Kremlin has endowed a Central Economic-Mathematical Institute to explore the feasibility of a network of 50 key computer stations across the U.S.S.R. linked to a "big daddy" blinker in Moscow. Presumably the monster would constantly engorge raw data on the economy at the local level, process it in Moscow, and electronically burp prices and other economic orders back to the provinces.

This Orwellian vision draws scalding scorn from the liberal economists. "Do you mathematicians expect to be able to see from the main computing center," asks Ivan Malyshev, deputy chief of the Central Statistical Administration, "all our vast territory from the cold rocks of Murmansk to the flaming sun of Kolkhida in the Caucasus, to see how people sow and reap, how every chemical complex functions, how every machine operates? If something goes wrong in Khabarovsk, can you merely press a button and straighten things out? A strange utopia. Society is not the sum of mathematical zeros and digits. It is a living, creative body."

NO SIDES

Though Khrushchev permitted these polemics to take place, he probably never fully understood what the argument was all about. Still, he let the reformers start their experiments in the Bolshevichka and Mayak factories.

Escaping from the plan at first proved an unsettling business for the two firms. Despite Moscow's explicit authorization, many of the suppliers were suspicious—and unwilling to guarantee delivery dates in advance. Stores, however, were delighted at last to be able to order what their customers wanted with the reasonable certainty that they would get it, and get it on time.

Orders in hand, Bolshevichka and Mayak set their own production schedules, decided how many workers would be needed to do the job. Profits were pegged only to what their stores could actually sell, and worker piece-rate bonuses were accordingly awarded for quality. To get a better reading of consumer tastes, Bolshevichka set up its own shoppers' clinic. Within 6 months, both profits and quality had soared and, of critical interest to the Kremlin, inventories were sharply reduced: the turnover of Bolshevichka and Mayak goods in the retail stores was speeded up by some 3 weeks.

Bolshevichka today gleams with pride: flowers adorn each worktable, the walls are freshly painted and adorned with photographs of its workers shaking hands with party bigwigs, who arrive in ever-increasing numbers to see the miracle that has come to pass. To one and all, beaming Director Petr Noskov reports that Bolshevichka's profit margin has risen to 7 percent, that the average pay is up from $94 a month to $110, and that the factory is now making better suits at a cheaper price ($85 against $96) and are (oh, that Capitalist idiom) "selling like hotcakes."

McNAMARAISH

Now, at the top of all this, stands Premier Aleksei Kosygin, a trained economist, widely and well-traveled in Western economies. Far more at home with a balance sheet—or a Western businessman—than with the shadowboxing of Leninst theology, Kosygin has long been the whiz kid of the Communist bureaucracy (at 44 he was the youngest member of the Politburo). Now 60, he probably understands the Soviet economy better than any man alive, and with his pragmatic, McNamaraish fetish for efficiency, took the part of the reformers even under Khrushchev. If any Communist leader can turn the experiments into the law of the land, it is Kosygin. The cautious, rational, step-by-step method he has adopted in extending them is in itself an encouraging sign, points out U.S. economist Marshall Goldman, who has made a careful study of the Soviet economic controversy. "They had to make changes," he adds. "If they had not, the economy would have gone straight down. It was really more a question of saving the economy than simply strengthening it."

If, under Kosygin, Evsei Liberman is at all surprised to find himself at least nominally in the vanguard of modern communism's potentially most far-reaching reform, he shows no sign of discomfort in the role. Although he retired formally 2 years ago, he still teaches three classes a week in the Kharkov University skyscraper overlooking Dzerzhinsky Square. When asked if he tried to inculcate his students with notions of profitability, he smiles and says, "Yes, but very carefully: I say that it is my opinion, but there are many objections. I explain in them all, and the students draw their own conclusions."

"STOP—GO"

Now are his days of experiment at an end. Last month Liberman was in Lvov, explaining his theories to the town economic council, which has been authorized to make the first area (as opposed to industry) test of the "profit incentive." Lvov is in particular interest because the five industries in the test include a coal mine and a mobile-hoist manufacturing plant—the reformers' first venture outside the confines of light industry. Liberman stoutly denies that Western capitalism has had any influence on this theories, and has referred to Western reporting of his work as "capitalistic" as the work of "the snipes in the swamp." But he plainly follows with careful interest what is written in the West about the great debate, promptly fires off tart letters to editors in excellent English if he has any quarrel with the interpretaion.

Whatever the final outcome of the debate, the fact that it has taken place at all in such frankness and freedom is remarkable testimony to how far Russia has come since Stalin. Some Sovietologists think the enemies of the reform are simply biding their time, confident that sooner or later the experiments are bound to cause economic dislocation that will force a retrenchment. For the new system to really work, the Kremlin will have to eventually free prices. And then unemployment may result, which no Soviet regime is likely to tolerate. Goldman thinks that progress will likely be on a stop-go basis, a little at a time to permit the economy to adjust to the wrenching changes that the switch from a command economy will inevitably entail.

Liberman admits as much. "It is clear that, at first, shortcomings will turn up in the course of practical application: that people will surely rail at the system and its authors, and that people will say it must be abolished and thrown out immediately," he told a group of fellow economists. "I foresee all this, but if we economists work together in a united front, go through the painful period of the introduction of the new system together and do not panic, we will be performing a good service in building the technical base of communism."

ADMEN?

Technical base for communism or not, there is no escaping the fact that having in effect posted a suggestion box, the Kremlin has found Pandora's name on it. Last month a Moscow economist proposed that the profit motive even be extended to agriculture, Russia's perennially insoluble problem. Last week in Trud, a trade official named Lazukov suggested that Russians should learn to advertise capitalist style, with TV commercials, trailers in movie houses, and professional Madison Avenue men. Izvestia recently lamented that while the United States has 50 university-level business-management schools, Russia has none. Though the Russians insist none of this has anything to do with capitalism—at least in essence—the fact remains that Peiping, which once complained that

Russia was fast turning into "capitalism without capitalists," is now taunting Moscow for its "capitalism with capitalists."

Liberman is of course right in insisting that he is not ushering in "capitalism"—that dirty word the Communists have never really understood for all their ranting against it. But the current search for incentives to get the Russian economy moving again is nonetheless an eloquent testimony to the failure of one of communism's cardinal creeds: that the profit motive is wrong and evil, and unnecessary in running a society. People, insists Marxism, can be made to work like soldiers—or saints—solely for the good of the state. The great debate, whatever comes of it, has demonstrated that this is simply not so; that given a chance, man does not want to live by slogan alone.

ONE HUNDRED FLOWERS?

Western experts differ widely on how far Russian economic reform can go, and what it means. "I think this is a permanent reform," says Pennsylvania's Herbert Levine, "except for a major outside political event. I don't expect that there will be an easy retrenchment to a central economy." But Stanford's Roger Freeman insists that it is "only a period—like China's 100-flowers period. It may appear to open up the Soviet Union, but eventually it must die."

Others suspect some sort of balance will be struck: "Within carefully defined limits," says the Rand Corp.'s Sovietologist Abraham Becker, "the consumer will be allowed to determine the major part of his buying habits. But the central planners will still set the limits as they see fit." Still, he admits, "it would not be beyond the realm of possibility that Soviet society would resemble Yugoslavia's within 10 years." State Department experts, however, tend to take the view that, since "the new experiments inherently mean curtailment of the control of party members," sooner or later it will become a political issue—and the experiments will be scrapped, just as NEP, communism's first essay in capitalism from 1921 to 1927, was dismantled by the political commissars.

EROSION ELSEWHERE

Perhaps the most hopeful analysis for the West of communism's great debate comes from Harvard's respected Soviet analyst, Abram Bergson: "This is a shift toward pragmatism—an erosion of doctrine in economic affairs. It might be argued that erosion of doctrine in economic affairs could lead to erosion of other Communist doctrines. For it enhances the spread of pragmatism into politics, and thus into foreign policy."

The CHAIRMAN. Thank you very much, Mr. Blackie. That is a very thoughtful statement and the entire statement will be in the record.

TRIP OF U.S. BUSINESSMEN TO RUSSIA

I understand you went to Moscow with Mr. Haynes and other business leaders?

Mr. BLACKIE. Yes, I did.

The CHAIRMAN. About how many of you were there?

Mr. BLACKIE. About 90.

The CHAIRMAN. How were you received?

Mr. BLACKIE. Very cordially.

The CHAIRMAN. Did you get acquainted with the plant managers?

Mr. BLACKIE. We met about 30 of them and listened to some of them as they answered questions. But we had the usual difficulty of meeting through interpreters.

The CHAIRMAN. Yes, that is always so difficult. Did they evidence a great interest in your businesses and so on? Was it a full exchange of views?

Mr. BLACKIE. In the questions that were asked, they appeared to be more interested in ways of conducting business—techniques, uses of computers, and in some of the questions dealing with economic fac-

tors. It was quite evident they are being deprived of the tremendous advantage we have through a free market economy.

The CHAIRMAN. How do you mean that? Explain it a little.

OBSERVATIONS ON BUSINESS PRACTICES IN U.S.S.R.

Mr. BLACKIE. We, company by company, make our own determination of what we think we can sell and what, therefore, we will produce to meet that prospective demand. We set our own prices one by one in order to arrive at what we think is the best balance. They have been selling on the basis of an average cost which produces a price which does not necessarily equate supply with demand.

Senator LAUSCHE. I would like to ask you some questions, but I have an amendment that has been called up on the floor; therefore, I will not have the pleasure of having you answer my questions.

Mr. BLACKIE. I would be pleased to answer them by letter, Senator Lausche. They do not have the contact we have with the customer, with the consumer. That is why I made the reference to the fact that they have garments that cannot be sold, because nobody will wear them, boots and shoes that will not meet the desires of the Russian pedestrian.

The CHAIRMAN. Did you discuss this sort of problem with them?

Mr. BLACKIE. No. These matters came out indirectly in discussion and in some of my comments, I have difficulty determining where I learned. In preparation for this hearing, I have done more intensive reading. I happened to be engaged in an open discussion of this subject with Secretary of State Rusk last year.

The CHAIRMAN. I have been reading something about Mr. Liberman and the fact that they are experimenting with what we call American techniques.

Mr. BLACKIE. Right.

The CHAIRMAN. You did not discuss this while you were there with them?

Mr. BLACKIE. The nature of the meetings was one of addresses by the Soviet Ministers, then questions by the American businessmen, then questions asked of the American businessmen by the Soviet officials. On this particular point, I think the most dramatic event occurred when, in the course of questions, one of our members referred somewhat apologetically to profit—profit motivation. The Minister said in effect: "Please do not be apologetic about it; we understand profits, we believe in them, we are for them, and we are going to do more about the creation of them."

The CHAIRMAN. He was warning you?

Mr. BLACKIE. He was at least speaking quite openly and decisively.

COMPARISON OF UNITED STATES-SOVIET GOODS

The CHAIRMAN. Did you run into anyone who was in your field—the production of tractors? Do they make anything equivalent to yours?

Mr. BLACKIE. Yes. They make a fairly wide range of machines somewhat similar to ours.

The CHAIRMAN. Did you see them?

Mr. BLACKIE. No, I have here the catalogs with pictures and descriptions of everything they make in our field. Our representatives have seen them and have driven some of them. They are not as good as ours.

The CHAIRMAN. I was going to ask you how they compared in quality?

Mr. BLACKIE. They are not as good as ours and they reflect a considerable amount of Caterpillar influence. But I would have to admit that that is true of everyone else who makes our kind of machinery.

The CHAIRMAN. They have all imitated you?

Mr. BLACKIE. It is difficult to avoid prior art in a matter of this kind.

The CHAIRMAN. You have probably imitated somebody else, have you not? You were not the first in the field?

Mr. BLACKIE. We were the first.

The CHAIRMAN. You were the first?

Mr. BLACKIE. Yes, sir.

The CHAIRMAN. I did not realize that.

Mr. BLACKIE. We still are.

TRADE WOULD HELP SHOW SUPERIORITY OF AMERICAN SYSTEM

The CHAIRMAN. I think you take a fundamentally different approach on matters of trade from a previous witness. I think you assume that this question of the better way to organize a society is still being examined and that they might be subject to persuasion if, we demonstrate clearly enough that ours is the superior way. Is that correct?

Mr. BLACKIE. Yes, sir. I cannot accept a policy of defeatism which says that right will not someday prevail.

The CHAIRMAN. You do not accept the view that their ideology is so engrained and so positive that it cannot be changed?

Mr. BLACKIE. No, sir; I think their ideology is so shallow and their practices so wrong that it cannot stand the test of time in comparison with what we are doing. That is why I think the comparison must be brought out as directly and vividly as possible. They will never know how bad they are until they know how good we are.

The CHAIRMAN. You think that the more superior our system is, the more persuasive it will be upon them?

Mr. BLACKIE. Yes, sir.

The CHAIRMAN. Simply as a practical matter of which is the more efficient way to organize society?

Mr. BLACKIE. Right.

The CHAIRMAN. In your discussions—not having had that experience with their leaders—I take it that their reactions encouraged you to believe they could be persuaded that there is a better way to do things.

Mr. BLACKIE. I think the fact that they are turning our way in economic matters, that they are giving Professor Liberman freedom to speak openly and as directly as he has is evidence of a significant change in attitude. A number of years ago, I think the professor would either not have spoken or would now be in Siberia.

FLEXIBILITY OF THE AMERICAN SYSTEM

The CHAIRMAN. You are one of the leaders of our own economy. Is it not true that during the past 50 years, there have been some changes in the way we do business?

Mr. BLACKIE. I hope so. I believe we have improved. I think everything is susceptible of improvement, even our way.

The CHAIRMAN. You do not only hope it, you know there has been. There is a great difference, today in the relationship, between, for example, our Government and business. Is it not quite different from what it was 50 years ago?

Mr. BLACKIE. Yes.

The CHAIRMAN. The only point I make is that the flexibility of our system, in spite of our professed ideology, has been quite high, hasn't it?

Mr. BLACKIE. Yes.

The CHAIRMAN. Would you agree to that?

Mr. BLACKIE. Yes, very strongly.

The CHAIRMAN. Do you think our system would be successful had it not adopted many of these changes in the last 50 years?

Mr. BLACKIE. No. I think we have learned how to eliminate what ever may be deficient in our system and improve upon those things that are good.

The CHAIRMAN. We have even adopted some practices, some projects which could be called socialistic and are called socialistic by some people, aren't they?

Mr. BLACKIE. Yes, they are.

The CHAIRMAN. We have adopted them very reluctantly according to many people and yet on the whole they have proved quite successful. You would agree that our economy is performing quite well at the present time, wouldn't you?

Mr. BLACKIE. Our economy is performing very well at the present time but that may perhaps prove its strength to overcome some slight deficiencies here and there.

The CHAIRMAN. You mean deficiencies in the political system?

Mr. BLACKIE. Yes.

The CHAIRMAN. I thought you might mean that. That is testimony to its inherent strength, isn't it?

Mr. BLACKIE. Right.

The CHAIRMAN. Well, I think it was a very interesting adventure that you went on to Russia and I congratulate you for taking the time and trouble to do it. Perhaps you can have some effect upon the political system.

Senator Symington, do you have a question?

Senator SYMINGTON. Thank you, Mr. Chairman.

STATISTICS ASKED FOR SOCONY OIL PRODUCTION

I was sorry that I wasn't here when Mr. Nickerson testified. This morning the Joint Armed Services Committee and Appropriations Committee were meeting downstairs with the Secretary of Defense. That is why I was late.

I would ask, Mr. Chairman, that the staff of the committee ask Mr. Nickerson to file for his company the amount of oil he sold in the

United States, from foreign sources controlled by his company, the number of people employed in this country, and the number of people employed abroad. Also, if he would, the profits made in oil that comes from other countries as against the profits made on the oil produced in this country.

So I would like volume and workers and profits of Socony Mobil Oil if that is in order. Mr. Nickerson gives us information about the operation of the Russians, China, and even Cuba, but doesn't give us much information about his operation. Inasmuch as he opopposes, I would appreciate more information.

(The information requested by Senator Symington follows:)

SOCONY MOBIL OIL CO., INC.,
New York, N.Y., March 9, 1965.

Mr. CARL MARCY,
Chief of Staff, Committee on Foreign Relations, U.S. Senate, Senate Office Building, Washington, D.C.

DEAR MR. MARCY: Mr. Nickerson, having heard that Senator Symington had certain questions arising from his testimony on February 24, wrote to the Senator on February 26 advising that he was about to leave the office on a short business trip but that arrangements had been made to respond to the Senator's questions as soon as they were received. Your letter of March 2 addressed to Mr. Nickerson has accordingly been turned over to me for reply. The answers to the questions, as I understand them, are as follows:

1. Socony Mobil Oil Co. sells in the United States no imported crude oil, whether derived from sources controlled by the company or from unrelated third parties, and its importation of finished products is insignificant in amount. The company does run imported crude oil, together with domestic crude, in its domestic refineries. The overwhelming preponderance of the product produced from these refineries is sold in the United States. As the Senator is aware, oil imports into the United States are controlled by Presidential proclamation under the mandatory oil import control program. During 1964 Socony ran in its domestic refineries approximately 102,600 barrels per day of crude oil imported under this program from foreign sources controlled by the company. Additionally the company imported and ran in its domestic refineries 43,360 barrels per day from Canada, which imports are not subject to the mandatory oil import control program. These imports came from oilfields in Alberta where production is subject to the proration system of that Province. Under this system of production it would be difficult if not impossible precisely to trace the portion of these Canadian imports derived from sources controlled by this company. Our total production in Alberta in 1964, however, was only 20,100 barrels per day.

2. As of December 31, 1964, the company had 38,895 employees in the United States and 41,092 employees in foreign countries.

3. As reported in Socony's 1963 annual report, the company's net income of $271,852,000 was derived as follows: $110,833,000 or 41 percent from the United States, $32,093,000 or 12 percent from other Western Hemisphere sources and $128,926,000 or 47 percent from the Eastern Hemisphere. While the 1964 figures have not been finalized, percentage allocations will be substantially the same as those in 1963. If you so desire, we should be happy to forward a copy of our 1964 report to you as soon as it is available.

If further information relating to the company is desired, please let me know.

Very truly yours,

GEORGE F. JAMES.

PRODUCTION IN TERMS OF LABOR AND PROFIT

Senator SYMINGTON. And Mr. Blackie, I congratulate you on your statement. This is a fine presentation. I don't necessarily agree with all you say, but to me it shows why your company is one of the great companies of the world without control of source, or control through patents.

You have a broad approach to this problem of trade. I have never been able to understand why some people think it is so important to turn your back on hundreds of millions of people who say they would like to stab you in the back. It seems to me your thoughts on what trade might do are pertinent to many aspects of our problems of today.

Based on your business experience, volume is quite important to profit; is it not?

Mr. BLACKIE. Yes.

Senator SYMINGTON. After all, costs are fundamentally labor, material, and overhead, plus profit, if any. Is that correct as you see it?

Mr. BLACKIE. Yes; summation of all elements that go into it.

Senator SYMINGTON. Your overhead is figured as a percentage of direct labor, is it not?

Mr. BLACKIE. This is generally done. We have a more sophisticated process that produces better results but I think that——

Senator SYMINGTON. I am trying to keep it simple, not so that you can understand it, but so that I can.

Mr. BLACKIE. Yes.

Senator SYMINGTON. Then the more labor that you obtain the more potential for absorption of overhead, therefore, the more profits; isn't that correct?

Mr. BLACKIE. Provided you can sell the product of the labor; yes, sir.

Senator SYMINGTON. Of coursse the ultimate merchandising of the product is the acid test; is it not?

Mr. BLACKIE. Right.

UNITED STATES ONLY MAJOR COUNTRY NOT SELLING BEHIND THE IRON CURTAIN

Senator SYMINGTON. We had Secretary Dillon here not too long ago and asked him if he knew of any highly developed industrial country in the world that wasn't doing its best to sell behind the Iron Curtain except the United States; and his answer was no. Would you agree with that?

Mr. BLACKIE. As far as I know, that would be correct.

Senator SYMINGTON. We asked the same question of the Secretary of Commerce, if there was any country in the world that wasn't doing its best to sell behind the Iron Curtain, except us.

His answer also was no. The West Germans say they have been doing their best to sell everything and buy everything from behind the Iron Curtain. They sell more behind the curtain, and buy more from behind the curtain, than any other country.

We tax our people pretty heavily to give, you might say, a nuclear umbrella to the free world these days. With the exception of General de Gaulle, they seem to be appreciative of the fact we are working to join with them in defending the free world. These taxes, in our way of life, can only come from income, including profits. Is that correct?

Mr. BLACKIE. Yes. From the creation of capital through earnings.

Senator SYMINGTON. How can we continue to tax our people to this extent and not participate in the markets they do. We are the only truly effective nuclear force left in the free world today. This

requires billions. Doesn't it seem that ultimately we would find ourselves in economic trouble?

Mr. BLACKIE. Yes. I believe that inasmuch as we by abstaining from these markets permit our allies to capture them, they are getting the benefits of volume, they are strengthening their enterprises, and in turn they will be more able to compete with us in third countries.

Senator SYMINGTON. This could ultimately react as favorably on our balance-of-payments problem, in the private sector, as it does today in the public sector. Isn't that a fair statement? Would you agree?

Mr. BLACKIE. Yes.

FRENCH RECOGNITION OF COMMUNIST CHINA

Senator SYMINGTON. The French recently recognized the Red Chinese. I asked Secretary Hodges if he felt one of the reasons that General de Gaulle did that was because he was getting tired of having the British develop all that potential market. He said in his opinion there was no question about it. Would you agree?

Mr. BLACKIE. I wouldn't care to venture thinking about the motivations of General de Gaulle.

Senator SYMINGTON. Why do you think the French recognized the Red Chinese? Do you think there was some economic aspect?

Mr. BLACKIE. I think there was probably an economic aspect and a political one.

Senator SYMINGTON. I congratulate you on your statement, Mr. Blackie.

Mr. BLACKIE. Thank you.

STUMBLING BLOCKS TO EXPANDED UNITED STATES-U.S.S.R. TRADE

The CHAIRMAN. Mr. Blackie, what do you think is the principal stumbling block to increasing trade between the United States and the Soviet Union? Is it our laws?

Mr. BLACKIE. I think there are three. Nonsettlement of lend-lease obligations and the resulting application of the Johnson Act, is one. Withholding the most favored nation treatment has produced retaliatory tariffs, particularly in Soviet Russia, that would handicap American goods. But I think that the biggest obstacle might be public opinion.

The CHAIRMAN. In this country?

Mr. BLACKIE. Yes.

The CHAIRMAN. That is very interesting.

Mr. BLACKIE. Most of our people have become so thoroughly and sometimes emotionally indoctrinated with the belief that you can trust the Communists to be Communists that they would resist the idea that the contrary could ever be possible. Some, indeed, seem to be much more sure of this kind of trust than they are that capitalists can be trusted to remain true to capitalism. They seem to have an attitude which would appear to imply that Communists' faith in communism is of a more enduring constancy than capitalists' faith in capitalism. I don't believe that.

The CHAIRMAN. They imply that we don't really have a very profound faith in our own system in other words.

Mr. BLACKIE. I have a very profound faith in our system. None in theirs.

SIGNIFICANCE OF EXPORT CONTROL LAWS

The CHAIRMAN. How significant are these export control laws on this matter? Do they present a great obstacle?

Mr. BLACKIE. In our case they shut us out almost completely. All of our products are under some form of license or permit.

The CHAIRMAN. Are your products considered strategic?

Mr. BLACKIE. In some of the countries, all of them are classified as strategic. They could only be shipped abroad on a validated license. Some of our smaller lower powered machines can be shipped to certain countries on general license.

Senator SYMINGTON. May I ask a question?

The CHAIRMAN. Yes.

You mentioned a moment ago you suspect they copied some of your machines, but you have no licensing agreement with them.

Mr. BLACKIE. No, sir.

The CHAIRMAN. Do you think this would be helpful assuming they would agree to abide by licenses and copyrights?

Mr. BLACKIE. We would not—we do not favor licensing as a rule, as a mode of doing business. We prefer to sell the product that incorporates our knowledge and our know-how. We would not be prepared to enter into a license that would teach the Soviet countries how to make a better tractor.

The CHAIRMAN. Well, would their purchase of your machine in itself merely as a prototype enable them to keep it without regard for your patent rights?

Mr. BLACKIE. Yes; but anytime they want a prototype they would have no difficulty getting it one way or another.

The CHAIRMAN. They can buy it from a third country, can't they?

Mr. BLACKIE. Yes.

The CHAIRMAN. You do sell it to foreign countries?

Mr. BLACKIE. They could get it from Egypt, from the Aswan Dam when it is finished.

The CHAIRMAN. They probably already have.

Mr. BLACKIE. Yes.

The CHAIRMAN. And the fact that you are prohibited from selling them doesn't really have any significance insofar as availability to the Russians for copying.

Mr. BLACKIE. No.

POSSIBLE FINANCE OF U.S.-U.S.S.R. TRADE BY EXPORT-IMPORT BANK

The CHAIRMAN. Do you think the Export-Import Bank should participate in financing exports to the Soviet Union?

Mr. BLACKIE. If we make the political decision that this trade is good for the United States, then we should accompany it by whatever the Export-Import Bank would do in similar circumstances elsewhere.

The CHAIRMAN. In other words, on normal trade terms.

Mr. BLACKIE. Right.

UNCERTAINTY BY BUSINESS OF U.S. TRADE POLICIES

The CHAIRMAN. I believe you indicated there was some uncertainty in business circles about the attitude of the Government on trading

with the Soviet Union. Why is there such confusion? Are our regulations indefinite and uncertain?

Mr. BLACKIE. No. I think it is merely that in recent times the matter has been made one of rather widespread public discussion in which there are differences of opinion.

The CHAIRMAN. I take it that in accordance with the Chamber of Commerce resolution you think Communist countries should be allowed to buy here anything that they can buy from our allies in Western Europe, is that correct?

Mr. BLACKIE. Yes. Speaking generally. I would say that if they can buy it elsewhere—

The CHAIRMAN. They ought to be able to buy it here.

Mr. BLACKIE. We should sell it.

RUSSIANS ABIDE BY TRADE CONTRACTS

The CHAIRMAN. What evidence did you find from your association with these other leaders of business about the Russians carrying out their agreements? What has been the experience in the business community?

Mr. BLACKIE. The experience to date to the best of my knowledge has been one of strict adherence to the terms of the particular contract. Business is not done in the ordinary open relationship which we have elsewhere. It is more a matter of having the details of the contract spelled out in rather definite terms. In the matter of payment, the Soviet officials claim—I understand it is true—that they have never defaulted on a commercial debt.

The CHAIRMAN. And you know nothing to the contrary.

Mr. BLACKIE. I know nothing to the contrary.

The CHAIRMAN. Have the businessmen that you know of who have done business with the Russians felt that they were able to hold their own in the matter of bargaining practices, even though they are dealing with a state-trading organization?

Mr. BLACKIE. Yes.

The CHAIRMAN. Their experiences have been satisfactory on the whole.

Mr. BLACKIE. Yes.

The CHAIRMAN. Do you think there has been a need for any special help to our businessmen in selling to one of the Socialist countries—other than Export-Import Bank, which I mentioned?

Mr. BLACKIE. I know of none. I would prefer to have a minimum of Government help.

POSSIBLE MOST-FAVORED-NATION TREATMENT

The CHAIRMAN. You mentioned the most-favored-nation clause. Do you think it would be wise to give the President discretion to extend most-favored-nation treatment wherever the conditions in his opinion warrant it?

Mr. BLACKIE. Give discretion to the President?

The CHAIRMAN. Yes.

Mr. BLACKIE. Yes, I think so.

The CHAIRMAN. Does the Chamber of Commerce favor that or are you speaking only for yourself.

Mr. BLACKIE. I had better speak for myself on that.

The CHAIRMAN. Senator Symington.

U.S. EMPLOYMENT AFFECTED IF TRADE INCREASED

Senator SYMINGTON. You see these tremendous growths of the bigger corporations in the United States and their investments abroad. If they operate abroad, then they operate under the strategic stipulations of the country in question as against the United States, do they not?

Mr. BLACKIE. They do with this qualification, that if they are controlled by a U.S. company, I think that control is exercised to support the U.S. position.

Senator SYMINGTON. What worries me is that some of the large companies in the part of the country where I live are doing much better than ever before in profits, but perhaps work that was once done in Missouri, for example, is no longer done there. It is done in a foreign country. Therefore you may have exported jobs.

If you had greater freedom of interchange between your products, and hard line products in general, don't you think that might help reduce unemployment?

Mr. BLACKIE. Yes. I think if through the negotiations to be conducted at Geneva we could get a general lowering of tariffs through reciprocal agreement, that there would be a big opportunity for an increase in U.S. exports.

Senator SYMINGTON. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. Do you want to ask a question, Senator Williams?

TRADE IN COMMUNIST COUNTRIES WHERE ALLIES TRADE

Senator WILLIAMS. Mr. Blackie, do I understand that one of the arguments in favor of our trading with Communist countries is the fact that our allies are trading with them and that if we don't, they will get the trade?

Mr. BLACKIE. I prefer not to offer it as an argument. I would say it is a statement of fact that has a bearing on the political decision and the economic decision.

Senator WILLIAMS. I thought I understood you a moment ago to use it as one of the arguments.

Mr. BLACKIE. I cited it as one of the facts in the case.

Senator WILLIAMS. Now, is it not true that many of these same allies are trading with Communist China?

Mr. BLACKIE. I believe they are.

Senator WILLIAMS. Would you say that carries the same argument over to China and say we should trade with China now because our allies are trading?

Mr. BLACKIE. I would not say we should do it now. I am talking here as a businessman with inadequate knowledge of the political and military aspects.

Senator WILLIAMS. You would oppose trading with China at this time even though our allies trade with them?

Mr. BLACKIE. At this stage I believe so.

Senator WILLIAMS. How do you separate the difference if you use one as an argument and not the other?

Mr. BLACKIE. Because it has been a theme in my remarks that our objective should be to try to break up the bloc, to establish members as sovereign states, and I think the place to begin is in Europe where the cracks are occurring.

U.S. PLANTS AT HOME AND ABROAD SUPPLY FOREIGN TRADE

Senator WILLIAMS. If you resume trade in your particular company with Russia, would you fill the orders from American plants primarily, or do you have plants in Europe?

Mr. BLACKIE. We have plants in Great Britain and France.

Senator WILLIAMS. Would they be the more logical supply points or would it be from here?

Mr. BLACKIE. They might provide some advantage in terms of delivery costs and, of course, if they were delivered out of Britain under today's conditions they would go into Russia under a lower tariff.

Senator WILLIAMS. The chances are that whatever increase in trade that your particular company had would result from increased sales of your plants already established abroad and those which may be established later.

Mr. BLACKIE. No, sir. Our plants abroad do not make the full line and while I do not know what the Soviet countries would want, I am inclined to guess that at this stage their requirements would fall more in the products made in the United States.

Senator WILLIAMS. Would there be a tendency to expand your plants abroad to take care of that or continue to take care of them here.

Mr. BLACKIE. Our purpose in expanding plants abroad is to be competitive wherever we have to be. It is not to transplant labor from the United States to any other country.

Senator WILLIAMS. I understand that. I didn't mean to imply that. But in order to be competitive, is there not a chance that you would be forced to expand your plants abroad to provide for these products?

Mr. BLACKIE. Not any more so for the Soviet countries than for any other country.

Senator WILLIAMS. That is true, I am not arguing the point, but is that not one of the basic reasons why you have these plants abroad, in order to compete with——

Mr. BLACKIE. With anybody.

Senator WILLIAMS. With your competitors in the Common Market countries.

Mr. BLACKIE. Or anywhere else; yes, sir.

Senator WILLIAMS. And the same thing would be true if you expand the trade with Communist countries. You would either build plants in those areas or, if you didn't want to go behind the Curtain with your plants, the chances are you would be exporting from the European area, more so from this area. Is that not true with your company and many of the companies?

Mr. BLACKIE. In the matter of Soviet Russia itself we are inclined to believe that for the future it is more likely to be a competitor than a customer.

Senator WILLIAMS. I have no further questions.

The CHAIRMAN. Mr. Blackie, thank you very much. I think you and your colleagues performed a great service going over there. We have to rely on you to influence the public opinion you were talking about.

Mr. BLACKIE. Thank you.

The CHAIRMAN. Thank you very much.

Our next witness is Mr. Elliott Haynes, executive vice president of Business International Corp.

Mr. Haynes, we are very pleased to have you. You have a written statement, I believe.

STATEMENT OF ELLIOTT HAYNES, EXECUTIVE VICE PRESIDENT, BUSINESS INTERNATIONAL CORP.

Mr. HAYNES. I do, Mr. Chairman, and it is a fairly brief one. With your permission I would like to go through it very quickly.

INTERNATIONAL BUSINESSMEN'S MEETINGS WITH FOREIGN GOVERNMENTS

My name is Elliott Haynes. I am executive vice president of Business International Corp. Over the past 10 years, my company has organized intensive discussions on behalf of leading international manufacturing corporations and banks with the President, Prime Ministers, and Cabinet officers of 13 countries, including Japan, Germany, Britain, Italy, France, Spain, Canada, Mexico, Brazil, Colombia, Argentina, and India. Every year, we have also organized for this same group of international business concerns similar meetings with the Government of the United States. Each of these meetings—in the United States and abroad—has consumed 5 days of intensive discussion, completely off the record and without speeches. Their purpose has been to effect a greater understanding by the international business community of the government concerned—and vice versa.

MOSCOW BUSINESSMEN'S CONFERENCE

Last November, exactly the same kind of 5-day discussion was conducted by this group in Moscow with the Government of the Soviet Union, during which, utilizing simultaneous interpretation, we met with 241 officials up to and including Messrs. Mikoyan, Gromyko, and Kosygin.

Since this group is not an association, far less a lobby group, and has no positions as a group on any subject, I cannot presume to speak for it. Those of its members who participated in the Moscow roundtable last November did reach—as always—a consensus of their observations, which we were privileged to share some weeks ago with the Secretary of Commerce and with the President, and which Mr. Blackie has already shared with you today. Hence my comments represent only my own views and those of Business International Corp. itself—arising from the 16 months of research and study—in this cuntry, in Europe and in the Soviet Union itself—which we spent in preparing for the roundtable, plus the experience of the roundtable itself.

This document, Mr. Chairman, is the briefing memorandum which was prepared prior to the meeting in Moscow as an aid to those discussions.

I would like to speak first of the feasibility of significantly expanded trade with the Soviet Union, and later of the desirability of such expanison of trade.

FEASIBILITY OF EXPANDED EAST-WEST TRADE

Concerning the feasibility, there must first be a wish on both sides to trade. Unquestionably, the majority of the internationally active manufacturing corporations of the United States with whom my company is in contact do wish to sell more to Russia and to the central European countries. Every week, if not day, of every month, one or more of them receives a feeler from a Communist buying agency—and in most cases these sales opportunities are lost for reasons of present U.S. Government policy and practice, while the same orders are filled by competitors in Europe and Japan.

The Soviet Union, in addition to its obvious desire to buy, is also eager to sell more to the United States. While its export agencies have much to learn about selling in this country—I should add that most U.S. companies have much to learn about selling in the Soviet Union as well—Soviet officials made it abundantly clear that they want to sell more to us—indeed they are already stepping up their efforts to do so.

SOVIET UNION HAS MUCH TO SELL

The question is often raised: "But what have the Russians got to sell us?" In a word, the answer is: "Plenty." It is a truism to say that the best trading partners in the world are two industrialized nations—and the United States and U.S.S.R. are the two most powerful industrial nations on earth. The possibilities for trade between us are well-nigh unlimited. To cite a few examples, the Soviet Union has tremendous mineral wealth, much of which we could usefully import, plus enormous forestry preserves. In technology, they have made advances in the electrical field, in welding and metallurgy, which knowledgeable U.S. companies would like to buy. In the consumer field, too, they have strength—attractive, inexpensive watches are an example—and they have, believe it or not, even exported cosmetics to France.

ALLIES DEPRIVED OF MARKETS IF SOVIET TRADE EXPANDS

But if we do import goods and commodities from the U.S.S.R., the next question often goes, won't we be depriving our allies of purchases we would otherwise make from them—manganese from Turkey, for example? Possibly so. But in good part purchases from the U.S.S.R. would represent increased consumption owing to population growth and expanded industrial production in this country—and not decrease the existing level of purchases from traditional sources. And eventually, I would hope, we U.S. consumers would benefit fully from the more economic purchases from Russia (as we have been enjoying cheaper Russian menthol for some years, for example) while our allies redirected their energies toward more competitive and profitable production.

QUESTION OF RUSSIANS COPYING U.S. PRODUCTS

Another question that comes up more often than not is whether it is safe for a U.S. company to sell the Russians a small quantity of a product that embodies unique and valuable research and development; won't they simply copy it? There have, of course, been instances of this. But I could cite you instances of U.S. companies copying Russian products—and in no instance, at least, not paying even for one prototype. However, the real answer to this danger, I believe, lies in two developments. First, the Soviet Union has a patent system not dissimilar from our own; their record in granting and honoring patents has been extremely good in recent years; moreover, they give strong evidence of wanting to do everything in their power to keep their commercial record clean, knowing that the first real malpractice would destroy what confidence they have built up in the West and deal a body blow to their effort to expand trade with us.

DEMANDS ON RUSSIAN ECONOMY

The second development is that the Russians have arrived at—and, even more important, know they have arrived at—a point in their development where the demands on their economy are simply too great for them conceivably to satisfy them all. What this means to a U.S. company selling a highly technical product to the Soviet Union can best be illustrated by a discussion I had several weeks ago with a firm that had been asked by the Russians to sell one earthmoving machine—this by the way, was not Caterpillar. One, mind you. Several years ago, this firm would have refused any Russian order of less than 400 or 500 such units. Today, they would be willing to sell just one. The reason: They know that the Soviet Union needs a dozen different types of earthmovers, they are convinced that the Russians know that the Soviet Union cannot for years to come produce all the types it needs; they are willing to sell one machine of one type (and it might just be tested as a prelude to larger orders). If it is copied, the Russians will probably buy large quantities of other types from this same company. And besides, if this firm does not sell the machine, some European competitor undoubtedly will.

QUESTION OF LONG-TERM CREDITS

Eventually, the question of credit comes up: What will the Russians pay with—and if we extend credit, are we not giving economic aid to our enemy? Firstly, as I mentioned earlier, I believe the U.S.S.R. can sell us a great deal that we need and can benefit from—in short, in turn for foreign exchange from us.

As Mr. Kosygin mentioned during our meeting with him, trade must be a two-way street or else you get into a traffic jam. Much more trade can be conducted. I am persuaded, without any credit at all beyond the normal sight draft or 90 days. Indeed, some of the export-import agencies of the Soviet Government became incensed, during our discussion with them, when we indicated that we thought they were requesting extended credit. If U.S. firms could grant Soviet buyers the credit they normally extend to free world buyers (from 1 to 5 years), a very great deal of trade would be stimulated.

Beyond this—beyond 5-year credit—the problem is more complicated. As a nation, we like to restrict long-term credit to needy countries, a category the U.S.S.R. definitely does not fit. Yet the U.S.S.R.'s leading economists admit that their country needs long-term credits. Moreover, countries such as France and the United Kingdom are already extending up to 15-year credit, and not just 7 as was mentioned here this morning, to the U.S.S.R. for major industrial products or projects—and obviously, in return, gaining market penetration, plus sales of components, spare parts, and continuing technology. This subject needs more study—but I certainly would not suggest that we write off the possibility of more extended credits to the Soviet Union.

JOINT UNITED STATES-SOVIET DEVELOPMENT VENTURES A POSSIBILITY

So far I have been talking mainly about trading in goods. Much of what I have said applies equally both ways to licensing of technology. Regarding licensing alone, not only is there the possibility—which some U.S. firms are already investigating—of cross-licensing between the United States and the U.S.S.R., but also of jointly conducted research and development. Mr. Kosygin himself urged that we explore such joint ventures, accomplishing in 1 year what separately we might take 18 months—and many millions more in expenditure—to achieve. I know of one major midwestern company that is actively exploring this idea, and others that are interested in it.

Finally, though more remotely, there is the possibility of real joint ventures between private U.S. corporations and Soviet trading and/or industrial enterprises. One such possibility, for example, has been raised by Soviet officials themselves, whereby a U.S. firm would develop mineral production in Russia, furnish equipment, technology, and perhaps even management, receive interest on the loan money involved—plus a share in the profits. The profits of Soviet enterprises, incidentally, finance 35 percent of the U.S.S.R. state budget. Another possibility—which has already been realized between an Eastern European country and an Italian private manufacturer—concerns the joint production of a product and its sale by a Swiss trading company in both the East and the West—with the Italian company and the Eastern European government monopoly each owning 50 percent of the trading company and splitting its profits.

DESIRABILITY OF INCREASED TRADE WITH THE U.S.S.R.

So much for the feasibility of expanded trade with the Soviet Union. Regarding its desirability, I would merely say, in the interest of time, that I wholeheartedly support what Mr. Blackie has already said to you. The American companies with which I work put the national interest above their corporate interest. Those I have cited earlier as being interested in greater trade with Russia are persuaded that such expansion is in the national interest, for the reasons Mr. Blackie has so ably recounted.

It is obvious that economic intercourse—greater trade—with the Soviet Union is not by itself going to cause the Russians to adopt private enterprise and embrace parliamentary democracy, nor will it

per se blunt the Communist drive for world domination. But it can hasten an already visible trend which could lead to at least some of these ends and thus help preserve peace and freedom in the world. That trend concerns the increasing voice of the Russian people in the policies and behavior of their Government; the Soviet Union is moving toward a pluralistic society, the kind we enjoy, in which there is ever greater freedom of dissent, of speech, of artistic expression, of worship, and of economic activity. I believe that the innumerable contacts—in an atmosphere of freedom and competition—which expanded trade between the United States and U.S.S.R. would bring, would hasten this trend. If we assume that, within the limits of national security, we are trying to move toward peaceful relations with the Soviet Union and away from war, then truly expanded trade is one such move. But would such trade—in peaceful goods—endanger our national security?

EFFECT OF EXPANDED TRADE ON NATIONAL SECURITY

On this question, I would suggest two answers. First, I think we should stop worrying about the effects of selling our peaceful technology to the Russians—whether as raw technology or technology embodied in goods. They insist, as a rule, on buying proven technology, which automatically makes it 5 years old or so and already outmoded in terms of the advances we are preparing to put on stream in our factories. In addition, we are spending far more than the Russians—some $17 billion a year or more—on research and development each year, and could not conceivably give up our leadership in this realm for decades even if we tried. Finally, we would be receiving advanced Soviet technology in return for our own.

Second, as this swap of technology I just mentioned indicates, trade must be mutually beneficial if it is to be carried on at all. I can assure you that the companies with which I am familiar which are eager to trade with Russia are expert in getting their own back—with a profit. The question that confronts us, therefore, is this: Should we attempt to expand trade—mutually beneficial trade—with the Soviet Union, with no real risk to our national security, with the hope of leading that country into a more responsible, peaceful posture, or shall we continue to restrict trade as we now are doing?

STEPS NECESSARY TO EXPAND TRADE

Admittedly, some expansion in trade is possible even under existing conditions—and it is expanding already. But a meaningful expansion will await several steps. First, the administration's avowed desire to expand trade must trickle down to the control levels of the Commerce and other departments. Where licenses are issued—or, rather, where they are denied despite the seeming legality of the export proposal.

Second, the President must free the Export-Import Bank to guarantee export credits to the Soviet Union and all the Eastern European countries, with the possible exception of Albania. Unless this is done, the existing freedom of exporters—under the latest Attorney General ruling—to furnish credit up to 5 years to Soviet buyers (when such credit is normal for the product concerned) is meaningless.

Third, the United States and the U.S.S.R. must reciprocally grant each other most-favored-nation tariff treatment.

Fourth, no true trade expansion with the Soviets can take place so long as the Congress requires that we sell them nothing that enhances their economic development; any trade worthy of the name will do this, just as what we buy from them will enhance our own economy. This absurdity must be erased.

TREATY OF FRIENDSHIP AND COMMERCE SUGGESTED

Beyond this, some sort of treaty of commerce would be helpful. A standard treaty of friendship, commerce, and navigation would suffice, but if we are resourceful, if we are imaginative and bold, far more might be accomplished. The Russians believe in economic planning and welcome long-term supply contracts that facilitate such planning. Private U.S. corporations are not averse to such contracts, as recent supply contracts between Japanese steel firms and U.S. mining subsidiaries in Australia reveal. A treaty with the Soviet Union that included elements of this nature, accommodating the Russians in their planning requirements, would substantially enhance increased United States-Soviet trade. Such deals would, of course, be made privately by U.S. companies, but a treaty welcoming and facilitating them would be useful.

PAYMENT OF U.S.S.R. LEND-LEASE DEBTS

But what, it is asked, must the Russians do before such steps are taken? One repeated demand is that they pay up on their lend-lease debts. We have come down as a nation, as I understand, to a figure of some $800 million on this score we are asking from the Russians and would be willing to settle even this amount over an extended period. On their part, Soviet leaders express distaste for the whole subject, claiming that they paid their World War II debt in blood. Considering the stakes involved, economic and political stakes, I believe we should accept whatever token amount (this word was used by Mr. Kosygin to describe the amount they would be willing to pay) that their conscience dictates. I suggest we accept it and let it go at that. The amount, in any case, is picayune when spread over 20 years, and might be used, as an example, to finance joint ventures between private U.S. companies and Soviet enterprises.

INCREASED TRADE WILL HELP IMPROVE UNITED STATES-U.S.S.R. RELATIONS

Far more important is the Soviet behavior politically and diplomatically toward the United States. I personally believe that trade can be safely used as a weapon to improve that behavior, for reasons I noted earlier. A real strategy, jointly created by U.S. private enterprise and the U.S. Government, toward this end would contribute powerfully toward our national welfare and security—and by definition would not await further steps by the Russians toward real peace.

But even if this view is not adopted, I believe the Soviets have taken sufficient steps toward cooperation with us over the past few years to warrant dismantling of the barriers to normal trade expansion that

I mentioned earlier. I recognize that this statement, at this moment in time has a strange ring. We face a brutal conflict in Asia. The Soviet Government is making warlike statements about that problem, whatever it may or may not be doing behind the scenes. And Soviet marshals are blaring out even more inflammatory challenges. Under these circumstances, I believe it behooves us to act calmly and maturely, to recognize that the cold war attidues of the past 15 or more years will die hard on both sides, and to redouble our efforts to keep open and even broaden the avenues to peace at the very moment that we stiffen our resolve to fight for freedom and justice.

Thank you very much.

The CHAIRMAN. Thank you very much, Mr. Haynes. I think that is a very thoughtful statement. You went with the group to Moscow, did you not?

Mr. HAYNES. That is right.

The CHAIRMAN. And it is your father who organized it.

Mr. HAYNES. He was the prime organizer of that meeting; yes, sir.

COUNCIL FOR EXPANDED TRADE PROPOSED

The CHAIRMAN. Senator Magnuson has introduced a resolution to authorize establishment of a permanent Council for Expanded Trade to study problems relating to East-West trade. Do you think such a permanent Presidential committee would serve a useful purpose?

Mr. HAYNES. I do, indeed. I think the more understanding, information, more light that can be thrown on this subject the better. It has been too long sort of swept under the rug.

STRATEGIC TRADE CONTROLS IRRITATING TO RUSSIANS

The CHAIRMAN. What facet of our trade restrictions do you think was most irritating to the Russians?

Mr. HAYNES. I would say the strategic trade controls. The Russians complained again and again of negotiating with U.S. companies and receiving pretty firm assurance that they will be able to buy a certain product and then the license is delayed and delayed and delayed and quite often never issued.

This is by far, I think, the greatest thorn in the Russian side and indeed our own.

POSITION OF U.S.S.R. ON BARTER DEALS

The CHAIRMAN. Was there much discussion of barter deals with the Russians while you were there?

Mr. HAYNES. Very little, although it did come up a few times. The Russians, as you know, are not averse to barter. They are quite used to it and, indeed, American companies aggressively seeking to keep off foreign exchange short markets have themselves engaged in barter quite regularly with countries such as Turkey and even Brazil. So there are opportunities for trade in that area, too.

I think, however, that the Russians are far more eager to put trade on a normal commercial basis as we know it in the West and not just occasionally barter deals.

RUSSIANS RESPECT PATENT RIGHTS

The CHAIRMAN. I believe you stated that the Russians presently respect patent rights; is that correct?

Mr. HAYNES. Indeed they do.

The CHAIRMAN. Are they prepared to enter into a formal agreement with us regarding this subject?

Mr. HAYNES. They claim that they are. They have been negotiating with the International Patent Office regarding becoming a signatory to that agreement. There are some technical problems concerned. The Russians have a quasi-patent as well as a real patent they call an author's certificate, and they would like the International Patent Office to accept that type of protection of industrial property rights and the International Patent Office doesn't want to. So there is a problem. But they assured us in Moscow that they were intent on becoming a signatory.

However, we should not overemphasize the importance of such a step. All it really would mean were they to become signatories is that U.S. inventors would have a year's grace during which they would be protected, having filed the patent in this country before they filed the patent in Russia. The Russian behavior has been so good in the past that that is really all it would mean. It is fairly inconsequential.

PRIVATE COMPANIES DEALING WITH A GOVERNMENT TRADING SYSTEM

The CHAIRMAN. You think that there would be no insuperable problem with our private industries doing business with the Government trading system?

Mr. HAYNES. I would certainly never even conceive of using the word "insuperable." International companies incorporated in the United States for years learned how to work with and deal with Government and indeed go into joint ventures with Governments in the free world.

I admit that many of them have a long way to go in building up a corps of managers that understand the language of Government, that can put their proposals in terms of governmental programs, and so on, but they are not averse to trying to learn and they have successfully cooperated with Governments all over the world for years.

I see no reason why this should pose any problem in trade with Russia.

RECIPROCAL MOST-FAVORED-NATION TREATMENT

The CHAIRMAN. Did I understand you to say you believe that most-favored-nation treatment should be extended to Russia?

Mr. HAYNES. Reciprocally. They as you know retain a very high and special tariff against us and I think both of us should as soon as possible give most-favored-nation treatment.

JOINT EAST-WEST VENTURES

The CHAIRMAN. You mentioned joint ventures. I read a story in the paper recently about a proposed joint venture between the Krupp firm in Germany and the Government of Poland. Do you know anything about that?

Mr. HAYNES. Not off hand. Do you recall what industry it was?

The CHAIRMAN. It is the steel industry. It was Mr. Beit who had been up there negotiating about a joint venture.

Mr. HAYNES. I have seen something like that.

The CHAIRMAN. You mentioned some joint ventures already underway with Italians.

Mr. HAYNES. There is an Italian manufacturing company with a fairly technological product part of which under this agreement is made in Italy and part of which is made in an Eastern European country, so that both the private Italian company and the state-owned Eastern European manufacturing enterprise are cooperating and actually producing a product. Then the sales are effected in both the Communist bloc countries and in Europe and elsewhere by a Swiss trading company which is jointly owned. This would be a forerunner of quite a few operations.

We do lack the know-how and the knowledge to sell effectively in the Soviet Union and they in turn lack know-how in selling in our market because ours is a complicated market. If we undertook to sell each other's products in our own countries under some form of joint venture, obviously this would stimulate a great deal of greater sales and expanded trade.

The CHAIRMAN. It seems to me I also saw an article in the paper that there was a joint venture in Belgium for the manufacture of automobiles. Is that true?

Mr. HAYNES. Yes. I saw notice of this but I am told that it has not worked too well. I think several months ago in Europe I was talking to some people about that. It is not a raving example of success. However, we must expect that the first tentative efforts following years and years of the cold war will not always work 100 percent effectively. We have to be prepared for setbacks. We have to be prepared to stub our toes. And that is quite normal, I think.

AMOUNT OF COMMUNIST IMPORT TRADE

The CHAIRMAN. About what is the amount of trade with the Soviet Union now? Do you know what it was in 1964?

Mr. HAYNES. Not in 1964 but the total of Communist imports of goods and services in 1963 from the free world was about $4.7 billion, of which Communist China was very small, some $400 million or so—I am not sure of the exact figures—and the Eastern European countries as a group had the bulk of it. Their imports today from the free world of goods and services is about $3 billion. So Russia is still pretty far down the list. If we would follow those figures it would be some $700 million or so—I am not too sure—but it can be substantially increased, I am sure.

SOVIET INTEREST IN CAPITAL AND CONSUMER GOODS

The CHAIRMAN. Is it true that the Russians are primarily interested in capital goods and would not be interested in consumer goods?

Mr. HAYNES. I would say yes, although they are also open to imaginative sales approaches. We had in our meeting in Moscow several very unessential consumer goods producers—they wouldn't agree with that phrase. And these executives of the least essential consumer

goods companies of all found some receptivity to suggestions that they blanket the Soviet market with their product, their soft drink or whatever. In return, in this case, it probably would be sort of a barter deal for the purse by the U.S. concern in Russia and resale in world markets, so the Russians would gain something.

Undoubtedly, however, they are primarily interested in not only capital goods but in goods and technology which can increase their efficiency. They have come to a point, and their leading economists recognize this well, where they no longer can take enormous resources and throw them into the overnight construction of a steel mill or hydroelectric power project or what have you, but they have reached a point where their market economy in order to sustain any new industry, they have to build consumer acceptance. Therefore, they are now becoming extremely cost conscious and efficiency conscious and they are seeking machines, computers, technology—ideas that will help them lower costs and reduce prices and build a better consumer market.

Some of the discussion we had with the 30 or so Soviet industrialists that Mr. Blackie mentioned, for example, showed their intense interest. They peppered us with questions on how we measured return on capital and what our criteria are for any new investment, including the cost aspects and payout period, and they peppered us with questions on how we measure future consumer market demand.

It was rather amusing at one point when the president of a small compact car company of Moscow wanted to know what we thought the future consumption of consumer durables in this country would be and a member of our group from an automobile company undertook a reply and said in brief that they didn't see any per capita increase in durable goods consumption in this country because American workers had a couple of TV sets and cars and more or less all the durable goods they needed. They were spending their money going to Europe every summer on vacation. He mentioned incidentally their average salary was $7,000 to $8,000 a year which is more than commissars generally get, and although he wasn't trying to make a political point, he left his Soviet listeners rather agog. But they were very interested in all of those aspects of our industrial management.

The CHAIRMAN. Well, thank you very much, Mr. Haynes. I apologize for keeping you so late but our program is sort of difficult to control.

Mr. HAYNES. Thank you.

The CHAIRMAN. The committee is adjourned until 10 o'clock tomorrow.

(Whereupon, at 12:45 p.m., the committee was adjourned, to reconvene at 10 a.m., Thursday, February 25, 1965.)

EAST-WEST TRADE

THURSDAY, FEBRUARY 25, 1965

UNITED STATES SENATE,
COMMITTEE ON FOREIGN RELATIONS,
Washington, D.C.

The committee met, pursuant to recess, at 10:15 a.m. in room 4221, New Senate Office Building, Senator J. W. Fulbright (chairman) presiding.

Present: Senators Fulbright, Lausche, Aiken, Williams, and Case.

The CHAIRMAN. The committee will come to order.

The committee is meeting this morning to continue hearings on the general subject of East-West trade. Our first witness today is Mr. Howard Hardy, president of the Great Plains Wheat Co.

STATEMENT OF HOWARD HARDY, PRESIDENT, GREAT PLAINS WHEAT, INC., GARDEN CITY, KANS.

Mr. HARDY. Mr. Chairman, members of the committee, it is indeed a privilege to have an opportunity to offer my views on the important matter of East-West trade. I am here representing a regional organization, supported by approximately 300,000 wheat farmers in the Great Plains region.

Their economic interests are directly affected by policies and decisions on East-West trade. However, we are very much aware of the even larger concern of national interest.

Mr. Chairman, without reading the entire text of the paper which is presented here this morning, I would like to briefly highlight it.

The CHAIRMAN. Mr. Hardy, we will print the entire statement in the record and you may comment on it as you like.

Mr. HARDY. Yes, I would like to have the entire statement placed in the record.

The CHAIRMAN. We shall do that.

Mr. HARDY. Some points we consider are worthy of consideration, and I would hasten to point out, however, that some of the material in this statement we fully recognize is a matter of concern in other committees and in other Government agencies. However, the interrelationship of the subject and the problem is such that I think it would be helpful to the committee to have this additional information.

U.S. CONTROLS ON WHEAT EXPORTS

One of the concerns that I think we certainly recognize, probably in the minds of the United States as a lesser concern, is our relationship with other wheat-producing nations, where we are operating under rather tight allotments at a time when other major exporting nations

are increasing their allotments. The sales consummated by both Canada and Australia have provided their production plant and their merchandising plant with almost a maximum of business.

Another point is the matter of national interest. It is a matter of record now that trade with the Soviet bloc has been declared in the national interest. However, while wheat exports to the Soviet bloc have been declared in the national interest, there is real doubt in our minds as to whether this is in fact the real policy. We still remain to become competitive on the matter of price, credit terms, and shipping costs. It is quite obvious that we still lack a resolute purpose of carrying out the statement of policy.

In actual trade with East-West, which I am sure you folks are well aware of, the United States is selling a number of different commodities and goods to the Soviet Union and other Eastern countries. But wheat alone among all such trade and commodities and goods will be subjected to a rather unusual requirement: The sale is dependent upon, of course, the American ships, while no such requirement is placed on other commodities. It is a little difficult for us to understand why wheat should be singled out for such discriminatory action. We also feel that this action sets a very dangerous precedent in commercial transactions and that there is, I think, real possibility of retaliatory action by other nations. It comes at a time, certainly, when the United States is putting forth every effort to remove these trade restrictions.

TRADE AIDS BALANCE-OF-PAYMENTS PROBLEM

A point, I think, that is worthy of very serious consideration is that in order for the Soviet bloc nations or Russia to purchase U.S. commodities, whether it be agricultural products or any other, first they must have to generate gold to purchase these commodities. When these hard currency reserves are used to purchase items such as wheat, these funds are diverted from the purchasing of strategic materials or military goods. We have been making vigorous efforts to bring our balance of payments into line. Yet by failing to take advantage of all possibilities for hard currency sale, we are denying ourselves the opportunity to close up the payment deficit in this area.

NEED FOR TRADE POLICY CLARIFICATION

When the United States had its first opportunity to sell wheat to Russia, I think we are all familiar with the web of difficulties that developed and the prolonged debate over credit rates and shipping terms. Long delays resulted while arguments raged over whether the sale itself should be made. While Russia may have lost face by demonstrating a breakdown in its agricultural production, we certainly demonstrated a very serious breakdown in our sales machinery by failing to offer the services which are traditional in commercial transactions of this kind.

The Soviet bloc countries are continuing to buy wheat from other exporting countries such as France, Argentina, and Canada. This indicates that there is a significant and continuing long-range market from the West in that part of the world. If we should be approached again, we must have our house in order so that we can deal effectively

with it. The matter of getting our house in order should be done before it gets into a concern of dealing with different Government agencies, this committee, and other committees of Congress. Policy clarification is indeed very necessary. Export licensing requirements are presently of a nature that do not necessarily set forth clear guidelines in the matter of sales to the Soviet bloc nations.

PRESENT LICENSING REQUIREMENTS NOT CLEARLY DEFINED

Validated licenses were required to all Soviet bloc countries from 1951 through 1956. Following 1956, it has been relaxed for Eastern European bloc countries on a small list of commodities made eligible for general exportation. General exports to Poland were authorized under blanket license, except for a small number of designated items requiring validated licenses.

Wheat may be exported to Poland and Ruamnia under general license. However, wheat exports to the U.S.S.R. and remaining Soviet bloc countries require special validation. Thus, it may be said that wheat exports to the Soviet bloc are not being impeded by license requirements. However, grain exporters feel that if they could make additional sales to Soviet bloc countries, necessary license to complete such transactions would be assured.

AMENDED CREDIT ARRANGEMENTS REQUESTED

The insured credit arrangements, a matter of competitive credit in a commercial market, need some steps that will bring about, I think, a little clarification in the operation of our policy on credit. There are two specific acts of Congress directly involved with this issue—the Johnson Act and the Battle Act. The Johnson Act as interpreted by the Justice Department prohibits the granting of private credits to Soviet bloc countries beyond normal commercial terms. Since violation of the Johnson Act by private financial institutions is a criminal offense, private sources of credits on exports to the Soviet bloc are at best questionable, particularly in the area of what is now considered competitive commercial terms.

SIZE OF THE U.S. MERCHANT FLEET

The Cargo Preference Act was a bit unusual, though a well-recognized need for maintaining a strong merchant fleet. However, the objective set forth under Public Law 480, as followed through, has been expanded to reach over into a commercial sale, with the result, of course, that the full impact of sales in this area was not realized in the passage of the bills.

I think it is interesting also to note that during a relatively short period of time, a matter of from—June 30, 1964, the world's merchant fleet numbered 18,072, carrying 140.3 million gross tons. The U.S. merchant fleet accounted for 2,598 ships, totaling 22.2 million gross tons; more than 1,600 ships were Government-owned and in the inactive reserve fleet. In addition, the United States had 66 ships in active bulk-carrying category of a total of 700,000 gross tons out of a world total of 1,770 bulk carriers of tonnage of 16.7 million gross tons. U.S. bulk carriers are all nonliner ships and are specifically designed

for carrying grain cargoes. The United States had 291 privately owned tankers of a gross tonnage of something over 4 million—gross tons.

In actual fact, only about 900 American-flag vessels totaling about 10 million gross tons are in active use, nearly all privately owned. The active American-flag merchant fleet carries only about 8 or 9 percent of the total foreign commerce of the United States as compared to about 32 percent during the 1930's. There is reason to believe that the Cargo Preference Act has not necessarily maintained our merchant fleet and probably could have contributed to a decline.

CARGO PREFERENCE ACT ASSISTS U.S. MERCHANT FLEET

The freight differential in subsidy matter is set forth in considerable depth in the statement, but in essence it points out that open rates—for example, in 1962—we would have a commercial rate out of the gulf from $4.50 to $6.50 on foreign-flag vessels, at the same time when our nonliner vessels are running at $11.50 to $13.50 per ton. Comparable rates from the gulf to South Africa for the same year were from $5.85 to $7 and from $14.50 to $16.50 on U.S. merchant ships. The same pattern follows through pretty much in all the movements of our merchant fleet.

I think it is interesting to note that over $90 million in freight differentials were paid to U.S. nonliner shipping under Public Law 480. This cost to the public, of course, could be avoided by the use of the Public Law 480 rate. I point out, however, that we are not in any way implying here or advocating that the matter of supporting our merchant fleet could be terminated. We do feel, though, that it is somewhat of an injustice to have the bulk of this carried by agricultural products and some 90 percent, of course, is carried by wheat.

I further note that the commercial fleet is carrying only 8 or 9 percent of the total U.S. exporting. It is carrying 38 percent of all U.S. wheat exports. The wheat economy is providing a substantial business for U.S.-flag shipping.

In order to get into consideration of the overall matter, I think the committee must give serious consideration to other related aspects that have a bearing on this.

SUBSIDY ARRANGEMENT TO SHIPPING CALLED INADEQUATE

We feel, Mr. Chairman, that there are possible alternatives that can accomplish much of what is being desired by the commercial fleet and also by way of expanding commercial sales for assistance to bring about a better balance of payments. The matter of subsidy certainly is not a new one to me as a wheat farmer, nor is it a new one to this committee, I am sure. But we do feel that the subsidy as it is being handled at the present time just is not doing the job that it was intended to do and that a better system could be devised to handle this.

The CHAIRMAN. You are not passing on the need for subsidy, but this way of applying it distorts your normal commercial operations and probably costs a good deal more than a direct payment to the lines; isn't that right?

Mr. HARDY. Yes.

The CHAIRMAN. I agree with that entirely. We have, on many occasions in this committee, opposed the operation of the subsidy in the foreign aid field. But the shipping interests have more power than other people around here. I agree that if you are going to subsidize, it ought to be done direct.

Mr. HARDY. I certainly appreciate that, Mr. Chairman, and feel, if I may say so, that probably the shipping interests should look at what has happened to their ships in the past 20 or 30 years in the way of tonnage of haul and in the way of maintaining the fleet that we are all certainly interested in seeing maintained.

Trade defense interests are certainly a matter that bears serious consideration by the Congress. It is a matter, I know, that this committee has given much time and thought to on many occasions.

I realize, Mr. Chairman, that many of the suggestions in this statement and much of the material may not necessarily fall into the category of this committee. In concluding, let me express the appreciation of our organization as well as myself for the opportunity to present our feeling on this matter.

(The complete prepared statement of Mr. Hardy follows:)

STATEMENT OF HOWARD W. HARDY, PRESIDENT, GREAT PLAINS WHEAT, INC., A MARKET DEVELOPMENT ASSOCIATION REPRESENTING WHEAT COMMISSIONS AND GROWER GROUPS OF COLORADO, KANSAS, NEBRASKA, NORTH DAKOTA, AND SOUTH DAKOTA

Mr. Chairman and members of the committee, it is a privilege to offer the views of Great Plains Wheat, Inc., on this important matter of East-West trade.

Our regional association is supported by about 300,000 farmers in the wheat-growing States of the Great Plains region. Their economic interests are directly affected by policies and decisions regarding East-West trade. However, we are also very much aware of the even larger national interest.

Here is a brief summary of our views on this matter:

1. Even though U.S. wheat production has been greatly reduced by production controls, we today are producing more wheat above domestic needs than any other nation. Under extremely tight acreage allotments, U.S. farmers are turning out between 1 and 1½ billion bushels of wheat. But our production potential is far above this figure—perhaps as much as 2 billion bushels or more. Acreage allotments limit wheat farmers in the use of their productive resources; they are denied the opportunity of making efficient use of their land, their equipment, their labor, and their management skills. This has meant loss in farm income—losses which have been passed on to their communities and to the Nation as well.

2. Our competitors, with whom we see eye to eye on most things, have been selling to all nations, Communist and non-Communist alike. On the strength of their record sales, both Canada and Australia are operating at peak production. Growers in neither country are troubled with acreage allotments which are common to U.S. growers. In fact, governments of both countries have been encouraging increased production, while keeping carryover stocks in manageable supply. We have voluntarily locked ourselves out of certain markets and denied ourselves sales opportunities. But plenty of wheat is available to Soviet bloc nations from our competitors.

3. In the fall of 1963, wheat sales to the Soviet bloc were declared "in the national interest." However, such sales were partially blocked by a requirement that 50 percent of the cargo be carried in vessels carrying the U.S. flag, despite the fact that rates for U.S.-flag vessels are much higher than those of other shipping nations. Only through superhuman efforts was it possible to export about 75 million bushels to Russia and other East European nations—far short of the planned purchase of 150 million bushels.

Thus, while wheat exports to the Soviet bloc have been declared "in the national interest" there is real doubt as to whether this is, in fact, the real policy. If we are not fully competitive on price, credit terms, and shipping costs, then it is quite obvious that we still lack a resolute purpose in carrying out the stated policy.

4. Volume of trade between East and West is rising steadily. The United States is selling a wide range of goods and commodities to the Soviet Union and to other East European countries. But wheat alone, among all such trade in commodities and goods, was subjected to an unusual requirement: Its sale was dependent upon the use of American ships in transporting a certain portion of the total shipments to the Soviet bloc nations. No such requirements are made for corn, oats, barley, rye, soybeans, and grain sorghums. It is difficult to understand why wheat should be singled out for discrimination. This action not only sets a dangerous precedent in a commercial transaction, but it also can be used by other countries as justification for retaliatory action. This comes at a time when the United States is working with other nations to remove trade restrictions and to adopt policies which will improve the flow of goods and commodities in world trade.

5. There is good reason to believe that commercial wheat sales to the Soviet bloc actually can exert some control on the direction of the Russian economy. To secure the hard currency to purchase wheat from the United States, Russia must use scarce gold or produce useful goods that will earn the necessary funds. Then when these hard-currency reserves are used to purchase wheat, these funds are diverted from purchase of strategic or military goods.

6. The United States has been making vigorous efforts to bring its balance of payments into line, yet by failing to take advantage of all possibilities for hard currency sales, we are denying ourselves the opportunity to close the payments deficit.

7. When Russia came to the United States in 1963 with an offer to buy wheat, we were caught unprepared. As a result, the negotiations became tangled in a web of difficulties. There was a prolonged national debate over shipping arrangements and over credit terms (which were not even requested). Long delays resulted while arguments raged over whether the sales themselves should be made. While Russia may have lost face by demonstrating a breakdown in its agricultural production, we demonstrated a breakdown in our sales machinery. We appeared unable to offer the services which are traditional in commercial transactions of this kind.

Soviet-bloc countries are continuing to buy wheat from other wheat exporting countries such as Canada, France, and Argentina. This indicates that there is a continuing and significant long-term market for wheat from the West in that part of the world. If we should be approached again, we must have our house in order so that we can deal effectively with them.

POLICY CLARIFICATIONS NECESSARY

Within the broad consideration of trade with the Soviet bloc,[1] three distinct policy issues are clearly apparent. The first issue involves the decision to grant export licenses covering specific volumes of designated commodities and/or industrial goods. The second involves the extension of competitive credit arrangements covering commercial exports to Soviet-bloc countries. The third deals with the application of cargo preference in handling such trade.

A review of the more recent historical background with respect to each of these three policy issues may be helpful in analyzing the prospects and administrative problems of increasing exports including wheat to the Soviet bloc.

EXPORT LICENSING REQUIREMENTS

In order to control exports of "strategic" commodities and goods, the United States employs an export licensing system, administered by the Office of Export Control of the Department of Commerce under the authority and requirements of the Export Control Act of 1949, as amended, and by further regulations of the comprehensive export schedule. All U.S. exports, except to Canada, require some type of license.

The Export Control Act authorizes the designation of certain commodities and goods as being of "strategic" importance. These are placed on a so-called positive list and require a special or validated license covering a specific volume over a specified period of time to all destinations. Other commodities not on the positive list can be exported to friendly nations under general or blanket licenses of an open end nature of continuing duration.

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[1] The Soviet bloc refers specifically to Russia and the Eastern European countries of Czechoslovakia, Bulgaria, East Germany, Hungary, Poland, and Rumania. Yugoslavia is excluded as being outside the Soviet orbit, closer to the West. Albania is excluded as being under mainland Chinese influence.

From 1951 to 1956 validated licenses were required for all exports to Soviet-bloc countries. Since 1956, this requirement has been relaxed for Eastern European-bloc countries on a small list of commodities made eligible for general export license. In 1956, general exports to Poland were authorized under blanket license, except for a same number of designated items requiring validated licenses. This same authority had been granted for exports to Yugoslavia since before 1951. A similar status was granted to Rumania in July 1964.

Wheat may be exported to Poland and Rumania under general licenses. However, wheat exports to the U.S.S.R. and the remaining East European-bloc countries require special validated license. Nevertheless, beginning with the wheat sales to Russia in the fall of 1963, it was, and continues to be, the policy of the U.S. Government to approve applications for validated licenses to export wheat to Soviet-bloc countries. This policy was stated to be in the national interest. Thus, it may be said that U.S. wheat exports to the Sovie bloc are not being impeded by licensing requirements. U.S. grain exporters feel that, if they could make additional wheat sales to Soviet-bloc countries, necessary licenses to complete such transactions are assured.

In 1962, total U.S. exports to the Soviet bloc were somewhat more than $120 million. Of this, over $94 million were agricultural commodities. U.S. exports to the Soviet bloc in 1963 grew to $164 million of which $135 million were agricultural. Total exports to the Soviet bloc during the first half of 1964 totaled $263 million of which $243 million were agricultural, but $140 million of which is accounted for by wheat export transactions resulting from the sales negotiations with Russia.

Since the export licensing policy of the United States does not necessarily restrict further wheat sales to the Soviet bloc, it is necessary to consider the competitive factors involved in such transactions as they may relate to Government policies.

INSURED CREDIT ARRANGEMENTS AND FLAG SHIPPING REQUIREMENTS

Assuming the U.S. exporters are assured licenses covering possible wheat sales to the Soviet bloc, and that the price of U.S. wheat is competitive in commercial markets of the world, it is then necessary to consider U.S. policies relating to credit programs of other wheat exporting countries. It is the stated policy of the United States that trade with the Soviet bloc is open, including wheat exports. If it is not the policy of the United States to be competitive in making such trade possible, then of course, the stated policy is not the real policy in actual fact.

Whether it is legal for the Export-Import Bank of the United States to guarantee credits on exports to the Soviet bloc of up to 3 or 5 years duration is not clear. There are two specific acts of Congress directly involved with this issue—the Johnson Act of 1934 and the Battle Act of 1951.[2] The Johnson Act, as interpreted by the Justice Department, prohibits the granting of private credits to Soviet bloc countries beyond normal commercial terms.

The Battle Act prohibits government-to-government financial assistance to countries aiding Russia, meaning countries judged to be within her sphere of influence. This provision of the Battle Act was, however, essentially counteracted by the 1964 act extending Public Law 480, which authorized sales to Soviet bloc countries under title IV with payments up to 5 years.

A third act of Congress is indirectly involved with the issue of credits on agricultural exports to the Soviet bloc. This is the Cargo Preference Act of 1954, and is interpreted to require the use of not less than 50 percent U.S.-flag ships if credit is extended or guaranteed by an agency of the U.S. Government.

Since violation of the Johnson Act by private financial institution is a criminal offense, private sources of credits on exports to the Soviet bloc are at best questionable, particularly in the area of what is now considered competitive commercial terms.

Export-Import Bank guarantees on private credit of longer duration might constitute a government-to-government financial arrangement, thus exempting it from the provisions of the Johnson Act, but it is not entirely clear whether this

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[2] The Latta Amendments of 1961 is an expression of the sense of the House of Representatives that subsidized agricultural commodities should not be sold to the Soviet bloc unless the President deems it in the national interest. The President did announce the wheat sales of 1964 to Russia as being in the national interest. The fact that a restriction of a similar nature was attempted to be attached to the Agricultural Appropriations Act of 1963 and failed in both the House and Senate would seemingly nullify any such previous expression of the sense of Congress.

would violate the Battle Act. Apparently the Justice Department has ruled that the Export-Import Bank has authority to guarantee private credits to the Soviet bloc, but whether such credits can be of competitive duration does not seem assured. In any case, it appears more than probable that if the Export-Import Bank did extend any credit guarantees on the export of agricultural commodities, the Cargo Preference Act would apply.

CARGO PREFERENCE SHIPPING REQUIREMENTS

In 1954, the U.S. Congress passed the Cargo Preference Act requiring at least 50 percent of all military and foreign aid goods be shipped to oversea destinations in U.S.-flag vessels. The objective of this law was to support the U.S. nonliner merchant fleet, which because of higher operating labor costs as well as higher construction and maintenance costs, has been unable to compete effectively against the rates on foreign-flag vessels. The act has been interpreted to also extend discretionary powers to the executive branch of the Government to further require U.S.-flag vessels on shipments of those commercial exports which require special export licenses under the Export Control Act of 1949.

As a result of the Cargo Preference Act, somewhat more than 50 percent of all military and foreign aid cargo and Public Law 480 (Agricultural Trade Development and Assistance Act of 1954) shipments of agricultural commodities have moved in U.S.-flag vessels. The Cargo Preference Act formally recognizes that U.S.-flag ships must charge higher rates than foreign-flag vessels in order to meet higher costs, and that the U.S. nonliner merchant fleet would not be able to stay in business unless business was arbitrarily assured to them. Over 90 percent of all shipments made in U.S. nonliner vessels in recent years have been directly attributable to Public Law 480 movements, over three-quarters of which has been wheat. The U.S. nonliner fleet is today virtually 100 percent dependent upon the business assured to them under the Cargo Preference Act in carrying military, foreign aid, and food-for-peace shipments to oversea destinations.

SIZE OF THE U.S. MERCHANT FLEET

The world's merchant fleet, as of June 30, 1964, numbered 18,072 ships of about 140.3 million gross tons. The U.S. merchant fleet accounted for 2,598 ships totaling 22.2 million gross tons. Less than 1,000 ships in the U.S. fleet were privately owned. More than 1,600 ships were Government-owned in the inactive reserve fleet. Dry cargo freighters in the active U.S. fleet numbered 561 ships of 4.7 million gross tons out of a world total of 9,800 ships of 73.9 million gross tons. Most of these freighters were of the nonliner or "tramp" category and are the types of ships that are able to carry grain cargoes. In addition, the United States had 66 ships in the active bulk carrier category of a total of 700,000 gross tons out of a world total of 1,779 bulk carriers of 16.7 million gross tons. U.S. bulk carriers are all nonliner ships and are specifically designed for carrying grain cargoes. Also, the United States had 291 privately owned tankers of a gross tonnage of 4.1 million gross tons out of a world total of 3,091 such ships with a gross tonnage of 45.6 million. Some tankers have been used in carrying grain.

In actual fact, only about 900 American-flag vessels totaling about 10 million gross tons are in active use, nearly all privately owned. The active American-flag merchant fleet carries only about 8 or 9 percent of the total foreign commerce of the United States as compared to about 32 percent during the 1930's.

FREIGHT DIFFERENTIAL SUBSIDIES UNDER PUBLIC LAW 480

Since the enactment of Public Law 480 in 1954, a total freight bill of $1,169.4 million has been paid for U.S. "tramp" shipping under the 50-percent rule of the Cargo Preference Act. The differential between the foreign freight rates and the rates charged by U.S. nonliner vessels in moving these commodities has amounted to well over $400 million since 1954 through June 30, 1964. This differential is absorbed by congressional appropriations to the U.S. Department of Agriculture, and is paid directly to the U.S. nonliner companies through the rates they charge for Public Law 480 shipments.

For example, during 1962 the rates per metric tons for shipment of wheat from U.S. gulf ports to Europe averaged from $4.50 to $6.50 on foreign-flag vessels; whereas the rates for U.S. nonliner ships average $11.50 to $13.50. Comparable rates for the same year from the gulf to north Africa were from $5.85 to $7 on foreign freights and from $14.50 to $16.05 on U.S. ships. From the

U.S. North Pacific ports to India, the rates were from $8.05 to $9 on foreign flags and from $23.75 to $24.75 on U.S. vessels.

During fiscal year 1964 alone, over $90 million in freight differentials were paid to U.S. nonliner shipping under Public Law 480. This cost to the public, of course, could be avoided by the use of foreign shipping at foreign rates. Therefore, from July 1963 to June 1964, the U.S. Government actually paid a subsidy of over $90 million to the U.S. nonliner merchant marine, in addition to the operating and construction subsidies paid directly to the U.S. liner fleet totaling $330 million. This does not count benefits to the merchant marine that arise out of special tax and depreciation treatment, as well as preferential interest rates on loans and mortgages.

U.S. nonliner shipowners do not have their rates established by any government regulation, or their rate structure reviewed by any government agency. The freight rates on U.S. nonliners are strictly a matter of the degree of competition among themselves. They do not compete with foreign shipping for world commercial transport. They compete only for the proportion of U.S. Government sponsored exports that are required to be transported in their ships under the Cargo Preference Act.

CARGO PREFERENCE AND COMMERCIAL EXPORTS

Until November 1963, all commercial U.S. wheat exports (that is all wheat exports outside of Public Law 480) were exempt from the 50 percent provisions of the Cargo Preference Act. When the Soviet Union came to the United States to buy wheat in the fall of 1963, the executive branch of the Government, in authorizing such exports, applied the 50-percent U.S. flag shipping requirements of the Cargo Preference Act, in connection with the issuance of "validated" export licenses required under the Export Control Act. This was done even though the business transactions were strictly commercial, and were in no way related to Public Law 480 or involved any credit or credit guarantees. Thus, for the first time, the Cargo Preference Act was applied to a U.S. commercial export transaction.

During the confusion that followed the application of U.S. shipping preference to Russian wheat purchases, it was discovered that no branch of the Government had authority to absorb U.S./foreign freight rate differentials on commercial exports. Therefore, the extra cost of the shipping requirements was to have been borne by the buyer—in this case the U.S.S.R. As might have been expected, the Russians refused to accept the additional cost. The issue was finally solved by the U.S. Department of Agriculture's acceptance of an extra high bid for export subsidy on Durum wheat included in the total sales contract. Only half of the total sales volume to the U.S.S.R. that had been originally mentioned by the Russians was realized. The remaining 2 million tons of potential wheat sales went on the shoals of cargo preference.

It may be well to reemphasize that the U.S. nonliner fleet presently derives 90 percent of its business from Public Law 480, with three-quarters of that business carrying U.S. wheat exports. While the U.S. merchant fleet is carrying only 8 or 9 percent of total U.S. exports, it is carrying 38 percent of all U.S. wheat exports. The American wheat economy is already providing substantial business to U.S. flag shipping under Public Law 480. Commercial wheat exports should not be impeded by noncompetitive U.S. flag shipping requirements.

ALTERNATIVE POLICY CONSIDERATIONS

Expanded trade with the Soviet bloc has been expressed as being in the national interest. Effective support for expanded agricultural exports to Eastern Europe should be directed toward general export licensing of commodities not on the positive list of strategic materials required under the Export Control Act of 1949.

Since the United States has recognized that trade credits to the Soviet bloc of 5 years or less duration by other Western nations are not inconsistent with our overall foreign economic policies, the United States should also be willing to extend such credits in order to effectively compete for the present and potential volume of trade to this part of the world.

But, of initial importance, it is essential that the United States develop means of supporting the U.S. nonliner merchant fleet without requiring U.S. flag shipping to be an impediment to any agricultural exports financed under U.S. Government credit guarantees.

In general, there are two policy approaches to U.S. shipping requirements on any future commercial exports. One policy approach would be to recommend

an Executive order exempting all exports outside of Public Law 480 (including wheat and flour) from the 50 percent shipping requirement of the Export Control Act. This would also exempt exports involving Government-insured commercial credit.

An alternative policy approach would be to make a general proposal to provide a direct subsidy to the U.S. nonliner fleet to enable them to match foreign freight rates in competing for expanded commercial export business. Such a subsidy proposal might be patterned after the principles involved in the direct subsidy system in effect for the U.S. liner fleet. The proposal might include the provision that the 50-percent rule of the Cargo Preference Act could still continue on Public Law 480 shipments, but should not be applied to commercial transactions regardless of credit arrangements. A direct subsidy should enable the U.S. nonliner shipping companies to capture a fair share of U.S. commercial export transportation without preferential guarantees.

Because the U.S. merchant fleet now carries only 8 or 9 percent of the total U.S. export business as compared to over 30 percent 30 years ago, there will be a strong appeal to somehow increase the business volume on U.S.-flag shipping in working out the new merchant marine policy mentioned by the President in his state of the Union message.

U.S. trade and defense interests should consider recommending a direct subsidy policy for the U.S. nonliner merchant marine to enable it to openly compete with foreign shipping for increased business volume. This recommendation should be offered with the proviso that, with a sufficient direct subsidy, cargo preference regulations would not be necessary and should not be employed to assure commercial business to U.S. nonliner shipping, but that through direct subsidies they will be able to effectively compete for a desired share of the business.

Mr. Chairman, I realize that some of the suggestions in the latter part of my statement deal with matters which come under the jurisdiction of other committees of the Senate and other departments of the Government. However, in order to give this distinguished committee a full picture of the difficulties confronting wheat producers and the grain trade in carrying on export trade with the Soviet bloc, I have included them in this statement.

In concluding, let me express the deep appreciation of the organizations which I represent and of myself for this opportunity to present our views on this important matter.

TABLE NO. 1.—*U.S. export to Soviet bloc,*[1] *1962–64 (in U.S. dollars)*

[All figures in $1,000 units]

	Agricultural	Wheat and wheat flour	Industrial
U.S.S.R.:			
1962	6,089	----------	9,208
1963	7,436	----------	12,803
1964 (January–June)	124,429	110,418	6,344
Czechoslovakia:			
1962	4,187	----------	2,965
1963	5,687	----------	4,122
1964 (January–June)	7,695	2,350	1,668
East Germany:			
1962	1,642	----------	56
1963	6,112	----------	291
1964 (January–June)	11,568	7,849	3,156
Hungary:			
1962	153	----------	683
1963	16,474	7,855	806
1964 (January–June)	8,264	2,486	491
Poland:			
1962	81,990	29,372	12,464
1963	98,448	47,053	10,449
1964 (January–June)	90,977	55,243	7,609
Rumania:			
1962	256	----------	546
1963	137	----------	1,112
1964 (January–June)	161	----------	1,063
Totals:			
1962	94,317	29,372	25,922
1963	134,294	54,928	29,583
1964 (January–June)	243,094	178,346	20,331

[1] U.S. exports to Bulgaria were less than $500 in 1963 and $7,000 during the 1st half of 1964.

TABLE No. 2.—*Foreign trade totals with Soviet bloc, 1963*

[In $1,000 units]

	Wheat and wheat flour
European Economic Community:	
Exports, 1,902,627	-------
Imports, 2,363,789	-------
Canada:	
Exports, 179,474	163, 879
Imports, 18,789	-------
Japan:	
Exports, 179,783	-------
Imports, 180,587	-------
United States of America:	
Exports, 163,877	54, 938
Imports, 83,461	-------

TABLE No. 3.—*Shipment of U.S. wheat and wheat flour by U.S. and foreign vessels, calendar year 1962*

[In percent]

	U.S. ships	Foreign	Totals
Wheat:			
Liner	5.96	5.84	11.80
Nonliner	22.76	48.16	70.92
Tanker	9.72	7.56	17.28
Total	38.44	61.56	100. 0
Flour:			
Liner	35.52	36.94	72.46
Nonliner	14.06	13.48	27.54
Total	49.58	50.42	100.00

RESTRICTIONS ON PRODUCTION OF WHEAT IN OTHER COUNTRIES?

The CHAIRMAN. Mr. Hardy, I think your views are very pertinent to the responsibilities of this committee. I recall the controversy over the sale of wheat, which I think we handled very badly. We confused matters to the point where the sales were not as large as they should have been. And you state that other wheat-producing countries are encouraging production while we are increasing our restrictions upon acreage. Is that correct?

Mr. HARDY. This is true, Mr. Chairman.

The CHAIRMAN. Do you have any further information about increased production in countries like Canada and Australia?

Mr. HARDY. Canada has had a rather modest increase, not as large as it could have been had they not moved over into livestock production. Nevertheless, the increase is there. Australia is up, if I recall the figure rightly, and this is a guess, Mr. Chairman, I believe to about 10 or 12 percent in the last few years.

The CHAIRMAN. Do they have any acreage limitation program comparable to ours?

Mr. HARDY. Canada has a bushel control. Australia runs something a little bit different in the way of a control of production. It is not too much like anything that we have here.

The CHAIRMAN. But are their controls as stringent as ours?

Mr. HARDY. That would be a difficult question to answer, Mr. Chairman. I think Canada has had very little or no restriction on her production.

The CHAIRMAN. That is what I meant.

Mr. HARDY. Actually, they have been encouraging production for the past few years, largely as a result of expanded exports.

The CHAIRMAN. And this, of course, has a very beneficial effect on their balance of payments, does it not?

Mr. HARDY. Very definitely, it makes a real contribution to their balance of payments.

The CHAIRMAN. Our wheat industry could make such a contribution if it were allowed to, could it not?

Mr. HARDY. We think so, Mr. Chairman.

DIFFICULTIES OF U.S. WHEAT SALE TO RUSSIA

The CHAIRMAN. No doubt about it. Not only was there the problem of Export-Import Bank participation, but an even more serious problem was this differential on freight rates which made our sellers noncompetitive. Is that not true?

Mr. HARDY. It was impossible for the Russians to pay a premium over what they could expect to buy it from other nations.

The CHAIRMAN. No country would do that.

Mr. HARDY. We did move a sizable sale in this instance.

CONTINUING NEED OF THE SOVIET UNION FOR WHEAT

The CHAIRMAN. You stated that you feel there is a a reasonable prospect for a permanent cash market for wheat in the Soviet bloc, that demand is continuing. Do you have any further information about that?

Mr. HARDY. In the Soviet bloc nations, certainly, there is an expansion of population that is taking place and there is, I think, an apparent failure of so-called new lands to develop the way they thought they would. The rest of the world is presently enjoying a good crop. Many of the areas were reported earlier to have had fairly good crops, even in the Soviet bloc nations. We find now that they are back in the market again, which would indicate that their production is not materializing as they anticipated.

The CHAIRMAN. Do you have any indication about current negotiations by the Soviet Union for purchase of wheat?

Mr. HARDY. The only recent one was the one from Australia for 700,000 metric tons and an option to take an additional 75 metric tons.

The CHAIRMAN. Are there any negotiations in process with our producers?

Mr. HARDY. To my knowledge, there are none of our commercial trade presently negotiating, I think largely because of many of the restrictions that are there and need to be resolved, before we embarrass ourselves again.

TRADE RESTRICTIONS SHOULD CONFORM WITH TRADE POLICY DECLARATION

The CHAIRMAN. I notice you said you thought it was important to have a fully understood declaration of policy whether East-West trade is in the national interest. What did you have in mind. What kind of declaration of policy? Or did you mean merely the removal of the restrictions with regard to freight rates?

Mr. HARDY. I think this is basically the problem. The administration has stated this trade is in the best interest of the United States. However, certainly restrictions that presently exist would make it almost impossible to negotiate sales.

The CHAIRMAN. Do you know of any barter proposals from the Communist countries for wheat? Have you heard of any such thing?

Mr. HARDY. At this time, no, Mr. Chairman.

The CHAIRMAN. Again, possibly the reason is this matter of delivery?

Mr. HARDY. I would think so.

AMOUNT AND COST OF STORING U.S. SURPLUS WHEAT

The CHAIRMAN. Do you have available the cost to Government each year of storing and handling our surplus wheat?

Mr. HARDY. I do feel that there is a need to arrive at what we would consider a normal carryover of wheat—a strategic supply whether it be for merchandising or in the case of war.

The CHAIRMAN. What do you consider a normal carryover?

Mr. HARDY. Well, I have heard the figure 630 million bushels as being proposed as a normal carryover. I question that this is adequate in terms of the present exports, and certainly, whether we include or exclude the Public Law 480 markets, I think our commitments in these areas are such that it is probably even more important to maintain a guaranteed stock to these countries. It seems to me this is a rather conservative figure, Mr. Chairman.

The CHAIRMAN. If 630 million bushels is considered by the trade and the Government as normal, what is our present surplus above this amount?

Mr. HARDY. In excess of that, probably all wheat, approximately 350 to 600 million bushels.

The CHAIRMAN. We have an excess of 350 million bushels?

Mr. HARDY. In addition to the 630.

The CHAIRMAN. We have approximately a billion bushels?

Mr. HARDY. Yes.

The CHAIRMAN. Is this stored publicly, do you know, or privately?

Mr. HARDY. Primarily, it is in the private storehouses.

COST OF WHEAT PRODUCTION—UNITED STATES AND U.S.S.R.

The CHAIRMAN. Do you have any idea about the relative production cost of wheat in this country and Russia?

Mr. HARDY. No, I do not, Mr. Chairman. I would assume that the production cost would be probably a little higher, actually, in this country because of the standard of living and other considerations.

The CHAIRMAN. Senator Lausche, any questions?

AMERICAN BOTTOM SHIPPING REQUIREMENT

Senator LAUSCHE. Yes. I am interested in this matter of transportation of our grain to foreign countries. I was not here when you discussed it. To what extent is this limitation on the right to choose freely the transportation system impeding our ability to develop greater sales around the world? That is the 50-percent requirement?

Mr. HARDY. Well, the 50-percent requirement has caused a problem in the past in even some of our Public Law 480 markets, in as much as it was a higher rate over other commercial ocean freight. The problem now, of course, which we have experienced, and this is a rather selective problem, is in East-West trade where the U.S. bottom application has been applied in a commercial sale for the first time. Normally, commercial sales are not subject to the U.S.-flag requirement.

Senator LAUSCHE. The law now provides, and it has been so applied to the East-West trade, that 50 percent or more of the grain must be shipped in American bottoms, is that correct?

Mr. HARDY. In the case of East-West trade? In certain countries, this would be true. Those countries that have not received what we call general licensing under the licensing act.

Senator LAUSCHE. What nations of Europe would fall within that category that have not received the licenses?

Mr. HARDY. Yugoslavia at present; Albania, of course. Yugoslavia is the one that comes to mind as not being in the group that is receiving general licensing.

Senator LAUSCHE. Is Russia included in the 50 percent category?

Mr. HARDY. Well, this is a matter, I think, that is debatable at the present time, Senator. There is some question, I think, in everyone's mind. I do not think we can afford to go through the embarrassment again of finding out whether it would or would not apply. We need a clear-cut ruling on it.

Senator LAUSCHE. You are of the opinion, however, that the limitation which we have that the American farmer must ship 50 percent of his grain in an American-bottom has lessened the ability of our country to compete in the sale of grain?

Mr. HARDY. Not necessarily, Senator. The U.S.-flag ship requirement was basically applied to Public Law 480 movement. The commercial movement of agricultural products—wheat is the prime mover, of course—were excluded from this requirement.

Senator LAUSCHE. You did discuss this subject in your paper. Will you repeat now what you had thought we ought to do in order to solve what you assert to be an impediment in our competitive posture with other nations of the world?

MODIFICATION OF THE 50-PERCENT U.S. SHIPPING REQUIREMENT SOUGHT

Mr. HARDY. I think there are two basic problems facing us, Senator. One is, of course, the application of the U.S.-flag requirement to a commercial sale. The other problem which I think is evidenced in the decline of a merchant fleet, is the matter of Public Law 480 movement—the application of the U.S.-flag requirement to Public Law 480 shipments has not accomplished, either to the satisfaction of the import market or the merchant fleet and certainly has, I think, in many instances probably hindered some sales. There must be devised a better system to make the merchant fleet competitive without having the overriding application of the——

Senator LAUSCHE. What do you think we should do to make our merchant fleet more competitive?

Mr. HARDY. I do not believe, Senator, that I would be in a position to offer anything on this particular approach. But it would seem to

me that a direct equalization—subsidy, if you will—if we are serious about maintaining the fleet, is probably the only solution.

Senator LAUSCHE. I read from your paper:

> In general, there are two policy approaches to U.S. shipping requirements on any future commercial exports. One policy approach would be to recommend an Executive order exempting all exports outside of Public Law 480 (including wheat and flour) from the 50-percent shipping requirement of the Export Control Act.

Why do you suggest that that be done?

Mr. HARDY. I think the gray area that presently exists because of the flag application on the Soviet sale, if it were so stated as a firm policy, I believe our grain merchandisers not only would but could get into the market.

Senator LAUSCHE. That is, if you did remove this requirement that 50 percent be carried in American ships, you could sell at a lesser price?

Mr. HARDY. Yes, quite a lesser price; almost two-thirds.

Senator LAUSCHE. Can you tell me by what amount you could reduce the price if we removed the requirement of 50 percent being shipped in American bottoms?

Mr. HARDY. It would be approximately $8 to $9 a ton. It would vary during different seasons.

Senator LAUSCHE. What does the $8 to $9 a ton reflect by way of percentage?

Mr. HARDY. About 25 cents a bushel.

Senator LAUSCHE. And the per bushel sale is what?

Mr. HARDY. The per bushel sale would be about $1.75–$1.80 in the world markets.

Senator LAUSCHE. Now 25 cents to $1.75 would be one-seventh. That is, you could reduce the price by about 14 percent.

Mr. HARDY. To the buyer.

Senator LAUSCHE. And that 14 percent increased cost imposed by the law which says you have to carry in American bottoms has adversely affected our ability to compete, is that correct?

Mr. HARDY. This is true.

Senator LAUSCHE. The record will be clear: You can choose between hiring a foreign ship, carrying at a less price, or be compelled to hire an American ship carried at a greater price; is that correct?

Mr. HARDY. In the commercial market, you would have this.

DIRECT SUBSIDIZATION TO COMMERCIAL WHEAT SELLERS PROPOSED

Senator LAUSCHE. The second cure you recommend is that we subsidize and relieve the seller from the burden of carrying this extra 14 percent; is that correct?

Mr. HARDY. Well, we have relieved the buyer in the case of Public Law 480 from paying this extra 12 to 14 percent. There is no vehicle, at least that we know of, that permits any agency of the Government to absorb this cost on the commercial sale.

Senator LAUSCHE. And the only way it could be done is by the creation of a new subsidy?

Mr. HARDY. Either the subsidy, or the increased price to the buyer, which inevitably loses the sale.

Senator LAUSCHE. You do understand that we are now subsidizing the building of ships by an amount equal to 55 percent of the cost of the ship?

Mr. HARDY. I was aware that there were payments, yes.

EFFECT OF RECENT U.S. DOCK STRIKE ON TRADE

Senator LAUSCHE. We are also subsidizing the operation of a certain class of ships by paying a subsidy equal to the difference in the cost of hiring U.S. labor and the cost that would exist if you hired foreign labor. You know of this 45-day strike that has occurred?

Mr. HARDY. Yes.

Senator LAUSCHE. How does that affect your competitive position in selling in the world markets?

Mr. HARDY. It hurts our competitive position. I think no one can deny something like that. I think the threat of such a thing happening tends to make commercial markets shy away from purchases from the United States, because it does make it extremely difficult for them to be assured of continuity of delivery. This is extremely important.

Senator LAUSCHE. I think it is of much greater importance than we have ascribed to it and it ought to be handled effectively by the Government, but it is not.

FULL OPERATION OF FARMS IN CHINA AND U.S.S.R.

Mr. Hardy, can you give me your opinion of the operation of the Russian and Chinese farms? If they have failed, to what extent, and what are the causes of the failure?

Mr. HARDY. Well, I have never been in Russia, and of course, what I know would be only what I have read. I think one can say without question that their system has failed.

Senator LAUSCHE. That is, the system of collectivized farms has demonstated its inability to produce what the prophets said it would?

Mr. HARDY. In my mind, there is no question but what it has.

Senator LAUSCHE. Thank you, very much.

The CHAIRMAN. The Senator from Delaware?

Senator WILLIAMS. No questions.

UNITED STATES MUST BE COMPETITIVE TO WIN MARKETS

The CHAIRMAN. Mr. Hardy, I appreciate your bringing this valuable information to the committee's attention. You have made it very clear that if we expect to sell wheat in the commercial markets to the Eastern European countries and Russia especially, we have to be competitive and that we are not under our current policies. Thank you, very much, Mr. Hardy.

Mr. HARDY. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Craven, who was scheduled to testify at this point, is ill and unable to be here today.

Our next witness is Mr. W. H. Page, senior vice president of the Morgan Guaranty Trust Co.

Do you have a prepared statement?

STATEMENT OF JOHN M. MEYER, JR., EXECUTIVE VICE PRESIDENT, MORGAN GUARANTY TRUST CO. OF NEW YORK, AS PRESENTED BY W. H. PAGE, SENIOR VICE PRESIDENT, MORGAN GUARANTY TRUST CO., NEW YORK, N.Y.

Mr. PAGE. I have a prepared statement, but it is the statement of Mr. Meyer, who is executive vice president of the bank I am associated with. He is in the Far East today and cannot be here. It is a very short statement. Perhaps I can read it.

The CHAIRMAN. Please proceed.

Mr. PAGE. We assume, for the purpose of this statement, that the terms East-West trade and Soviet bloc countries include the following countries: U.S.S.R., Bulgaria, Czechoslovakia, Hungary, Poland, Rumania. We further assume that Yugoslavia, while a Communist country, is not regarded as a member of the Soviet bloc.

BANK'S INTEREST IN EAST-WEST TRADE

Although we are aware that the United States and the European Soviet bloc have been trading in nonstrategic consumer goods, including most types of foodstuffs for many years, as a bank we have not participated in the financing of this trade to date. However, we have investigated the question, and those Western European corporations and banks with whom we have talked and who sell to and finance trade with certain Soviet bloc countries report their experience has produced a record of prompt payments.

CONSEQUENCES OF RESTRICTIONS ON EXIMBANK GUARANTEES

As stated in Senator Fulbright's letter of April 29, 1964, this whole subject is controversial in nature and such controversy may have furthered the enactment of a provision of title III of the Foreign Aid and Related Agencies Appropriations Act of 1964 which apparently limits the power of the Export-Import Bank to guarantee the obligations of or to participate in extensions of credit to a Communist country (as defined) as follows:

> None of the funds made available because of the provisions of this title shall be used by the Export-Import Bank to either guarantee the payment of any obligations hereafter incurred by any Communist country (as defined in section 620(f) of the Foreign Assistance Act of 1961 as amended) or any agency or national thereof, or in any other way to participate in the extensions of credit to any such country, agency, or national, in connection with the purchase of any product by such country, agency or national, except when the President determines that such guarantees would be in the national interest and reports each such determination to the House of Representatives and the Senate within 30 days after such determination.

This limitation would seem to relate only to Eximbank funds made available by this title III. Whether other funds or sources are available to the Eximbank for this purpose and what they may be is not clear to us, but in any event, the language of this limitation appears to be of importance and might make the Eximbank reluctant to participate in the financing of some transactions. Private institutions in considering the advisability of financing East-West trade without participation of the Eximbank must rely on interpretations of legislation deemed to be pertinent (and which may vary in degree with

different institutions) together with their own general and credit judgments, all of which, under the circumstances, tend to be restrictive in a good many respects.

TWO VIEWPOINTS ON EAST-WEST TRADE

There is a body of opinion which would favor an increase in East-West trade as to consumer goods and the financing thereof, provided such trade is not detrimental to the security of the United States; this group is inclined to feel that international trade and commerce in the long run, with the exchange of views and people which are essential to such activities, creates greater understanding and tends to lessen tensions. On the other hand, there are those who do not feel that such an extension of trade is likely to have any such effect; they feel that the trade will continue only so long as it fits the desires of the Soviet bloc and in itself will have very little influence in easing relations with the satellites. Obviously these points of view can only be opinions and those private companies which engage in such trade and finance are not in a position to either ascertain or decide what is in the best interests of our national security. As you are aware, one of the principal guides in the Export Control Act of 1949 under which "all commercial exports from the United States and from its territories and possessions, exports to Canada for internal consumption other than sugar, are prohibited unless the Department of Commerce has either issued a 'validated license' or established a 'general license' permitting such shipments."

SINGLE GOVERNMENT SOURCE SHOULD ASSEMBLE TRADE DATA

Of course, the basic decisions of whether U.S.-East-West trade and its financing, by U.S. Government or private institutions, should be expedited or permitted is one that only the Government can make, as it alone has fully available to it the knowledge, estimates and facts necessary to formulate those difficult decisions. We do not know if the available knowledge developed in various departments of the Government has been assembled in one responsible bureau and thoroughly studies and digested. It would seem to us that an assembly point in the executive branch of the Government is essential for reasons of continuity and permanence. Those wishing to engage in East-West trade or the financing thereof would like to be able to look to one source for information and guidance.

If one accepts the thesis that East-West trade, within bounds of our national security, has elements of long-range economic and political benefits, as well as short-range, there remain several points in need of clarification to make such trade effective.

RESTRICTIONS ON FINANCING TRADE WITH BLOC NEED CLARIFYING

In connection with customary short-term U.S. bank financing of trade with the aforementioned Soviet bloc countries, there are problems with respect to such financing arising out of the still remaining provisions of the Johnson Act (18 U.S. Code 955). Due to exemptions heretofore granted by Congress to members of the International Bank for Reconstruction and Development and the International Monetary Fund, practically the only remaining territory

with respect to which the provisions are still applicable is the Soviet bloc. It would seem that for the encouragement of private financing of this trade with such territory, effective steps should be taken to eliminate or to clarify—at least as far as bank financing is concerned—any restrictions still subsisting with respect to such territory.

APPROVAL FOR GOVERNMENT GUARANTEES FOR LONG-TERM CREDIT SOUGHT

When financing of a term longer than that for customary consumer goods export—import trade financing, and which in this area is usually done with central banks or foreign trade banks, is being considered, several further questions arise including the "loan" prohibitions of the Johnson Act. Other questions concern the need for, and the availability of government support, the support of the U.S. Government or of its agencies, and the support of the governments of the Soviet bloc countries. From the standpoint of commercial banks in the United States, or at least from the standpoint of this bank, there is a great difference between short-term export financing and loans for periods of several years to governments or obligors who do not make available their respective financial statements including disclosure of gold and other reserve holdings, as well as their various liabilities and who are not members of the World Bank or IMF. It seems to us that in such latter situations, the granting of long-term credit for capital goods and the assumption of long-term political risks do not appear suitable for commercial banks and fall into a category quite different than credits extended for nonstrategic consumer goods.

Consequently, approval for guarantees by U.S. governmental agencies of such loans would be a prerequisite for sizable medium or long-term credit facilities. The availability of such guarantees would also serve as an indication by the U.S. Government that extensions of credit to certain countries of the Soviet bloc is desirable and acceptable from a national point of view. The Export-Import Bank would seem to be a logical institution to issue such guarantees or to provide such loans. If the Export-Import Bank's charter is deemed to prevent it from being responsive to the appropriate needs of exporters in this area or to the intent of Congress or the administration, with respect to such guarantees or credit, there appear to be several possible alternatives. A special fund might be created within the Bank or there might be a joint declaration of Congress clarifying and clearing spelling out its intentions as to the Bank's policies and functions. Or perhaps a special act of Congress could amend the Johnson Act; clarify or amend certain aspects of financing procedures of the Commodity Credit Corporation; clarify the position of the Eximbank or delegate to some other instrumentality of Government the authority and responsibility to guarantee such export loans or credit.

NEED FOR GUIDELINES FOR EAST-WEST TRADE POLICIES

In sum, we believe it highly desirable, if East-West trade is to be developed on a sound basis, the clarifying action be taken by Congress and by a centralized executive department to remove present uncertainties and to establish guidelines which can be followed with assurance by business and financial institutions.

In view of the recent proposals by the President to correct our balance-of-payments losses, particularly the implementation of the Gore amendment to the interest equalization tax and the voluntary ceiling on foreign loans implemented by circular 5616 of the Federal Reserve Board, perhaps any additional action on these matters is academic at this time. Nevertheless, we hope the U.S. balance-of-payments problem will be solved within the foreseeable future, and at that time financing of East-West trade will again be a subject of active interest to U.S. banks.

TRADE HELPS BALANCE-OF-PAYMENTS PROBLEMS

The CHAIRMAN. Thank you, Mr. Page. I wonder if you care to venture your personal opinion on that question you asked on page 5. Do you believe trade with the Soviet bloc is beneficial to our balance of payments?

Mr. PAGE. Any trade we can do with the Soviet bloc or any foreign government would help our balance of payments, any exports we could make.

The CHAIRMAN. You stated in the beginning that the credit record of the Soviet Union as far as you know, although your bank had not had personal experience, had been good; is that correct?

Mr. PAGE. Yes, sir; the payment has been good since the war. The record has been good.

The CHAIRMAN. Do you have any thoughts about whether or not there is any serious difficulty with our business people dealing with the state trading system such as we have in the Communist countries?

Mr. PAGE. I do not know that I am really qualified to answer that.

The CHAIRMAN. I wondered if you had heard any discussion of this by businessmen?

Mr. PAGE. You mean a commercial company dealing with a state trading system?

The CHAIRMAN. Yes.

Mr. PAGE. No; I would not have an opinion.

The CHAIRMAN. Do you have any opinion whether or not most-favored-nation treatment should be extended to Communist countries?

Mr. PAGE. I don't really think I am qualified to answer that.

WESTERN EUROPEAN COUNTRIES FINANCE SOVIET EXPORTS

The CHAIRMAN. Do you know whether other banks similar to yours in other countries in Western Europe finance Soviet exports in Eastern Europe?

Mr. PAGE. Yes; they do.

The CHAIRMAN. They do?

Mr. PAGE. Oh, yes; we have checked this carefully.

The CHAIRMAN. Will you state for the record a bit about that? Is it customary?

Mr. PAGE. Oh, there is a great deal of financing of trade with the Soviet bloc by Western European banks.

The CHAIRMAN. Private banks?

Mr. PAGE. Private banks. We have checked with many of them. I cannot quote names, and so forth, but with perhaps 30 banks in the

United Kingdom and Western Europe on the payment record and experience. It has been uniformly good.

The CHAIRMAN. Do any of those Western European countries have legislation similar to the Johnson Act that you know of?

Mr. PAGE. Well, it does not have the similarity of stopping them from making loans to the Soviet satellites or the Soviet Government.

ONE EXECUTIVE COORDINATING AGENCY FOR EAST-WEST TRADE

The CHAIRMAN. You have made some suggestions and one of them I think is very important. You thought one source of information and direction in the Government would be very helpful. What Department should be responsible? Should it be the State Department, Treasury Department, Department of Commerce, or perhaps a new agency?

Mr. PAGE. I think the main thing that we are seeking guidance on is, of course, that we do not want to finance anything which is not in the interest of the United States and not in the interest of the national security of the United States. We would want to be very sure that any financing that we did do was for the benefit of the national security of the United States. I think the guidelines on security are perhaps more important than the other matters which we mentioned here, problems of the Johnson Act, and so forth, which are not a major decision, but rather problems of implementing the major decisions once the first one has been made. I am not quite sure that I can decide which part of the executive should handle this, but perhaps the State Department would be the one.

The CHAIRMAN. Be a policy coordinating agency, so to speak?

Mr. PAGE. Well, yes, perhaps. In fact, we have checked with the State Department whether it was appropriate to finance trade with some of these countries. This is a year ago or 6 months ago. They certainly were very responsive to our request.

REASONS FOR U.S. BANKS' RESTRAINT IN FINANCING SOVIET TRADE

The CHAIRMAN. Has your bank actually engaged in financing any of this trade with the Communist countries?

Mr. PAGE. No, sir.

The CHAIRMAN. Why not? Because of uncertainty or because——

Mr. PAGE. I thing it is the uncertainty.

The CHAIRMAN. Uncertainty?

Mr. PAGE. Yes. I think also in the banking business, when you lend money to somebody, you like to have his figures; you like to have some check on what he does. I am afraid that that is inbred in a banker. You like to see his balance sheet and his profit-and-loss account. Now, none of the Soviet bloc countries report their foreign exchange reserves or gold holdings. There are very minimum figures that come from them, in no way comparable to the countries that belong to the International Monetary Fund. Therefore, it is always a big question mark in a private banker's mind whether he should risk some of his money in this trade.

The CHAIRMAN. Why have these 30-odd banks—and I assume they are prominent banks—in Europe financed this trade? Do they follow different practices from a U.S. bank?

Mr. PAGE. No, sir; I cannot say they do, but they are perhaps closer to the trade. Perhaps their customers have asked them to finance it a little more insistently than our customers have. A banker in the middle of Western Europe receives trade with the Eastern bloc all the time.

The CHAIRMAN. The Senator from Delaware?

Senator WILLIAMS. Mr. Page, you have me somewhat confused. In earlier remarks, I thought you were giving the Soviet bloc a good credit risk and said you thought they had an excellent record of payments. I took it that you were recommending that they be eligible for long-term credits. Then in your reply to the chairman, you just gave a rather dim view as a banker of their credit risk. I wonder how you reconcile the two?

Mr. PAGE. Well, one, the payment record has been good. In other words, they have paid up to date as far as all practical matters.

Senator WILLIAMS. But you have not loaned them any money, have you?

Mr. PAGE. No, sir; but we have checked with other organizations that have.

Senator WILLIAMS. But you would not want to loan them any money yourself?

PRESENT LEGISLATIVE RESTRICTIONS ON SOVIET LOANS

Mr. PAGE. Yes, sir; if we felt this was in the national interest or it was a matter of short-term credits, as we mentioned in our memorandum, we probably could see our way clear to.

Now, at the moment, we are under very close restrictions on foreign loans. I meant to indicate that in the last paragraph. Under the volunteer program, I think it is underlying that we would extend credit to these areas. We have perhaps demands that have more of a call on us than these which we have to divide up.

Senator WILLIAMS. Then, do I understand that if the administration and the Congress removes these restrictions on private lending, you think that you could handle these credits with your own money.

Mr. PAGE. Remove the restrictions on private lending?

Senator WILLIAMS. So that you could make these long-term loans if you wished to finance this trade? Would you be inclined to finance it?

Mr. PAGE. Long-term——

Senator WILLIAMS. Well, long- or short-term.

Mr. PAGE. Short-term, certainly, sir.

Senator WILLIAMS. You think you could finance it through your banks?

Mr. PAGE. You are talking about if Congress removed the restrictions——

Senator WILLIAMS. I understood you to say that you were somewhat handicapped due to certain restrictions under the Johnson Act.

Mr. PAGE. The program just announced by the President 2 weeks ago, is a voluntary program; it is not a legislative restriction. We have been asked not to increase our foreign loans by more than 5 percent.

SHOULD U.S. GOVERNMENT GUARANTEE CREDITS TO THE SOVIET BLOC?

Senator WILLIAMS. What I am trying to get down to is: Do you really thing that Russia and the Soviet bloc are good credit risks for you as a banker or only good credit risks when the Government guarantees your bank loan?

Mr. PAGE. I think, sir, we would undertake to finance this trade on a short-term, less than 1 year, basis without a Government guarantee. If it were beyond that, unless we had a very different set of figures than we now have from these countries, I think we would require some kind of a U.S. Government guarantee.

Senator WILLIAMS. Do you not think that if the U.S. Government is going to guarantee credits, it, too, should have a different set of figures, or do you think it should just promiscuously guarantee this?

Mr. PAGE. I do not know, really, that I can answer that.

Senator LAUSCHE. That is a good question, and you ought to be able to answer it, I think.

Senator WILLIAMS. As a banker, it is not a good credit risk for you unless you can get certain information. I am wondering how you can recommend that it is a good credit risk for the Government to guarantee payment. How does the Government decide? That is what I am wondering.

Mr. PAGE. Well, the Government may have other reasons for wishing to guarantee the payment. It may be for reasons of national security, it may be for many other things. I think that a private bank's position is very much simpler than the Government's. All we want to do is lend the money and be sure we get it back and make some interest.

EUROPEAN COUNTRIES GUARANTEE SOVIET LOANS

The CHAIRMAN. You mentioned some 30 banks in Western Europe that finance trade with the Soviet bloc. When they finance a transaction beyond a year, is it customary for them to have a government guarantee similar to an Export-Import Bank guarantee?

Mr. PAGE. Remembering the reports from those banks, I think very few of them were beyond 1 year. All of this was short-term financing.

The CHAIRMAN. I read in the paper that there have been some sales of plants and other things where the credit goes beyond 1 year. I think the Berne Union Agreement sets a ceiling of 5 years, although there are some countries that have gone beyond this limit. Is it customary practice in these countries to have a guarantee similar to that of our Export-Import Bank?

Mr. PAGE. Yes, sir.

The CHAIRMAN. It was my information from former hearings that the British, the Germans, and all other developed countries, when they get into credits beyond a year, that the businessmen have available to them a credit guarantee mechanism quite similar to our Export-Import Bank setup. Is that not correct?

Mr. PAGE. Yes.

The CHAIRMAN. And if you were confronted with that situation, you would naturally expect an Export-Import Bank guarantee on credits beyond a year, is that correct?

Mr. PAGE. Yes.

BANKERS EXTEND LOANS IF GOVERNMENT GUARANTEES RISK

The CHAIRMAN. And if the Government approves, you would have no reason not to engage in financing this trade, is that correct?

Mr. PAGE. No, if the Government was in favor of it and the Export-Import Bank was taking the risk, it would be merely a matter of whether we happen to have funds available for this area at that time. There would be no possible reason not to do it otherwise.

The CHAIRMAN. Is it right finally to say that you think a clarification of our national policy with regard to Government guarantees and the applicability of the Johnson Act, would be very beneficial if there is to be any increase in trade?

Mr. PAGE. Yes, it certainly would be.

The CHAIRMAN. Senator Lausche?

Senator LAUSCHE. In the conclusion of your paper, you state:

> Nevertheless, we hope the U.S. balance-of-payments problem will be solved within the foreseeable future, and at that time financing of East-West trade will again be a subject of active interest to U.S. banks.

Can you enumerate the requests that were made upon the banks concerning loans to foreign countries? What has the President asked you to do within the last several days.

VOLUNTARY RESTRICTIONS OF 5-PERCENT INCREASE IN FOREIGN LOANS

Mr. PAGE. The President had a meeting at the White House—Thursday of last week. The President of our bank attended the meeting along with many other bankers and businessmen. After a speech by the President, they further met with Chairman Martin, of the Federal Reserve Board, who turned the meeting over to Governor Robertson, of the Federal Reserve Board, who outlined a general form of volunteer restrictions to the banks. Then the Federal Reserve Board issued a circular which has the number 5616, outlining how the Bank should attempt to hold their foreign loan investment figures to an increase of no more than 5 percent in 1965, and defining——

Senator LAUSCHE. 5 percent more than 1964?

Mr. PAGE. From December 31, 1964, figures, you should not increase more than 5 percent during the year in your foreign loans.

Senator LAUSCHE. Am I correct that this request was made because of the alarm that the President has of the banks buying foreign bonds with American dollars? This would send dollars into foreign countries, making them a potential for demand upon gold, and finally aggravating our gold reserve problem?

Mr. PAGE. Yes, I think that is true.

BANK LOANS AT FIRST EXEMPTED FROM INTEREST EQUALIZATION TAX

Senator LAUSCHE. Was not that request made upon the banks last year, in effect, when the interest equalization tax was adopted?

Mr. PAGE. There was no request. The interest equalization tax was passed. It exempted bank loans from that tax.

Senator WILLIAMS. Would the Senator yield?

Senator LAUSCHE. Yes, I yield.

Senator WILLIAMS. I think you are correct; there was no such request. The testimony by the bankers was to the effect that they would

not take advantage of it and there would not be an increase in bank loans. The banks did take advantage of this later. As I understand it, they substantially multiplied their loans abroad in 1964. I am speaking of the testimony in the Finance Committee at the time this bill was passed.

Senator LAUSCHE. If that is a fact, can you tell me what voluntary action was adopted by the banks to help solve this very critical problem confronting us?

Mr. PAGE. During 1964?

Senator LAUSCHE. Yes.

INCREASED BANK LOANS IN 1964

Mr. PAGE. I do not know if it is relative to this, but of course, every bank has turned down many loans abroad. We have turned down, certainly, more than we have made in 1964. Now, we certainly increased our loans in 1964.

Senator LAUSCHE. That is, you had many applications for loans because the interest rate in our country is more favorable. Also, because you are able quickly and efficiently to provide the money, is that not a fact?

Mr. PAGE. Yes, I am not sure the interest rate is as important as the availability of money, Mr. Lausche.

Senator LAUSCHE. Can you explain why the banks did not heed the implied request that was contained in this interest equalization tax and stopped sending American dollars into foreign countries, thus helping to solve the gold problem?

Mr. PAGE. I would like to try to answer that, if I may.

A bank, of course, has to respond to the wishes of its customers, in a great many cases, the customer will be an American company which may wish to purchase a company abroad or may wish to expand a plant of its company abroad, or needs working capital abroad for some reason or another. It may also be that this American company will wish to finance its exports. It will wish to sell a plant to, say, South America and wants to get payment now, whereas the purchaser will not pay except over a 5-year period. Those demands on the banks are what we respond to in making loans. We do not go around and say, "we have a lot of money; we are going to throw it out of the country." It is rather that we are trying to respond to the demands of our customers, who are, by and large, the American companies.

Senator WILLIAMS. If the Senator will yield. Is it not also true that one of the reasons is that you can make these loans and avoid the payment of the tax that was imposed under the interest equalization tax? They were subject to the same tax as they would be if financed otherwise?

Mr. PAGE. Well, sir; the interest equalization tax—I cannot really answer that question. But of course, the tax was imposed on loans of maturities 3 years or more. All of our loans were shorter than 3 years.

INTEREST EQUALIZATION TAX NOW APPLICABLE TO BANK LOANS

Senator WILLIAMS. And recognizing the obligation of the bank to their customers and the normal tendency of any businessman to comply with the wishes of his customers, if it was going to pass the interest

equalization tax, Congress made a mistake in not making it all inclusive.

Mr. PAGE. Well, it has now.

Senator WILLIAMS. Yes, well, they belatedly recognized that point. I am just trying to get your view on what has been done recently.

Mr. PAGE. It was absolutely essential. We have a very bad situation, in my mind, and it was absolutely essential that we bring that——

Senator WILLIAMS. We have done now what should have been done a year ago. Do you think there is a chance that with this 1-year exemption, the banks will take advantage of it, or do you think that will be another loophole?

Mr. PAGE. No, I think, sir, that certainly we ourselves—of course, I cannot speak for all the banks, but we ourselves have written to the President and have taken action in our own organization with a special committee to look at every foreign loan. We have made no foreign loans since February 12. Frankly, I do not think we are going to make any new ones, and just live up to commitments we have already made.

The CHAIRMAN. Gentlemen, this is very interesting, but this is not particularly East-West trade, and this is a matter for the Finance Committee. We have some other members who would like to ask some questions on East-West trade.

Senator WILLIAMS. I agree with you, but this does have something to do with East-West trade. I thought that was the whole purpose.

The CHAIRMAN. None of these loans you are talking about have gone to Russia. They are practically all for financing in Europe.

Senator WILLIAMS. They will be inclusive of Russia if and when we allow that.

POSSIBILITY OF REPEALING THE JOHNSON ACT?

Senator LAUSCHE. Mr. Chairman, I have a further question. I infer from what you have said that you believe there are two impediments existing now against the development of increased banking business, and especially with these five countries that you mentioned. One is the Johnson Act. Now, the Johnson Act provides as follows:

> Whoever, within the United States, purchases or sells the bonds, securities, or other obligations of any foreign government or political subdivision thereof or any organization or association acting for or on behalf of a foreign government or political subdivision thereof, issued after April 13, 1934, or makes any loan to such foreign government, political subdivision, organization or association, except a renewal or adjustment of existing indebtedness, while such government * * * is in default of the payment of its obligations * * * to the United States, shall be fined not more than $10,000 or imprisoned for not more than five years, or both.

Is that correct?

Mr. PAGE. Yes, sir.

Senator LAUSCHE. Do you recommend that we forget the defaults of Russia on the payment of its obligation and the other countries that have received our money who have not paid the debt, and this we do so as to allow a new start with these governments?

Mr. PAGE. Well, sir, we try not to recommend one way or the other. We feel this decision is up to the U.S. Government as to whether it is compatible with the government. But if a decision is to push East-West trade and to get it adequately financed, we feel that some change

would have to be made in the language which you just read there, because it makes it impossible for normal financing for even a short term.

Senator LAUSCHE. Would you want to express a personal opinion as to whether we should forgive the Russian debts of the past solely to engage in trade and, therefore, repeal this law?

Mr. PAGE. I do not know that a personal opinion would help.

Senator LAUSCHE. All right.

POSSIBILITY OF MODIFYING EXPORT-IMPORT BANK RESTRICTIONS?

Now, the second correction that you feel would be required is a modification of the Export-Import Bank restrictions. Now, you have read the Export-Import Bank restrictions. It provides that no guarantee shall be made by the Export-Import Bank in favor of an American lender who desires to provide credit to a Communist country, unless there has been a Presidential finding that the national interest is served by this, is that correct?

Mr. PAGE. Yes.

Senator LAUSCHE. Do you recommend that we allow the Export-Import Bank to guarantee loans made to Russia; China; Cuba; North Vietnam; North Korea?

Mr. PAGE. This is not our decision or our recommendation at all. We feel that the decision must be made by the U.S. Government and, if it is decided to deal perhaps with one or two of those countries and not with all, and if private financing is to participate in longer term credits to those countries, there would have to be some modification in this without the Eximbank guaranteeing——

Senator LAUSCHE. Would you be willing to express a personal opinion upon the advisability of doing that?

Mr. PAGE. Sir, I am not sure that my personal opinion would add anything.

Senator LAUSCHE. That is all I have.

EUROPEAN COUNTRIES IN DEFAULT ON DEBTS TO UNITED STATES

The CHAIRMAN. Just to clarify one point, it is true that these countries you mentioned are in default; but is it not also true that practically all of the Western European countries with which we do a great deal of business, are also in default? France, for example, has paid very little on its debts arising after World War I. I think their debt now amounts to over $6 billion. But there is no prohibition on credit for the French, is there?

Mr. PAGE. No, sir, they are members of the IMF——

The CHAIRMAN. That is the way they excuse them, by saying they are members of the IMF and the World Bank, but they owe a debt just the same as other countries and are in default just as many other countries are.

Mr. PAGE. They have repaid some of the loans.

The CHAIRMAN. They have not paid much.

Mr. PAGE. Of the Second World War?

The CHAIRMAN. The First World War.

Mr. PAGE. Oh, no, sir, I would not know about that.

The CHAIRMAN. They are just as much in default as some of the nations of Eastern Europe. We never did forgive them from paying. Is that not correct?

Mr. PAGE. I believe so.

The CHAIRMAN. The specific exemption was provided for those who are members of the World Bank and the IMF. That does not have anything to do with their discharging their debts.

Mr. PAGE. As I understand it, in order to be a member of the IMF and the World Bank, the countries had to undertake to make a settlement of their debts.

The CHAIRMAN. I do not think that is correct.

Mr. PAGE. I am sure you know more about it.

The CHAIRMAN. I am quite sure the French have not undertaken to make a settlement of their World War I debts.

Mr. PAGE. I did not intend that to infer at all the World War I debts. I am talking about debts other than those.

The CHAIRMAN. Yes, but many of these debts that are referred to here go back for a number of years, too, do they not?

Mr. PAGE. Yes, they do, to the 1930's.

The CHAIRMAN. What I meant is that we, because of national policies, did provide that the Johnson Act does not apply to the members of the IMF and the World Bank.

Senator LAUSCHE. Does the chairman contemplate placing Communist Russia and Communist China, let us say, in the same category as the Netherlands, and England?

The CHAIRMAN. I do not contemplate anything. I am trying to clarify the record.

Senator LAUSCHE. But the record will not be clarified unless this question is answered that I just put.

The CHAIRMAN. I do not think the question is relevant. Senator Case?

Senator CASE. I do not think I have any questions.

The CHAIRMAN. Any further questions?

Thank you, very much, Mr. Page.

The next witness is Dr. Lev Dobriansky, Department of Economics, Georgetown University.

STATEMENT OF DR. LEV E. DOBRIANSKY, DEPARTMENT OF ECONOMICS, GEORGETOWN UNIVERSITY, WASHINGTON, D.C.

The CHAIRMAN. Mr. Dobriansky, we are very pleased to have you. Do you have a prepared statement?

Dr. DOBRIANSKY. Yes, I have, Mr. Chairman. I am grateful for this opportunity to present what I consider five interrelated perspectives on the extremely vital subject of East-West trade. With some identifying qualification, the quoted Humphrey statement on the cover describes pungently the nature of the totalitarian Red economic aggression launched against us and the free world. Considering the effectiveness of Moscow's deceptive "peaceful coexistence" and the potemkinized "independence" of so-called satellites in central Europe, the statement bears even greater applicability today than 4 years ago.

(The statement of the then Senator Humphrey is as follows:)

"The Soviet Union's economic offensive is a carefully thought out plan to disrupt normal commercial cooperation between the industrial nations of the West and the underdeveloped countries which need capital, to snare other nations into becoming economically dependent on the Soviet Union, and to promote friction within the Western alliance. What we are seeing is a form of economic banditry by the Soviet Union, another weapon in its imperialistic scheme."—Hon. Hubert H. Humphrey, 1961.

EAST-WEST TRADE: ISSUE WITH POLITICAL AND ECONOMIC RAMIFICATIONS

Dr. DOBRIANSKY. Within the limited space of this presentation, the perspectives offered here embrace certain supportable preconceptions and points of understanding that necessarily must impinge on any rational evaluation of the issue. Indeed, whatever the preconceptions, analytically they are more determinative for the resolution of this important issue than the essentially secondary considerations of credits, strategicity of goods, outstanding obligations, various legal impediments, patents, copyrights, the most-favored-nation treatment and, last but not least, the blunt desire for profits. Narrow discussions of these secondary points cannot satisfactorily answer the more fundamental questions of the strategic significance of trade in the imperio-colonialist Red design for world conquest, the role of the so-called satellites in the implementation of this design, Western economic contributions to the strength of the totalitarian Red empire, and seeming short-run benefits accruing to the tragic long-run disbenefit of the free world in this incessant cold war struggle. In short, East-West trade is not a subject for the simple vacuum of normal commercial negotiation and transaction, but rather it is an issue fraught with extensive politico-economic ramifications that the following interlocking perspectives aim to delineate.

U.S. ECONOMIC CONTRIBUTIONS TO SOVIET RUSSIA'S INNER EMPIRE

One of the most striking ironies of the modern period is the heavy inadvertent economic assistance given by the United States to the formation, growth, and development of Soviet Russia's inner empire, namely the Soviet Union itself. The supreme irony is that unconditioned good intentions, mixed with unfortunate elements of protracted ignorance, have contributed to the buildup of the power center of the so-called world Communist movement and the basic enemy of our Nation. There seems to be almost a cyclical pattern in our economic assistance to Moscow's imperio-colonialist ambitions.

Succinctly, the pattern has been as follows:

(1) 1919–22, while one non-Russian nation after another—be it Byelorussia, Georgia, Ukraine, or Turkestan—strove to preserve its newly won independence in the full spirit of Wilson's national self-determination principle, the American Relief Administration poured over $40 million into Soviet Russia, indirectly helping it to destroy the new non-Russan states;

(2) 1926–31, while Moscow embarked upon a genocidal Russification program against its captive non-Russian nations, U.S. exports of basic industrial and electrical equipment, plus valuable know-how, more than doubled to contribute immeasurably to Moscow's first 5-year plan;

(3) 1932–40 while Soviet Russian assaults on the forces of non-Russian "bourgeois nationalism" reached new peaks in the man-made famine of 1932–33, the Vinnitsia genocide of 1936–37, the heavy deportations and purges of the period, certain American business groups pressed for the recognition of the U.S.S.R., a bilateral commercial agreement was consummated in 1935, exports moved steadily upward to about $87 million by 1940, and though the percentage of our total exports was never more than 4.3 percent, its incremental value to Moscow's empire economy was in calculable; and

(4) 1942–47, while during the war and after non-Russian nationalism erupted throughout the empire, roughly $11 billion of U.S. goods were poured into the U.S.S.R. and used both to defeat the Nazis and to crush the forces of non-Russian independence.

The ugly record of the past may be explained away on grounds of ignorance and shortsightedness; today, there is little excuse for adding another chapter to this record and callously ignoring the effects of expanded unconditional trade with the U.S.S.R. on the captive nations in the U.S.S.R. The incredible irony of democratic America abetting the strength and power of Soviet Russia's imperio-colonialist reins over approximately 120 million non-Russians in this inner empire would only be compounded. It is bad enough that politically we have been grossly deficient in extending the promise of freedom and independence to these crucially situated captive non-Russian nations; let us not economically contribute to the alienation of these natural allies.

CAPTIVE NATIONS VERSUS TOTALITARIAN RED STATES

My second perspective on this thoroughly politicoeconomic subject is the cold war dimension in the Red empire between the captive nations and the totalitarian Red states. It is a grave and misleading fallacy to identify the captive nations—the unfree peoples themselves—with the respective totalitarian Red states in the empire, as some do today when they speak of "fragmentation," "nonmonolithism," and some mythical "growing independence of Communist nations" in Moscow's outer empire. Indeed, this fallacy is used to justify expanded U.S. trade with the totalitarian government in central Europe. Yet it is evident that there has been an unfotunate unfamiliarity with Soviet Russian techniques of "independence" and "nationalist" gestures vis-a-vis the non-Russian republics in the inner empire, which substantially have also been applied to the "satellites."

The armed and public eruptions for the greater part of the 1950's—in Georgia as well as in Hungary, in Turkestan as in Poland, in Ukraine as in East Germany—were scarcely beneficial to plan fulfillments, the integration of the East European sector of the Red empire along the still cardinal line of self-sufficiency, the launching of a world economic offensive, particularly among the underdeveloped countries, and the general pursuit of the cold war in every conceivable sphere. When Western acquiescence to the empire became manifestly evident, latitdues for superficial changes and gestures were easily afforded, and the resistance of the captive nations has had to assume more convert forms, as in economic slowdowns, "localism" in the U.S.S.R., underground political activity, and utilization of allowable means for national expression which strangely enough, the governments themselves seek to exploit.

It is most difficult to comprehend the logic of those who contend that by simply trading with the Red totalitarian governments we would further the independence of several captive nations, enhance the opportunities of freedom, and advance the interest of world peace. Simple commercial trade would guarantee the very opposite. In sheer power terms, the survival of every so-called Communist government, including Belgrade and Peiping, ultimately rests on the power of Russia's inner empire. Despite typical intraempire rifts and quarrels, it is fantastic to believe that any ultimately dependent regime in central Europe would seek suicide. It is always interesting to observe, as in the present North Vietnam crisis, how the parties' ranks spontaneously close when the whole network appears to be threatened. Moreover, with organic Comecon relationships, one member benefiting by Western trade benefits the whole. Unconditional trade would work for the totalitarian state and the empire and against the captive nation and its struggle for freedom.

DEVELOPMENT OF THE RED TRADE WEAPONS

The third perspective can be introduced by recalling the fact that in 1952, when Stalin's Moscow announced Russia's world economic offensive, our businessmen laughed; 8 years later many of them were rightly concerned about the oil offensive in Western Europe and the empire's penetrations in Asia, Africa, and Latin America. They saw more than just normal, competitive, business-as-usual trade. The development of the Red trade weapon has demonstrated well the dictum expressed by Khrushchev in 1955, "we value trade least for economic reasons and most for political reasons."

Red strategists have been provided the stages of this long-run development:

(1) The buildup of U.S.S.R. industry in the 1920's and 1930's and its reconstruction in the postwar period, to which the West contributed heavily;

(2) In the 1950's, East European integration and the plunge into the world economic offensive, again with Western assistance;

(3) The 1960's and 1970's, the complete "liberation" of the underdeveloped countries from politicoeconomic ties with "the imperialists"; and

(4) By 1980, with the West so isolated and in turmoil, victory will fall like a ripe apple into the laps of the "worldwide Socialist camp." Fantastic? We have already witnessed the first two stages and are now witnessing the third in process.

Whether this third stage will be successfully completed by the empire's rulers will depend, among other things, on the type of long-run trade policy we and our allies adopt to wage the cold war. Mikoyan, not to mention others, has given the clue as to how the industrial West is to aid in this Red global program:

> It will be necessary to make wide use of foreign trade as a factor for economizing in current production expenditures and in capital investment, with the aim of accelerating the development of corresponding branches—(1961).

In other words, whether by direct trade with Moscow or indirectly via Bucharest, Warsaw, or Prague, the West is to enable the empire to leap over years of research and development cost so that it in turn

would show the underdeveloped countries how to leap into "Socialist industrialization."

To argue as some do for more liberalized trade, or to adjust our license issuances to the fact, that Western European business profits from close to $5 billion worth of transactions with Eastern Europe is analogous to justifying the spread of opium peddling because some indulge in it. Also, to lubricate the drive for easier East-West trade and simultaneously argue for the passage of the $3.3 billion foreign aid program because Red pledges of economic aid presumably quadrupled in 1964 is not exactly a self-consistent posture in the light of the empire's economic warfare objectives

USE TRADE AS LEVERAGE FOR POLITICAL CONCESSIONS

When inventory is taken of the manifold use to which the Red empire employs its strategic trade weapon, it becomes clear that in reality no desired good for empire import is nonstrategic. The cold war economies of the empire thrive on fertilizers, food, transport facilities, plastics, and clothing as they would on technological data, heavy machinery, and advanced military weapons. Yet, these and other items suggest degrees of strategicity that can accommodate a realistic and flexible trade policy predicated on political concession values. We should have no hesitation or fear to utilize trade as a weapon for freedom just as the Red totalitarians manipulate it as a weapon for conquest.

This policy, proportioning trade bids to political concession bids, represents a via media between complete embargo and slip-shod liberalization. It would be practicable and adaptable for all changing circumstances; it would allow for credits and cash payments consumer goods and producer ones; it would certainly infuse a consistency in our trade relations with all sectors of the Red empire, in the Far East as well as in Eastern Europe; and in addition to negative and positive economic advantages, as pertain to the empire's plans, the underlying captive nations, the efficacy of our own foreign aid, and intra-free-world trade, it would produce both the tremendous propaganda advantage of constantly spotlighting the real causes of our foremost problems and a vital leverage to rectify the problem of increasing West European trade with the Red empire. The list of concession bids would be of graded order, entailing the dismantling of the Berlin wall, vastly expanded cultural exchange, the satisfaction of World War II agreements, the neutralization of Laos, the reunification of Germany, exodus from Cuba, withdrawal of Soviet Russian troops from Hungary and other captive areas, and many other tangible points of value performance.

SHOULD UNIFY TRADE POLICIES WITH ALLIES

A formulation of trade policy along these lines implicitly underscores the need for unity primarily with our West European allies. The lack of such unity is in large measure attributable to our own failure in providing the necessary leadership in the cold war, over and beyond the military umbrella and foreign aid. With a new, concentrated initiative on our part in this economic area, even playing up to De Gaulle's conception of a united free Europe from the Atlantic to the Urals, a NATO Council on Free World Trade should

be established to forge this economic weapon for freedom and infuse a new life of working partnership in the Atlantic Community.

The results of this course of positive action would naturally have to be extended to our allies in the Far East. With the economic power assembled, in the ratio of 3 to 1 to the entire Red empire, the so-called Communist economic offensive would become a sterile exercise as the free world market, particularly in the underdeveloped areas, flourishes bountifully as the market for the free.

That concludes my statement, Mr. Chairman.

The CHAIRMAN. Thank you, Dr. Dobriansky. I think you make it very clear what your position is. Senator Lausche, would you care to ask a question?

CERTAIN POLITICAL CONCESSIONS FOR CERTAIN TRADE

Senator LAUSCHE. Take a look at page 7, if you will, please. Explain this last sentence in the first paragraph: "The list of concession bids would be of graded order * * *" if you will.

Dr. DOBRIANSKY. As I indicated here, the various examples, by way of example, the predication that we would make on trade, whether in consumer goods, whether in foodstuffs and the like, or, let us say, in producer goods, we would have all these political concessions that we would seek. Now, there are many minor ones in addition to these major ones.

In such a case, for example, to be very concrete, there has always, even under our laws, been an apprehension that we may give them, and I think a well-founded apprehension, the latest techniques let us say, in certain industries and chemicals, petroleum, and the like. They, of course, have constantly sought this. By "they" I mean Moscow, now Bucharest and Prague and numerous other areas within the empire. Now, this, I think, would even be worthwhile for consideration, let us say to give them one of our latest products, not the very latest, but one in an area where you have a high rate of obsolescence. It may very well be if it can be technologically established that in a few years, such a particular plant, let us say, or process becomes obsolescence, I would not hesitate to give that to them in return for, let us say, a high grade political concession.

If, let us say, it would require the dismantling of the Berlin Wall, or take concrete steps, or certain assurances toward the reunification of Germany.

Senator LAUSCHE. That is, the Communists want our Government to engage in trade with them. We have certain problems that we would like to have solved. Your position is that we consider engaging in trade but while we do so, we get a quid pro quo through concessions on these various items which you mentioned.

POLITICAL CONCESSION OR PROPAGANDA ADVANTAGE REASON FOR TRADE?

Dr. DOBRIANSKY. That is correct, of a very tangible sort. I noticed, for example, Secretary of Agriculture Freeman constantly talked in terms of a quid pro quo comparative advantage, and he used the example of the wheat shipments. Now, actually, it is very interesting to me to see that he put it, as I recall from the record, in terms of a pro-

paganda advantage, that we demonstrated to the world by having done this that our economy is superior to that of he Soviet Union.

Now, I do not think that the actual shipments of the wheat to the Soviet Union was necessary to demonstrate the superiority of our economy. That is a very vague type of quid pro quo.

In these instances and many more that could be mentioned, which I could use in connection, let us say, with the problem of Transylvania, where you still have the problem of Hungarians that would seek freedom or changes—well, in exchange, let us say, for anything that Rumania would want, we would take that into consideration. This is a broader economic concept. We have an inclination also to think in terms of tangible commodities. Yet these are political ends which really would serve as economic ends.

Senator LAUSCHE. Do you know or have you read or have you heard of any operations which would indicate a statement such as this: "Yes, we will consider engaging in trade with you, but we want you to tear down the Berlin Wall"; or, "we want you to be sure that neutrality is practiced in Laos" or "we want obedience to the agreements which have been made subsequent to World War II" and "we want you to give the right to vote in free elections"—have you heard anything along that line?

Dr. DOBRIANSKY. None whatsoever.

COMMUNICATION BETWEEN EAST AND WEST SEEN NOT AIDED BY TRADE

Senator LAUSCHE. Now, then, just one further question. The argument is being made that by the communication that will come in engaging in free trade, we will ingratiate ourselves with the people of those nations in Eastern and Middle Europe. In that manner, we will tear them away from their present subservience and devotion to the Communist cause. Will you express your opinion on that argument?

Dr. DOBRIANSKY. I, of course, disagree with that argument entirely on a number of grounds; the first being that in the area of trade, I think we can pretty much rest assured that it will be done through the trading mechanisms that they bring up and put into the effectuation of this East-West trade, that this so-called circulation of ideas, mixing with people, will be as restricted as, indeed, our very cultural exchange program has. Then, in addition to that, I think implicit in the argument is a false thesis; namely, that the peoples behind the Iron Curtain have no love, do not know about American standards, and American visions and hopes.

We have had a few examples of it; the fact, for example, that Vice President Nixon went to Warsaw. There was a wonderful occasion for the Polish people in the area to express their feelings for the American people.

The same thing with when he was Attorney General, Mr. Kennedy, I believe, went there and again, the occasion was used. As I say——

Senator LAUSCHE. That is, those occasions demonstrated an inborn love and a fixed love for the American people.

Dr. DOBRIANSKY. Precisely.

Senator LAUSCHE. And if there is now any disintegration of the Communist strength, it has come not because of what the Communists are doing but because these people are beginning to give expression to their opposition to the Communist ideology?

TRADE SEEN AS AID TO SATELLITE GOVERNMENTS NOT PEOPLE

Dr. DOBRIANSKY. That is correct. And as I stated in my thesis here; namely, that trade would have multiple value to the Communist governments as against any pecuniary value we would derive from it. And expeditious reasoning that this is going to evolve or redound to the benefit of the people at large is wrong. If anything, it will work against that.

Senator LAUSCHE. At that point, it is likely to render more secure the now violently held rein on the people. Will the people become discouraged in their hopes that today they might be free if we begin engaging in trade with these governments?

Dr. DOBRIANSKY. Well, it would be a second chapter of their discouragement. The first discouragement they witnessed during the fifties—even in the Hungarian situation, for which we were totally prepared. Now, where they take to these other covert means of expressing their resistance, and that is in the Soviet Union as well as in central Europe, this will constitute a second chapter where, in effect, we are actually benefiting the governments, none of which represent the will of these people.

The arguments that I have seen seem really to be that all of these governments have suddenly become established on the popular will of the nations involved. I would love to know any bit of evidence to support that.

Senator LAUSCHE. When you speak of the fifties in Poland and in Hungary and earlier in East Germany the people rose in rebellion and hoped that they might get encouragement and strength from the West, but they did not?

Dr. DOBRIANSKY. Exactly, they did not.

Senator LAUSCHE. Now, their hopes still linger on, but now they are giving expression covertly again to their views. But by the granting of aid through trade, you are of the belief that we will just further dampen the hopes of those people ever to regain their independence?

Dr. DOBRIANSKY. That is correct. And there are other effects, too, in terms strengthening the empire rather than as I indicated, through any particular point, any focal point in central Europe, through their Comecon relationships and in turn, which enable them to carry on both their economic offensive in the free world as well as their political offensive. There are many illustrations that could be offered. I mean, if I were to expand this—when you see Czechs, Russians, North Vietnamese, Chinese, all gathered together in Havana, not too far from our own shores, in order to prepare to foment subversion throughout Latin America, you can see the aid that we would be giving to them indirectly.

Senator LAUSCHE. That is all I have, Mr. Chairman.

The CHAIRMAN. I have just one or two questions. Do I understand that you think we should not trade with Poland at all?

NOT TRADE WITH A COUNTRY IF ITS POLICY AGGRESSIVE TO WEST

Dr. DOBRIANSKY. Oh, no, if you followed me carefully on this, Mr. Chairman, I am not advocating embargo. I am saying that you should use trade as a weapon in the same way that they do, by our trade with any sector—and I would also include the Far Eastern sector of the Red empire, must be predicated on these grounds of political concession.

Now, in the case of Poland, I think if Poland persists, you must have seen just recently where the Polish Deputy Minister called for a step-up in the economic integration under Comecon in Central Europe and further national specialization, all of which is conducive to the plans of Moscow and the entire network—Poland arriving at a trade agreement with Hanoi at this very time, when we are confronted by the North Vietnamese aggression. All of these instances, I think, should call into play; namely, our cessation, let's say, even of the application of Public Law 480 to Poland in view of these performances.

STEPS NECESSARY FOR ALLIED TRADE POLICY UNITY

The CHAIRMAN. Concerning unity of policy among the Western countries and ourselves: I assume you would include Canada and Australia. How do you think we can achieve this unity, particularly in the area of trade?

Dr. DOBRIANSKY. As I indicated in the statement, this would have to be achieved through an initiative on our part which, as far as I know, through my studies and readings, we have never shown in this particular area, not to speak of the political areas as well as the economic. Now, if a plan were to be worked out to have a NATO council to indicate the benefits that would be created to all parts of the free world and, in addition to that, to businessmen that have been operating in free Asia, Africa, and elsewhere, then that would be the first step to get their agreement.

Now, I think this is what you are alluding to. Let us say that they do not agree to this, Australia or Canada, which I did not indicate here. I think there are many maneuvers, many unfortunately, it would be, retaliatory measures that we could take even against our allies. And certainly on a world stage of public opinion, to have, let us say, Canada shown up as a contributor to the strength of the Empire and consequently, in the long run, against its own national interest, I think that such activities on our part would produce the necessary pressures to bring them into line for such a unity.

The CHAIRMAN. I was under the impression that just a year or so ago, our Government tried to do everything short of war to persuade the British and the French not to trade with Cuba. But they did not follow our advice. What are you going to do about them? Are you going to try to do it by force, if they just simply refuse to accept our advice? We used everything by way of persuasion on those two countries, and they just would not conform to our wishes.

Dr. DOBRIANSKY. Well, that is quite true. I am quite familiar with that.

The CHAIRMAN. What more do you think we can do to get a common policy here?

INSTITUTIONAL FRAMEWORK TO HELP CREATE ALLIED TRADE UNITY

Dr. DOBRIANSKY. A definite move for the establishment of a new institutional framework.

The CHAIRMAN. We have the NATO Alliance. What more could you do? We tried every persuasive device that I know of. All the Western European countries have been trading a great deal with the Communist countries. We have agreements such as the Berne Agreement on credit. But there is no real unity. I do not see how you are going to bring about unity when they disagree with our whole approach.

Dr. DOBRIANSKY. My answer to that, Senator, and I am thinking in terms of the past 17 or 18 years in connection with our running awareness of what the cold war involves, that we, under previous administrations, right down to the present, as far as I can see, have not made any concerted effort to set up a trade council such as I suggest here to build up an instrumental framework to see those that would not agree to having that kind of a framework as against those who would support it. When some of our Congressman travel to Western Europe, for example—I happened to read the recent study of a group that was in Western Europe and they spoke of the Germans. It is in the study that was released about a month ago. The German ministers agreed that if action were taken along these lines, they would work along with us. And of course, in the case of the Germans, West Germany is the prime trader with Eastern Europe.

The CHAIRMAN. I have never been under the impression that they have done anything about restraining trade. They knew we were not trading with Eastern Europe and they proceeded to become the largest single trader. But the most clear-cut example of the problems in this respect was the one with Cuba over the buses; you know the transactions. I know that we did everything we could to persuade them, and our allies just said, "You are wrong; we have to trade." The British, particularly, took that view.

The French, as you know, have relations with both Communists in Europe and with the Chinese. We do not even recognize them. I do not see any reasonable possibility of getting this so-called unity you are speaking of. And if you do not have that, they can supply practically everything we can. I think our policy is self-defeating. We simply deny our people participation in trade, and this certainly does not help our balance of payments or any other aspect of our trading. I think you would agree that going it alone like we do is not very effective, is it?

Dr. DOBRIANSKY. No, it is not. But on the other hand, I would also state, as I think I have in the presentation, that we have not embarked upon any programmatic action. These examples that you give in connection with Cuba and in connection with Red China and a number of other areas, I think are unfortunate consequences of our failure to have provided that kind of cold war institutional framework that would consider not only the trade weapon, but political and other nonmilitary weapons and in the diplomatic area alike. I do not know of any evidence in the past, let us say 17 years, and NATO, I think you will agree, has been primarily a military framework.

The CHAIRMAN. It has, that is quite true. Anything else you would like to say?

Dr. DOBRIANSKY. No, sir. I know that there is basic disagreement on some of these points between yourself and myself.

The CHAIRMAN. Thank you, very much, sir. The committee is adjourned until tomorrow morning at 10 o'clock.

(Whereupon, at 12:10 o'clock, the committee adjourned.)

EAST-WEST TRADE

FRIDAY, FEBRUARY 26, 1965

UNITED STATES SENATE,
COMMITTEE ON FOREIGN RELATIONS,
Washington, D.C.

The committee met, pursuant to recess, at 10 a.m., in room 4221, New Senate Office Building, Senator J. W. Fulbright (chairman) presiding.

Present: Senators Fulbright, Lausche, Symington, Pell, Aiken, and Williams.

Also present: Senator Moss.

The CHAIRMAN. The committee will come to order.

The committee's meeting this morning is a continuation of our hearings on the subject of East-West trade. Our first witness today is Prof. Harold J. Berman of the Harvard Law School.

STATEMENT OF PROF. HAROLD J. BERMAN, PROFESSOR OF LAW, HARVARD UNIVERSITY

Professor BERMAN. Mr. Chairman, I shall not read verbatim the statement I submitted, since it is a little too long, but I shall emphasize its main points.

OSTRICH POLICY OF U.S. TRADE

It was reported in the New York Times last Monday that 70 nations, Eastern and Western, will be represented at the historic annual trade fair that opens in Leipzig, East Germany, in 2 days, and 75,000 visitors will attend, but so far as is known, no American goods will be exhibited. The Department of Commerce, according to the report, has discouraged U.S. companies and their foreign subsidiaries from participating and from attending. I believe this news item dramatizes perfectly the ostrich policy that our Nation pursues in the matter of East-West trade. That policy, in brief, is to use trade in this area as a political instrument, to withhold it as an indication of our political displeasure or to grant it, as in the case of our recent trade agreement with Rumania, as an indication of our political pleasure. I call this an ostrich policy because the means are entirely inappropriate to the end. We have boycotted Leipzig since 1961 in protest against the Berlin wall, but our boycott does not bring the wall down. Indeed, there is no indication that it has any influence whatever on East German or Soviet foreign policy. It only hurts ourselves, and especially our businessmen, who would like to compete with West Germany, England, France, Japan, Sweden, and others, all of whom are heavily represented at Leipzig, for Eastern European markets.

Our present system of restrictions on trade with Communist countries has become obsolete, if only because since it was instituted, Western Europe and Japan have recovered from the war, have become economically strong, and have actively traded with Communist countries. They find it useful and they believe in it. Our position has become untenable because we have been outvoted, and to be outvoted on this issue means to lose it.

Even apart from this practical consideration, I think our position is wrong in principle. The arguments against Government encouragement of normal commercial dealings with Communist countries—and I speak now not of export of military goods or of long-term credits, but only of normal commercial dealings—seem to me to be entirely fallacious.

ARGUMENTS AGAINST SOVIET TRADE SEEN FALLACIOUS

First, it is said that by exporting to the Communist countries, we build up their economies and hence put them in a position to defeat us in war. But this argument mistakes trade for aid. It ignores the fact that everything they buy from us they must pay for. That means that they must earn the necessary foreign exchange by their own exports. Indeed, even the gold which they use to some extent to balance their accounts has to be mined and earned by labor. The New York Times reported a year ago that it costs the Soviet $65 an ounce to mine gold. Now, of course, that figure is entirely suspect because it means a translation of ruble costs into dollars. But nevertheless, it suggests that what we sell them is not a gift; it is a sale.

The CHAIRMAN. You are not questioning the veractiy of the New York Times, are you?

Professor BERMAN. What's that?

The CHAIRMAN. You would not question the accuracy of the New York Times, would you? That is not permissible.

Professor BERMAN. This article was by Theodore Shabad, from Moscow, who is a distinguished geographer, so I take it quite seriously. Unfortunately, he did not state the basis for the figure which he arrived at.

The CHAIRMAN. The Times would not carry it, you know, unless it was absolutely accurate. Did you see that paper this morning? They carried our hearing yesterday. The only thing they paid attention to was one witness who, as far as I know in these hearings, took almost a unique position. You would think that was almost the whole significance of the entire hearing. Very little attention was given to any other point of view. Did you see the article?

Professor BERMAN. I did not have a chance to read it.

The CHAIRMAN. That is a shame.

Professor BERMAN. I would not like to attack the New York Times at this moment. Perhaps tomorrow.

A second argument against Government encouragment of normal commercial dealings with Communist countries is that they have nothing to export to us. But, in fact, their exports to the rest of the world, on the whole, balance their imports and even if it were true, which it is not, they have nothing to export to us, they would still have to balance their imports from us by their exports to others.

Third, it is said that they trade through powerful state agencies that exploit the private interests of Western business firms in order to serve their own national interest. But Western governments have counteracted this danger by intervening through intergovernmental trade agreements with Communist countries to protect the Western national interest and we could and I think should do the same.

Finally, the basic fallacy of the argument against trade with the Communist countries is its assumption that we can live in the same world with them without dealing with them, without developing contacts, without establishing common bonds, and at the same time, without going to war with them. But the evidence is very strong that unless we can make positive arrangements with them on the basis of mutual advantage, we shall continue to drift from crisis to crisis and moreover, that in each crisis, we shall be responding to their initiative instead of exercising our own initiative. Western European governments have understood this. It is expressed in the British doctrine that it is wrong to conduct economic warfare against a country with which you are at peace.

It seems to me, then, that not only in practical terms but also in principle, we should encourage the expansion of normal trade, peaceful trade, with Communist countries on the basis of mutual advantage and should extend our recent and highly underpublicized policy of promoting trade with Rumania, to the Soviet Union, and Eastern European countries generally.

TRADE CONTROLS TO FOSTER TRADE

It would be wrong, however, in my view, simply to throw out existing controls without replacing them with other controls. We cannot tolerate free, uncontrolled trade with Communist countries because of the lack of reciprocity to which I have referred, in the relationship between a state trading agency of a Communist country and a private business firm in the West. A Communist state trading agency, operating under a national economic plan, is supposed to be concerned first of all with the national interest and only secondarily with its own profits. A Western business firm, on the other hand, is supposed to be concerned first of all with its own profits and it relies on the market and on the Government to protect the national interest.

Therefore, I think we must have controls. But they should be controls that foster trade in our own national interest rather than controls that simply curtail trade.

Permit me to list some of the problems posed for us by the Communist system of foreign trade and to suggest some ways in which our Government could meet those problems.

PROGRAMED TRADE AGREEMENTS SUGGESTED

The first problem is that the Communist state trading agency or agencies may buy from us huge quantities of industrial machinery, plant and equipment and the like that would contribute substantially to their own economic and military power while selling to us caviar, vodka, mink, thereby contributing to our luxuries and distracting us from our necessities. The best answer, I think, to this is to negotiate intergovernmental trade agreements, as most of the Western European

countries have done with most of the Eastern European countries, including Soviet Russia, which provide for programs of exchanges—I would call these programed trade agreements—programs of exchanges of particular goods in particular quantities over a period of 1 or more years. We would agree, for example, to permit an exchange with the Soviets of $200 or $300 or $500 million worth of exports and imports of specific goods—let us say in 1966. They can buy, say x quantity of steel pipe of particular kinds. They can buy particular types of machinery, plant, and equipment, if they will agree to sell us y tons of manganese, if they will agree to sell us a variety of other goods. I am not concerned with the amount here. I think it is quite wrong to start by asking the question, well, how big will this be, how important will it be? I do not care if it is $100 million, which is very little in statistical terms, though a lot to me, or a billion dollars.

When Khrushchev first made this proposal to us in 1958, he said let's start with reciprocal deliveries on whatever scale it might be. And Kosygin said something similar in 1964.

By listing the exports which our Government would license, we keep our strategic controls and, at the same time, our exporters know in advance what products can be sold and what products cannot. On the other hand, our Government can bargain for particular Soviet exports that would be useful for our economy.

Of course, the trade agreement could only be implemented by contracts between exporters and importers. Our Government itself would not do the buying or selling.

As you know, this is the way England, France, West Germany, and a host of other countries do business with the Communist world. I think it works. It does not work wonderfully, but it works.

I would add something, however, to the trade agreement which I think is not present in most, at least, perhaps not present in any of the trade agreements now in existence. I would add a code of fair practices whereby we could eliminate those Communist trading practices that are obnoxious to us. We could insist that there be no prototype purchases. We could insist that our patents and know-how be protected, that dumping be prohibited, possibly that binational arbitration panels be established for settling commercial disputes and the like. I have, in my statement, gone into this in a little more detail. But each one of these is a subject in itself.

CONTACTS OF UNITED STATES WITH SOVIETS

We could also press for the opportunity for our businessmen to establish closer links with Soviet producing and consuming enterprises instead of dealing only with the giant export-import combines in Moscow. I think this is important.

In this connection I might add a personal note. In 1955, I represented an American producer of synthetic detergents who wished to explore the possibility of selling to the Soviets. I was in Moscow talking with the Ministry of Foreign Trade and with the heads of various foreign trade combines. They showed some interest in synthetic detergents, but when I talked about servicing the product, that was clearly out. They were not interested in that. But if you are

going to sell synthetic detergents, you have to service the product or it is no good. You are setting up a process as well as selling particular products.

In this connection, it is worth noting that Poland recently gave three large state producing enterprises, factories, the right to conclude foreign trade contracts independently without going through the trading agencies of the Ministry of Foreign Affairs. I think this is an encouraging development and I think our Government, in negotiating for expanded trade with the Communist countries, should press for such decentralization.

INEFFICIENCIES OF U.S.S.R. IMPORT-EXPORT SYSTEM CITED

Finally, I would mention the problem of the increase and diversification of Soviet and East European exports to us. The Soviets still practice the autarchic principle of using exports as a means of paying for imports, rather than treating imports and exports as equally valuable in themselves. This means that while imports are planned from below with each state enterprise studying foreign production to determine what it would like to buy and then sending applications to Moscow, exports are simply ordered from above.

Again, if I may cite a personal example, I was in Kiev in 1962 talking with the director of a candy factory and other similar products and going through the plant. I asked him if he did any exporting. He said "Yes," he exports molasses to New York State. I said, "How does that happen?" He said, "Well, a list came around from Moscow from the Ministry of Foreign Trade, of goods for which there were foreign markets, and enterprisers were asked whether they have any of these products for sale abroad." Molasses was on the list and this factory checked off molasses and found itself in the export business. Well, this is not a way to cultivate an export trade. This is a highly bureaucratic kind of system of exporting. I have often charged the Soviets with not planning their exports. They plan their imports in the full sense of the word "plan," but they simply procure goods for export to get the foreign exchange to pay for their imports. It is very inefficient. As a result of it, they do not themselves know what they have to export. They do not know what investment they should make in production of goods for export. They do not know what they have to sell abroad. Many examples could be given to demonstrate that.

I think one of the best things we could do for them and for ourselves is to send our importers and technicians to Russia to study what the Soviets have to sell to us that they do not even know about.

One of the best things about the intergovernmental East-West trade agreements of the past decade has been that they have resulted in an expansion of Soviet and East European exports to the West. In this connection, I call attention to the elementary fact that the more resources that the Soviets allocate to production of goods for export, the fewer, relatively, they allocate to the production of military goods.

I would like to summarize by making two general points:

EXPORT CONTROLS HINDER U.S. BUSINESSMAN

The first is that we have paid a very heavy price for our present system of export controls, a heavy price in bureaucracy, and in the built-in arbitrariness of our licensing system. On that, perhaps the committee would permit me at sometime to submit a memorandum, because this is something that has not really been exposed, although the businessmen know it and feel it. We have paid this heavy price without reaping substantial benefit.

I would also like to call attention in that respect to the price we pay in exporting to Western Europe because of the necessity of obtaining assurances against transshipment of goods and now against transmission of technical data, which makes it quite difficult in many cases to export goods to those countries against which we have no restrictive policies other than this.

I think that everything our present system accomplishes in restricting exports of strategic goods could be accomplished by other means and I have in mind especially intergovernmental trade agreements and, at the same time, such agreements could establish fair practices directed specifically to the problems created by the Communist system of trade.

COULD USE GOVERNMENTAL CONTROL TO PROMOTE SOVIET TRADE

Second, by using governmental controls to promote rather than restrict trade, especially with the Soviets, we can help to persuade them that their own long-range interests are linked with the stability and integrity of the international economic order.

In the 1920's and 1930's, one of the principal charges levied against the Soviet leaders was that they had withdrawn from the world economy; that their foreign trade system was inherently restrictive and discriminatory and that their goal was self-sufficiency. In the 1950's and 1960's, the Soviet leaders have come out of their shell; have abandoned their earlier tendency toward economic isolationism and have sought to establish firmer economic ties with the West. It is strange indeed that they should now be able to charge the United States with subverting economics to politics, with refusal to trade, and with discriminatory trade practices.

In closing, I should like to give an answer to a question put in these hearings on Wednesday, if the New York Times is to be trusted; namely, What is the greatest single obstacle to expansion of East-West trade? The answer then given, as reported, was "American public opinion." I would give a somewhat different answer. I would say American political leaders, with a few notable exceptions, have failed to give the leadership and guidance needed. We need more statesmen, if I may say so, like the chairman of this committee.

Senator LAUSCHE. What about the other members?

Professor BERMAN. I have in mind a publication by the chairman and I have neglected to read the reports of publications, since they have not come to my attention, of the other members of the committee.

Senator LAUSCHE. Those Senators who agree with you are statesmen and those who do not are politicians?

Professor BERMAN. No; but I think it takes a considerable amount of daring for a political leader to expose, as the chairman of this com-

mittee has done, the myths upon which our public opinion feeds in this matter of East-West trade.

TRADE IN LIGHT OF NATIONAL SECURITY

Senator LAUSCHE. What if some people oppose this proposition thinking that it would be at the expense of the security of the country to earn a dollar? Do you challenge their integrity?

Professor BERMAN. Not in the least, sir. And I also would agree with them that the security of the country comes first. I have no question about that whatsoever.

The CHAIRMAN. The question is whether or not it does promote security; is it not? It is a matter of judgment as to which approach actually supports or strengthens our security.

Professor BERMAN. And I think we do not have to risk our security. The British have not risked their security by accepting the Khrushchev offer. In 1958, Khrushchev made a definite offer. He gave a list of goods he would like to buy and sell in the United States. We said this was propaganda. He took his list to England. He negotiated virtually the same identical trade agreement with England. The British are now exporting to them. I think we could find ways and means of protecting our security without this kind of blanket type of restrictions that we now have.

And at the same time I am asserting a principle which I think is basic. I do not blame public opinion for being confused about this matter and for saying, "Well, the interests of private American businessmen are not paramount." I think that is true, too. There has to be a principle here. The principle that I would assert is the principle of the economic interdependence of all countries as a principle of world order, as one of the pillars upon which we can create world order. We have lost that principle. We have made it extremely diffcult to establish an international order and I think that unless we can do so we will be continually at the mercy of aggression from the Communist side.

Thank you, Mr. Chairman.

TRIPS TO THE SOVIET UNION

The CHAIRMAN. Thank you, Mr. Berman. You have alluded to several instances when you have been to Russia. Why do you go there? Are you interested from an academic point of view or have you been there on trade missions?

Professor BERMAN. I was interested as a scholar in the field of Soviet studies in getting to the Soviet Union. You could not get there up until 1955. No visas were granted, except to correspondents, diplomats, and businessmen. In order to get there in 1955 and in order to pursue my interests in Soviet law and in Soviet international law and international trade, I went as a tourist and also representing American businessmen who wished to make explorations in 1955 of the possibilities of expanding East-West trade. These were businessmen who said to me: I would like to be the second to export to the Soviet Union. This was in 1955 when things were tougher than they are now. I made inquiries then among 16 or 17 foreign trade combines of the Ministry of Foreign Trade as to what they had to sell or

whether they were interested in the products that my clients, so to speak, were concerned with. Then I went back in 1957 for 3 weeks to study Soviet law, including the law of foreign trade. I brought a case in the Soviet courts in 1958–59, and went over there for that purpose then to institute a lawsuit in behalf of the Sir Arthur Conan Doyle Estate for restitution of profits obtained from the publication of the Conan Doyle works. The answer was "Nyet." I went over in 1961–62 for a year of study with my family, again studying the legal and institutional structure of Soviet foreign trade as well as the Soviet legal system generally. My primary interest is in scholarship but I find it extremely valuable for scholarship to have some practical experience as well.

The CHAIRMAN. What were your principal conclusions in 1962? Were you representing any businesses at that time? Did you have any success in promoting trade?

Professor BERMAN. No, the Soviets are not interested particularly in dealing with a law professor when they are concerned with foreign trade. In fact, they will prefer that their trading partner not have a lawyer at all, especially one who knows anything about Soviet law. They say "Let's be friendly about this, here are our terms." Unfortunately, Western businessmen often accept Soviet terms without consideration of the implications of them because the Soviets offer large prices or cash in advance, and the Western businessman says, "Well, I have the money, what do I care what the contract says?" There have been cases of this. I do not know whether any of them turned out badly, but any of them could have.

1958 SOVIET PROPOSAL FOR EXTENDED TRADE WITH THE UNITED STATES

The CHAIRMAN. You referred to an offer of Khrushchev's in 1958. Would you be a little more specific about that? What happened?

Professor BERMAN. Well, Khrushchev, the Chairman of the Council of Ministers, as he then was, proposed to President Eisenhower in a letter that there be a trade agreement. He listed a large number of kinds of goods which he said were peaceful goods, including textiles and machinery for making textiles, machinery for making footwear, things like that, as well as various types of industrial plant and equipment, not military in nature, which he would like to have bought by the Soviet Union, and listing a long list of items that would be available for sale by the Soviet Union to U.S. firms, including mostly raw materials like manganese, industrial raw materials, aluminum, platinum, things like that, but also mentioning machinery, new types of machinery. I might say in my experience in Moscow, I found there were some products there, a machine tool microscope, for example, and other products which the Soviets make which would have a market in this country.

Khrushchev said we could begin with reciprocal deliveries. He added that maybe to do this on a very large scale would require long-term credits. But he proposed that we could begin, at least, modestly with reciprocal deliveries. President Eisenhower replied that we favored trade in peaceful goods with the Soviet Union. However, if the Soviet Union wants to trade with us, they can come over here and deal with our firms and there is no need for governmental inter-

vention of any kind, we have a system of free trade. He said that there would be a further statement from the State Department, a more formal reply, which I think was never really made.

The CHAIRMAN. It was never made?

Professor BERMAN. I think the formal reply to that Khrushchev proposal was never really made. There was some sort of State Department memorandum on it. But on the whole, we shrugged this off. That was in 1958.

Either the same year or the next year, 1959, the Soviets took exactly the same list to Britain and signed a 5-year trade agreement, more or less with the same products, with several hundred million dollars a year to be exchanged over a period of years. It seemed to me that we did not do ourselves any good by refusing to discuss this. We said it was bluff. But if somebody makes you an offer, you have to either call his bluff or put your chips on the table. You have to do something; you just can't say that it is bluff when he makes you a concrete proposal.

SOVIET TRADE PROPOSALS IN 1964

The CHAIRMAN. Did you say Kosygin made a similar proposal in 1964?

Professor BERMAN. In 1964—this was before the Khrushchev ouster—Kosygin, speaking to American businessmen in Moscow, renewed this offer, so to speak. He said we are still interested in the kind of proposal Khrushchev made in 1958.

The CHAIRMAN. And the answer was still negative?

Professor BERMAN. Well, the businessmen, I suppose, took this report back or gave it to the New York Times, where I read it. I don't know what has happened since then. I believe, however, that there have been strong tendencies in our Government toward the possibility of expanded trade. I think one of the difficulties has been this inability to separate trade from politics.

POLITICAL CONDITIONS PLACED ON TRADE EXPANSION

If I may give an example. In 1961, we initialled an air agreement with the Soviets. Then the Berlin crisis arose and I imagine—I have no inside information about this—but I imagine that somebody said "What can we do to hurt the Soviets now? They have made us very angry." And so we said to them that although we had initialed the agreement we were not going to go through with it at that time because of the political climate.

Now, it seems to me this is again an entirely inappropriate means to the end. I hope that when we initialed the air agreement, we did so because it was in our national interest to send Pan American airplanes to Moscow and to have their airplanes come here. Now, to suspend this air agreement, because we are displeased with the actions of the Soviets in Berlin, and I certainly was very displeased with those actions, seems to me to be totally inappropriate. We must, I think, distinguish between economics and politics at some point. Otherwise we have fallen into what I believe to be one of the fundamental fallacies of communism, which identifies the two.

The CHAIRMAN. Yesterday, the witness I mentioned who was so widely reported in this morning's Times, made exactly this point, if I understood it correctly, that a condition for trading would be political considerations; such as dismantling the wall, and other things. In a general way this would mean that they would be saying that they are sorry; that they have been wrong and that they will be good boys if we will trade with them. Do you think this is a direct approach?

MUTUAL ADVANTAGE—MOTIVE FOR TRADE

Professor BERMAN. I think that it is quite clear that they do not need our trade so badly that they would make political sacrifices for it, No. 1, and I think it is wrong in principle to condition our trade on such political considerations. I think if we trade with them, it should be on the basis of our advantage as well as theirs. It is not a zero sum game where what hurts us helps them, and what hurts them helps us. Trade is an exchange whereby both sides benefit and there ought to be some areas in world affairs where we may have mutual advantage. I see trade as one of those areas. I see the visits of scholars in various fields to the two countries as another area. If we have no neutral areas, if we insist on, so to speak, total war, we hurt ourselves. Then it becomes a question of mutual disadvantage ultimately. Possibly, this idea was feasible, the idea which you have mentioned, sir, in 1949 and 1950, when Western Europe was in the throes of reconstruction and when the Soviet Union and Eastern Europe were poverty-stricken. Today, it is quite absurd, it seems to me, to suppose that the Soviets will bargain a political advantage which they have in Eastern Europe for how much American trade? $1 billion a year? They already do $15 billion a year of exports and imports, the Soviet Union does, with all countries of the world, including $4 to $5 billion with the Western countries.

And further, to act as if we are giving them a benefit by our trade, or to extend them credits or to give them aid, would only make them even more our enemy, it seems to me. It would humiliate them. They would not do it. They are a proud nation and a powerful nation and they, themselves, would not bargain trade for politics in this way.

SOVIET ECONOMY IS MAKING PROGRESS

The CHAIRMAN. One last question, because I would like my colleagues to have an opportunity to question you. Several years intervened between your first visit to Russia and your last one. Have you noticed any real progress in their economy? Do you feel they have been making real progress?

Professor BERMAN. They have certainly made a lot of progress. I think the statistics show it very clearly and I think from personal observations one could see it. On the other hand, they have had downs as well as ups. It has not been all continual progress. There have been fluctuations, but the general direction has been forward, in terms of gross national product, production of goods of all kinds. They have had at the same time rising expectations in the Soviet Union and many Soviet citizens will tell you quite incorrectly that things were a lot better under Stalin, there was more food under Stalin and

so forth. But this is demonstrably incorrect. It is their way of expressing their disgruntlement that things are not going better than they are. I do not think there is any doubt that they are making progress. It is a question of whether the progress is fast enough from various points of view.

The CHAIRMAN. Senator Lausche?

Senator LAUSCHE. I will yield to Senator Aiken. I will ask some questions later.

QUESTION OF DUMPING BY THE UNITED STATES

Senator AIKEN. I have just a couple. I notice, Professor Berman, on page 5, in discussing dumping, you state:

> Of course, dumping is not solely, or even primarily, a Communist tactic; the United States is by no means the least of those who offend in this regard.

Could you give us a couple of examples of the United States engaging in dumping?

Professor BERMAN. It is a pretty broad term and much depends on how it is defined as to whether a charge can be made. I have in mind particularly our governmental sales, which incidentally, I would not oppose, of foodstuffs under foreign aid programs in the Far East, to India and so forth, which brought forth charges of dumping from other countries producing those things. I think there have been other cases. I think the statement is not as carefully written as it should be. I think that what I have in mind were charges of dumping made against us rather than a conclusion that we have dumped.

Dumping is a very vague term. Selling below market prices might be well justified in some cases. It might not be dumping under our law, or it might be dumping under our law but not under the GATT or some other.

Senator AIKEN. Would you consider selling the commodity at world market prices dumping if it interfered with sales from some other countries?

Professor BERMAN. No, I do not think so generally. Some dumping is sometimes measured in terms of whether the sale is below the cost of production.

Senator AIKEN. Would you consider the acceptance of foreign currency in lieu of dollars as a form of dumping?

Professor BERMAN. I would not think that the mere acceptance of foreign currency is dumping, if there is no price inequality.

The CHAIRMAN. What if it is a very weak currency, nonconvertible, and you agree not to use it outside of that country? You do not consider that to be a form of dumping?

Professor BERMAN. I suppose one would ask what were the alternatives for producers of similar goods in other countries to export to that country. If Burma can export rice to India or something like that, and get dollars for it or pounds and we export and get Indian rupees at some artificial rate, I suppose that might—there might then be a price differential which would bring this into the category of dumping.

DEFINITION OF DUMPING

The CHAIRMAN. If the Senator will allow me, we have been accused on the floor of the Senate each time the matter comes up that selling for local currencies is not even a sale. My colleagues say this is a gift, not a sale, and we ought not to fool the people by saying it is a sale.

Senator LAUSCHE. I said that the day before yesterday.

The CHAIRMAN. I know. It is said almost every time it comes up, that sale at local currencies is not a sale at all; we are fooling the American people by calling them sales because they are grants. You would not call a grant dumping, if you just give your goods away for nothing, would you?

Professor BERMAN. I do not know for what purpose we are using the term "dumping." In many contexts, it would be dumping.

The CHAIRMAN. I am sorry, Senator Aiken.

Senator AIKEN. Suppose that we sell a product in another country or in the world market below an artificially high price established by other countries. Would you call that dumping? Let's take wheat in Western Europe, where some of the countries have a support level, I think, of up to almost $4 a bushel, which is well above the world market price. They offer this price to encourage production. We have support prices in this country for the purpose of reducing production. Yet even with that system, we do have a comfortable surplus. Now, if we sell that in a market which might be obtained by another country which has an artificially high price established, that would not be dumping, would it?

Professor BERMAN. It seems to me that dumping is the other side of the standard of fair competition. To define fair competition in the abstract is extremely difficult. One has to look at each concrete situation. If there is an intent to disrupt foreign markets by an artificially low price this, I think, is the clearest case.

Senator AIKEN. Well, suppose a certain country agrees to lower its tariff on imports of certain commodities? This looks very good on the surface. Then the country raises its excise tax on the sale of those goods after they are received. What do you call that?

Professor BERMAN. I would call it a violation of the GATT. But I know it is done. As you have described it, it is effectively a tax on imports.

Senator AIKEN. Well, I do not think we can settle the agricultural problem this morning.

POSSIBLE DUMPING BY COMMUNIST COUNTRIES

Professor BERMAN. As I have said, the problem of dumping with respect to Communist countries—and I think there have been no cases where there has been a charge of dumping in this country formally brought with respect to the Communist countries—arises from the fact that there is no way of translating their cost of production into world market prices.

Senator LAUSCHE. Is it not a fact that a conspicuous case of dumping occurred about 6 years ago when they dumped aluminum at a substantial price below the world market, thus creating complete dislocation in our own country?

Professor BERMAN. There was also a problem of tin some years ago.

Senator LAUSCHE. Well, the principal one was aluminum dumping. They dumped it at a price far below what the world market was and completely and deliberately dislocated the world market.

Professor BERMAN. Well, my recollection of that is maybe not as—does not support the latter characterization. My recollection is that at that time, they needed foreign exchange. My belief is that they always get the highest price they can for what they are selling.

Also, they are not anxious to disrupt international markets. It hurts them very much. This, I think, fairly characterizes their policy generally. But on occasions, they will unload a lot of goods at lower than market prices to break into a market in order to get the foreign exchange to pay for their imports. It is this that I would like to see guarded against by agreement, and where I think we need some leverage so we can say, "Well, you have broken the agreement and we cannot continue to export to you what we agreed to do unless you remedy this violation."

Senator AIKEN. Just one more example. A few years ago, Egypt produced a surplus of long-staple cotton. The United States was a normal market but the United States, in the meantime, had produced all we need and also substitutes had come in and supplanted long-staple cotton in the market. Russia took over the Egyptian cotton crop, presumably on a barter deal, and having obtained the Egyptian cotton, proceeded to sell it in our normal markets of Western Europe at cut rates. Probably Russia charged enough for whatever she sold to Egypt so she could afford to do that without losing money. But would not that be a rather classic example of dumping?

Professor BERMAN. I think that happens quite often.

The CHAIRMAN. Senator Williams?

EXTEND CREDIT FOR NORMAL COMMERCIAL DEALINGS

Senator WILLIAMS. Professor, do I understand that you are recommending that we extend long-term credits for 5 years?

Professor BERMAN. On the contrary, sir, I would not like to do so. In my expansion of trade, I do not visualize huge amounts. I would like to see reasons for extending the trade we do carry on. I am not in favor of extending long-term credits, I am in favor of normal dealings.

Senator WILLIAMS. You are in favor of extending credits in line with normal commercial practices?

Professor BERMAN. Commercial credits, which in the case of plant and equipment, sometimes extends over a period of a few years. In the case of commodity transactions, you might have 30-, 60-, 90-day credits—6-month credits. I have in mind credits which are secured to some extent by the commercial transaction itself.

Senator WILLIAMS. Well, some of these credits on sales which have been made by other countries have extended, I think, up to 5 years.

Professor BERMAN. I believe that 5 years is not an abnormally high commercial credit in plant and equipment. I may be wrong about that. I know that in some cases, it is done. There have been reports of extension of credit to Eastern European countries in connection with trade, up to 10 and 15 years in the West—Western Europe. This

is what I think it would be a mistake to do. However, they may be secured in some way that we do not know about. The terms of those credits have not been published.

Senator WILLIAMS. Do you think we should extend this same relation in trade with China?

Professor BERMAN. Well, in general, yes. I do not know what the timing of it should be. I do not know how the politics of it should affect the situation. But in terms of general principle, I think that trading with the enemy is not under all circumstances in and of itself abhorrent. We trade prisoners with the enemy in war. The difficulty of trading with an enemy in war is the question of finding the language to reach an agreement. But the principle of mutual advantage leaves the parties where they were relative to each other and simply advances the causes of both equally. If we could trade on the basis of mutual advantage with any country, I am not against it.

WITNESS' EXPERIENCE IN SOVIET STUDIES

Senator WILLIAMS. Do I understand that you have done quite a little research work in this with Russia?

Professor BERMAN. I have spent some years studying this problem.

Senator WILLIAMS. Was that study conducted for the State Department, or was it just private study?

Professor BERMAN. No; I do not believe the State Department has ever expressed any interest in my views on this subject.

Senator WILLIAMS. They do sometimes express an interest in private views. I just wondered if you had worked with them in an advisory capacity.

Professor BERMAN. No; I have never been consulted on this question by the State Department.

The CHAIRMAN. Senator Lausche?

Senator LAUSCHE. What is the aggregate time that you spent in Russia since your first visit in 1950?

Professor BERMAN. Well, counting the 12 months that I was there with my family in 1961–62, it comes to about 15 months. I was there five times; for a month in 1955, several weeks in 1957, short periods in 1958 and 1959 in connection with a legal case, and for a year in 1961–62.

Senator LAUSCHE. I understand that you, in answer to a question put to you by the chairman, went over there on one occasion as a representative of businessmen?

Professor BERMAN. Yes.

Senator LAUSCHE. When was that?

Professor BERMAN. That was in 1955 and again in 1957.

Senator LAUSCHE. Who were the businessmen you represented?

Professor BERMAN. Well, these were a variety of businessmen in New York and Boston with whom I consulted in advance.

Senator LAUSCHE. What was the business they were engaged in?

Professor BERMAN. Well, there were about 18 or 20 different businesses—textiles, synthetic detergents, a whole variety of businesses. I should make it perfectly clear that I represented them only insofar as they authorized me to make inquiries with the Soviets about the possibility of the Soviets buying their products or selling particular Soviet products to them.

Senator LAUSCHE. That was in the year 1955?

Professor BERMAN. That is correct.

Senator LAUSCHE. You were paid for your work at that time?

Professor BERMAN. No; I was not.

Senator LAUSCHE. You went there, representing them on a charitable basis?

Professor BERMAN. I was interested in exploring this question myself. If contracts had developed out of this exploration, I suppose it would have been possible that I would have been retained to give legal advice with respect to Soviet law problems. I was not concerned with the money at this time at all. I was concerned with finding out how the Soviet system of foreign trade operates.

Senator LAUSCHE. Was this a business organization, or were they separate firms that engaged you?

Professor BERMAN. These were separate firms that expressed an interest in this and gave me letters and authorizations to carry on discussions for them.

Senator LAUSCHE. When did it finally crystallize in your mind that we ought to establish trade relations with the Communist countries?

Professor BERMAN. Well, my first article on the subject was in the Harvard Business Review in 1954.

RECOMMENDATIONS TO EASE TRADE RESTRICTIONS

Senator LAUSCHE. Do you have any recommendations that you want to make about what laws we should amend in order to achieve what you have in mind?

Professor BERMAN. Well, I would recommend immediate amendment of our import restriction laws on tariffs and prohibitions. I would say there is no sense in restricting the importation of certain kinds of Soviet furs, no sense to withhold most-favored-nation treatment to their exports to us generally. It seems to me this only hurts our importers and our consumers.

Senator LAUSCHE. Would you give Russia what you call the preferential treatment rating?

Professor BERMAN. I see no sense in restricting ourselves from importing Soviet manganese, because we have to pay four times the duty on manganese under the withdrawal of most-favored-nation treatment.

Senator LAUSCHE. Will you put them in a category of the other nations to which we have extended preferential treatment?

Professor BERMAN. If by preferential, you mean equal, most favored nation, I would do so. I would give them the same tariff rates we do other countries.

Senator LAUSCHE. Would you give it also to Red China?

Professor BERMAN. I would, yes.

Senator LAUSCHE. Would you give it to North Vietnam?

Professor BERMAN. If they have goods that we wish to import, yes. These import restrictions, I think, are only directed against our own importers and consumers. They are protective legislation for particular industries. Now, if we have a policy, as we have, of a total embargo upon all transactions with Red China, then I suppose it would be a meaningless gesture to extend to them the most-favored-nation treatment.

Senator LAUSCHE. What would you do about Cuba?

Professor BERMAN. Well, I think I would try to foster trade relations with Cuba. But in this, I must stress I speak only as a newspaper reader. I am not an expert on the Cuba problem. My expertise, insofar as I have any, concerns the Soviet Union and Eastern Europe.

SHOULD TRADE IF FOR MUTUAL ADVANTAGE

Senator LAUSCHE. Have you formed in your own mind where the dividing line comes as to when we should trade with a Communist country and when we should not?

Professor BERMAN. The dividing line comes at the point of our own interest. When it is to our advantage, and that advantage is no less than the advantage that they obtain from the exchange of goods, then we should trade. I see no reason for hurting ourselves by our trade policy. The dividing line to me is mutual advantage.

Senator LAUSCHE. But you are of the belief that it would be to our advantage and to the advantage of Russia, China, Cuba—what about North Korea? Would you deal with them?

Professor BERMAN. Well, as I have said, I would even trade with a country with which we are at war, if we were exchanging prisoners. I am talking now about something which I believe is neutral politically. It is like scholarly exchange. I would be very happy to talk with a Red Chinese law professor and to ask him, what kind of court system do you have, what goes on in your courts? I might distrust his answers, but I would be very anxious to get his answers. That is the kind of exchange of views I think one could have even between enemies.

Senator LAUSCHE. I just want to learn your position. Basically, it is that if it is to the mutual advantage of both, you would place no bars on trading, whether the nation is devoted to principles of the free world or devoted to the principles of communism?

Professor BERMAN. That is correct.

Senator LAUSCHE. That would include all of the Communist nations, except possibly if we were directly at war?

Professor BERMAN. In terms of broad principle, yes, though I must qualify this in terms of immediate political situations. Now may not be the time to do anything with respect to implementing this principle with regard to Cuba, for example.

RE-EXAMINATION OF EXPORT–IMPORT BANK GUARANTEE RESTRICTIONS

Senator LAUSCHE. Would you remove from the Export-Import Bank law the prohibition against the granting of guarantees of credits to Communist countries?

Professor BERMAN. I am not sure.

Senator LAUSCHE. Guarantee a payment of debt.

Professor BERMAN. I would like to see all these laws recast with retention of controls by our Government over transactions in such a way that the Communist countries would not be able to exploit our private Western businessmen for their own national purpose. I could not answer the question, therefore, in isolation. Possibly, this is a law that should be reconsidered in the light, however, of a different kind of system of controls.

Senator LAUSCHE. Well, you do understand that there is a prohibition in the Export-Import Bank law against giving guarantees that Communist countries will pay their debt to a U.S. national who has sold on credit to them?

Professor BERMAN. Yes.

Senator LAUSCHE. Is that good or bad law?

Professor BERMAN. I think it is a foolish gesture for this country to make.

REGULATIONS UNDER THE JOHNSON ACT

Senator LAUSCHE. Now, then, I go to the Johnson Act. Are you acquainted with that?

Professor BERMAN. I am.

Senator LAUSCHE. The Johnson Act says that we shall not buy bonds or other obligations of countries that are in default on their debts to us, and that includes Russia. Would you change that law?

Professor BERMAN. Insofar as the law prohibits the Government from extending credits or giving loans to the Soviet Union, I have nothing against it. I think it would be a mistake for our Government to give such loans or credits. I think the Soviets ought to pay up on lend-lease. I think they ought not to be in debt to us.

Again, I would like to recast all of these special laws in a different type of program of control.

Senator LAUSCHE. Do you have a law office?

Professor BERMAN. No, I do not, I am a professor at Harvard Law School.

Senator LAUSCHE. What do you teach?

Professor BERMAN. I teach the law of international trade, comparison of Soviet and American law, and torts.

SELLING OF PROTOTYPE EQUIPMENT TO THE U.S.S.R.

Senator LAUSCHE. Now, we had the day before yesterday a witness by the name of A. L. Nickerson, chairman of the board of Socony-Mobil Oil Co. He expressed great alarm about selling petroleum chemical outfits which he claims were sought by the Russians solely to acquire the know-how. Would you begin selling equipment that falls within that general category to the Communist countries?

Professor BERMAN. I doubt it, but I am not sure. I would not do so without a reciprocal commitment on their part which was of equal value.

Senator LAUSCHE. He also said that they are desirous of obtaining prototype plants and buying specialized machinery and equipment solely to acquire the know-how when they get that equipment. Would you sell them this prototype equipment?

Professor BERMAN. I would not, and I would provide by a trade agreement against such purchases. Also I believe that this is a declining phenomenon. I believe the Soviets are doing less and less of this now.

CHARGES OF DUMPING AGAINST THE U.S.S.R.

Senator LAUSCHE. You have stated that Red Russia has not dumped goods in the world markets to disrupt business, but has only done so when it was in dire need of foreign exchange. Do you stand by that statement?

Professor BERMAN. My recollection is that the word "dire" was not included.

Senator LAUSCHE. Well, maybe that is not in there.

Professor BERMAN. From the examination which I have made of the charges of dumping that have been levied against the Soviets, it has seemed to me that it has not been their intent to disrupt world markets. Now, with the tin case, I think it was to get into the international tin agreement, in part, that they did this, so I think the statement would have to be a little bit qualified. It would depend on what you mean by disrupt world markets.

Senator LAUSCHE. Will this refresh your memory? They went into Thailand and dumped cotton in southeast Asia at a lower price in order to disrupt the economy of the Thailanders, back in about 1957–58?

Professor BERMAN. I am sorry, sir, I do not know that story.

Senator LAUSCHE. So you are not familiar with that?

Professor BERMAN. I am not familiar with that.

Senator LAUSCHE. And you are not familiar with the aluminum situation?

Professor BERMAN. I recall reading about that.

Senator LAUSCHE. Did they do that with a benign purpose, or did they do that to disrupt the world market?

Professor BERMAN. I do not think it was done with a benign purpose.

Senator LAUSCHE. What was its purpose?

Professor BERMAN. I think the purpose was they needed foreign exchange and they wanted to sell their aluminum and I think they probably got as high a price as they could for it at that time. This makes it no less obnoxious from the point of view of international commercial relations and I think something should be done to stop that.

U.S. TRADE WITH COMMUNISTS IF OTHER COUNTRIES DO?

Senator LAUSCHE. Do you attach a great significance to the argument that is being made that inasmuch as other Western countries are selling to the Communists, why should not we?

Professor BERMAN. I think that because of that fact, our controls have little practical benefit for us and they do practically little harm to the Communists. However, I do not rest my belief that we should establish what seems to me to be a more sensible system of controls merely upon that fact. If that fact were not present, perhaps I would change my views to some extent. But that is not the basic premise from which I operate, though I know it is the basic premise from which a great many businessmen operate.

Senator LAUSCHE. Yes, Mr. Dobriansky of Georgetown University said that that is a fallacious method of reasoning because you are assuming that these other Western countries are right without having established the fact. He used the illustration that China is selling marijuana and opiates and that if it is doing it, we ought to do it. May I have your comment on that?

Professor BERMAN. Well, this is the point, also, that I made in my presentation in my article; not only has it become an impractical policy for us to pursue, but it is a wrong policy in principle because the arguments for restricting trade or for not establishing trade on the basis of mutual advantage, I think, are fallacious.

I agree with you, sir, that the fundamental question here is a question of principle. I think it is a sharp and difficult question of principle; it is not a simple question. But I think that it can be shown that basically, the principle is that where we can find areas of contact and of exchange which will result in the mutual advantage of both countries or both systems and leave us no less far ahead of them economically and otherwise than we have been, we should seize those opportunities, because if we cut all those bridges, we will come to a situation where no American is talking to any Soviet Russian in the world. We almost reached that situation at one point and that is war. And I do not think that war will be helpful to us.

Senator LAUSCHE. That is all, Mr. Chairman.

TRADE SERVING OR HARMING U.S. NATIONAL INTERESTS?

The CHAIRMAN. You do not think war would be helpful to us?

Professor BERMAN. I think it would be extremely harmful. I think as Walter Lippmann said the other day, we would weep.

The CHAIRMAN. Well, is not the difference between your views and some of the others based upon whether you assume there is any possibility of narrowing the gulf between us? There are those who believe that we are bound to have a war sooner or later and, therefore, we should not trade at all. Opposed are those who think it is possible to ameliorate our differences. It is a question of how best you do it—whether you do it by attempting to bring pressure by not trading or whether you trade freely in accordance with the principles you have now stated.

Professor BERMAN. I think that creating institutions and practices and a system of interdependence in those areas which we can divorce to some extent at least, from our political conflicts will help to ameliorate—will help to create a foundation, an intellectual and moral foundation on which you could then possibly build a structure of peace. I do not think that trade in itself makes peace. But I think it brings people into contact with each other so they begin to speak a common language and thereby forms a certain foundation which makes the amelioration possible.

The CHAIRMAN. Then you do base it on the assumption that amelioration is possible, that war is not inevitable and absolutely certain?

Professor BERMAN. I personally believe that the view that war is inevitable is an evil view. I would call it a sinful view. I cannot understand how anybody can take such a view.

The CHAIRMAN. It is a question of judgment, is it not, as to whether or not we should be exclusive, having nothing to do with the U.S.S.R. and minimize contact, or whether you maximize contact, which will contribute to lessening of tensions?

Professor BERMAN. Exactly, sir.

SOME BELIEVE AMELIORATION OF COMMUNISM IMPOSSIBLE

The CHAIRMAN. I have the feeling sometimes that there are people who feel that amelioration of these conditions is just not possible; that the concept of society as represented by the Communist approach is completely antagonistic to our concept and that sooner or later, this

conflict must be resolved by either complete surrender—which is not likely—or by war—which is the more traditional way that people have settled such differences—the way they have settled them ever since history began, is it not?

Professor BERMAN. Yes, and this view, this pessimistic view, if you like, underestimates the possibilities of change. It speaks of the Communist system, which I think is an evil system, as though it could never change. But this view judges the men, including the children and unborn children living there, is being evil also. We already have much evidence that within that evil system, men are arising who are making changes for the better. This gives the hope of amelioration.

The reason I think the view that war is inevitable is an evil view or a sinful view is because, by making that statement, you help to bring war on. You make war inevitable if you believe it is inevitable.

If you do not believe it is inevitable, you keep open the chance of avoiding it.

The CHAIRMAN. Your statement reminds me of something I read that the expectation of war is what contributes so strongly to war. is it not?

Professor BERMAN. Yes.

The CHAIRMAN. You expect it and you adapt your principles in accordance with such expectations, and this leaves very little chance for anything else to happen.

Professor BERMAN. This has beeen called the self-fulfilling prophecy.

BOTH SYSTEMS SUBJECT TO CHANGE

The CHAIRMAN. Yes. Well, it is a question of whether or not trade contribute along with other things to the changes which we would like to see come about in their system. As a matter of fact, both systems are changing, aren't they? Our system—the traditional capitalism of Adam Smith's days—has changed somewhat?

Professor BERMAN. Yes, sir.

The CHAIRMAN. We do not pursue the same internal economic and social policies that we did many years ago. We hear many protests about departing from the Constitution. We hear nearly every day that we have departed from the Constitution, do we not?

Professor BERMAN. I have heard it said.

The CHAIRMAN. You have heard it said that there has been deviation from the classic idea of the Constitution?

Professor BERMAN. I think almost everybody would agree that the meaning of the Constitution is changing.

The CHAIRMAN. Then the question is which trade policies are better designed to encourage such changes in the Communist world, is it not? Is that not the crucial point?

Professor BERMAN. Yes.

The CHAIRMAN. You are saying that you think easier trade relations, not without some restrictions, would help in promoting changes in the economic and political system of the U.S.S.R. Is that not what you are saying?

Professor BERMAN. I have hope that it will have that effect.

PROPOSAL FOR HIGH-LEVEL COMMITTEE ON TRADE

The CHAIRMAN. Senator Magnuson has, I believe, proposed the formation of a high-level committee to study these problems with Eastern Europe. Do you think that would be a useful project?

Professor BERMAN. I am not sure what this means. A high-level committee in what body or among the different branches of the Government, or how?

Senator LAUSCHE. Mr. Chairman, I am going to say a high-level committee of Harvard and Oxford professors.

Professor BERMAN. I am not sure I approve of a committee being formed on that high a level.

The CHAIRMAN. I really do not know what he had in mind as far as who would make up such a committee.

CRITICISM OF PRESENT EXPORT CONTROLS

I did not read all your statement, because you did not give it verbatim. It will all be in the record, however. Do you make, or have you made, any specific recommendations for changes in our laws and regulations? You tentatively made one with regard to most-favored-nations tariff treatment. Do you have any views about such restrictions as our export licensing requirements? Have you made any study of that?

Professor BERMAN. Yes; in connection with my teaching, I go into some depth in the system of export controls and consider them in many respects quite oppressive, though perhaps necessarily so in view of the ends sought to be achieved, which are extremely difficult to define. It is almost impossible to know whether a particular export will serve the national interest or not and I think also a certain amount of vested bureaucratic interest develops in the maintaining of such controls, even when they are not necessary. There is fear of criticism—it is always easier to deny a license than to grant one; you will not be in trouble if you deny one, you may be if you grant it. As I said before, I think this affects adversely our trade with our Western Europe friends and not only our trade with Eastern Europe.

But my difficulty about proposing concrete changes comes from my view that this is not a situation for free trade within the principles of the GATT. There are some who say, abolish our export controls. You cannot do that, it seems to me, in this context without establishing a different system, a more rational and sensible system of control.

REVISION NOT ABOLITION OF TRADE RESTRICTIONS

Therefore, I had this problem also in answering some of Senator Lausche's questions, that when I am asked, "Would you favor repeal of this law or repeal of that specific law," I would like to know what will replace it. If nothing will replace it and we simply get rid of our controls, I would be very much afraid, as I believe Senator Lausche is, that the Russians would simply come in and exploit our businessmen's interests in profits for their own national interests. So I am in favor of a system of controls, but I think we have developed a wholly inadequate system.

The CHAIRMAN. You think they could be improved?

Professor BERMAN. Oh, yes; very much.

The CHAIRMAN. Have you ever reduced to writing any suggestions of improvement in our existing system as in the Johnson Act, the Battle Act, and others?

Professor BERMAN. The Johnson Act, I think, simply could be repealed without any replacement. This is a law, as you know, passed in the thirties to meet the problem of loans to foreign governments which were on the brink of bankruptcy in Asia and elsewhere. I do not think it helps us to recover the money owed to us by foreign governments to have the Johnson law there.

But my general thought in terms of reforming the export control system, even if the suggestion of an intergovernmental trade agreement is not fulfilled, is that there be lists of goods specified in advance which can be sold. It would help the exporter very much if he could know in advance what could be sold. As it is, he has to undergo the expense of negotiating and making a contract before he can find out, and then policy may change.

WESTERN POLICY UNITY BEFORE THE U.S. TRADE WITH THE SOVIETS?

The CHAIRMAN. One point that Mr. Dobriansky made: he gave these various conditions of a political nature and that should be met as a precondition to trading. Then he stated that unless we could get unity of action among the industrial nations of the non-Communist world, these policies would not work. Would you agree with that?

Professor BERMAN. He is now talking about a sort of embargo policy? What policy? I am sorry, sir.

The CHAIRMAN. He said that we ought to require political concessions as a part of an agreement to trade. But he stated, as I recall, that this would not be very effective unless there was a united front on the part of all the industrial countries of the free world. Otherwise, there would happen what is happening now: our regulations and restrictions are not of much importance because they can get what they like from Western Europe. But the prospect of unity among the developed countries is not very great, is it?

Professor BERMAN. No; and even if it were great, I think there should be considered what the effect would be. This would have the effect of uniting the Eastern European countries. The Soviet Union would then assert its position more strongly than ever in Eastern Europe, would drive them to autarchy at the expense of their own populations. It would merely create the bad situation which we are trying to avoid, ultimately.

BRITISH POLICY TOWARD EAST-WEST TRADE

The CHAIRMAN. Lastly, I think you mentioned that the British have taken a different view. They think trade should be, insofar as possible, disassociated from political considerations, is that correct?

Professor BERMAN. I have heard British officials, representatives of the Foreign Office, state in categorical terms that the British Government believes that it is wrong to conduct economic warfare against

countries with which they are at peace. This was in the context of East-West trade. I think that doctrine has not always been adhered to by the British. But it is interesting to me that they will state that as a matter of principle.

The CHAIRMAN. I was reminded by one of the staff that when the British were in the Crimean War, at the same time the war was going on, the British bankers floated a loan for Russia because they did not want to disrupt their relations any more than absolutely necessary during the war.

Professor BERMAN. Lloyd George made the famous statement, "We will trade with cannibals." I think probably this is one of the deepest problems involved in this whole question. I think the American view has traditionally been a different one. Perhaps we are a little like the Russians in that respect. The Russians use trade for political purposes. They cut off trade with China when they had their quarrel with China. The British, if they had been in that situation, would have kept right on, no doubt. Perhaps we could take a view of trade which, though not perhaps as pure as the British from a trade point of view, would be less political than the Russians. I am afraid we have gotten ourselves into the Russian view of trade; that trade is simply a matter of pursuing a political policy.

ASSUME UNITED STATES EQUAL TO U.S.S.R. IN TRADE NEGOTIATIONS

The CHAIRMAN. Is there not underneath this policy a kind of feeling which we often hear of, particularly when we talk about the foreign aid program, that Americans are very unsophisticated and they are always outtraded. Assume your principle which is that trade should always be mutually advantageous, and I do not know how you can question it—is there not a kind of implicity in this objection to trade that the Soviets are always going to outtrade us and that we are not going to get something equally valuable to what they get. Is that not involved in this objection?

Professor BERMAN. I believe that and I have heard that. I think that it is a risk that might be there. Perhaps our Government officials, our negotiators, and others are less wily, less farsighted than the Soviet—that they will outsmart us. But I think that is a risk the greatest country in the world has to take. If we cannot be as smart as they are in matters like this then perhaps we ought to yield our priority.

The CHAIRMAN. I do not quite see why you think that is justified when you look at the success of our system compared to the Russians or anyone else. Why do you conclude that we are being more stupid than anybody else?

Professor BERMAN. I don't.

The CHAIRMAN. You seem to think there is a great danger in this. Our record does not bear that out.

Professor BERMAN. I am sorry, sir, I did not make myself clear. I say there is a fear of this and there is a certain risk because nobody knows in advance who is going to outsmart whom. I do not think, myself, that we will be taken in by the Russians.

EQUAL TRADE OF SCIENTIFIC KNOW-HOW UNOPPOSED

The CHAIRMAN. You made a reply a moment ago to a question, when you were asked: Would you be opposed to selling a petrochemical plant prototype? And you said you would be against it. But suppose they offered in return to sell us the microscope you mentioned which you do not have and which would be very beneficial. You said they have one that has to do with machine tools that is a very superior product.

I read not too long ago that they have developed some kind of oil-drilling head that was hydraulic in nature and which is very efficient. I think one of our big corporations went to great trouble to license it. But assume they have developed something that would be useful to us. What would be wrong in trading if the trades were mutually advantageous?

Professor BERMAN. I agree, sir, and I meant to say in answer to the question by Senator Lausche that I would be against the sale, assuming the facts were as he stated it, of our know-how, developed after long investment, without some compensation.

The CHAIRMAN. But you did not say without something of equal importance. That is really the principle you have been advocating.

Professor BERMAN. That is correct. If I neglected to say that, I certainly am very grateful that you added it. I do not see what is wrong with trading atom bombs, for that matter, if we can get a better one from them than the one we give to them.

The CHAIRMAN. It is alleged every time the matter comes up that they developed a much better high-yield weapon. Mr. Teller, in the hearings in 1963 on the test ban treaty, said they had, through their experiments, developed bigger and better bombs and that we were cutting off our opportunity to develop a larger one if we had the test ban treaty. Well, this would be a good opportunity for a trade, would it not? That is in accord with your principles?

Professor BERMAN. Yes, sir.

POLITICAL CONSIDERATIONS SOMETIMES DICTATE TRADE POLICIES

The CHAIRMAN. In the case of Cuba or China, you have never denied that in certain cases the political considerations predominate over the trading ones. You do not say in every case that trading is a good thing; correct?

Professor BERMAN. No, that is correct, especially since politics is concerned with timing. I have really been talking in terms of long-range principle. In general, I think trade on the basis of mutual advantage, speaking very generally, is always good and should be carried on with anybody. But in terms of timing, it may be necessary at the particular moment for political purposes to, so to speak, violate that principle. We have done it, I think, on too wide a scale.

On the whole, I am not at all sure from what I have read that we have been helped by our trade policy, our near embargo with respect to Cuba. I am not sure that we have not suffered economically from it.

The CHAIRMAN. The argument, at least for whatever it is worth, is that at least it has had the effect of deterring Cuba's continued efforts at subversion, such as she was carrying on in Venezuela. If

this is true and also that the other some 15 or 18 countries have broken relations with Cuba, it would be a consideration for justifying the policy, would it not?

Professor BERMAN. I think so.

The CHAIRMAN. You have to analyze that on the basis and whether or not it achieves the specific objective, do you not?

Professor BERMAN. I do. I am always a little dubious, however, as to whether trade restrictions——

The CHAIRMAN. Whether it did or not, something has; it may have contributed. I do not know, myself. But it appears that something has at least slowed them down in their efforts at subversion which were so flagrant several years ago.

Professor BERMAN. It may well be his relations with Moscow. In that case, our relations with Moscow may play a role in that as well.

The CHAIRMAN. Thank you, very much, Dr. Berman. You have been very helpful.

(The complete statement of Professor Berman follows:)

STATEMENT BY HAROLD J. BERMAN, PROFESSOR OF LAW, HARVARD UNIVERSITY

I

On February 28, 1965—2 days from today—the historic annual trade fair in Leipzig, East Germany, will open, reportedly for the 800th time. It is estimated that 75,000 foreign visitors will attend during the 10 days of the exhibition, and that there will be exhibitors from 70 countries. As on previous occasions in recent years, the strongest Western contingent will come from West Germany, which is the largest Western supplier of goods to Communist countries and the largest Western purchaser of goods from those countries. Business firms from Britain, France, Sweden, and most of the other Western European countries will also exhibit their goods in Leipzig.

The United States alone, of all the major countries of the world, will not be represented. Last December the Department of Commerce stated once again, as it has stated in previous years, that it was discouraging U.S. companies and their foreign subsidiaries from participating in the fair and from attending it.

I open my remarks with this news item, which is drawn from the New York Times of last Monday, February 22 (p. 29), because it dramatizes perfectly the ostrich policy which our country continues to pursue in the matter of so-called East-West trade. That policy, in brief, is to use trade as a political instrument—to withhold it as an indication of our political displeasure, or to grant it (as in the case of our recent trade agreements with Rumania) as an indication of our political pleasure. I call this an ostrich policy because the means are entirely inappropriate to the ends.

We are boycotting Leipzig in protest over the East Germany decision in 1961 to prevent the emigration of East Germans to West Berlin. But the boycott does not substantially hurt the East Germans or the Soviet Union or the other Communist countries; it has no influence on their policy regarding the Berlin wall; it only hurts those American businessmen who would like to compete with Western Europe, Japan, and other countries, for Eastern European markets; and thus it hurts our own economy, and especially our export economy and our balance of payments, since Eastern Europe probably has more to buy from us than to sell to us.

Similarly, our entire present system of restrictions upon trade with the Communist world hurts our own economy without having any substantial adverse effects upon the economies of Communist countries. This may not have been true 16 years ago when the system of controls was instituted; then Western Europe and Japan were in the throes of economic reconstruction after the war, as were the Soviet Union and Eastern Europe, and it is arguable that at that time we slowed up the economic recovery of the Communist countries by our

restrictions. But now Western Europe and Japan have themselves become strong economically, and they have outvoted us on this issue. For the past 10 years they have been actively cultivating East-West trade; they believe in it, as a matter of economics, as a matter of politics, and also as a matter of moral principle. We have not yet woken up to the fact that to be outvoted on this issue is to lose it.

But even apart from this practical consideration, it is time, I believe, for us to recognize that the Western Europeans are right. The arguments against trade with the Communist countries—and I speak only of normal commercial dealings in peaceful goods, not of selling military goods and not of extending long-term credits—seem to me to be entirely fallacious. First, it is said that by exporting to the Communist countries we build up their economies and hence put them in the position to defeat us in war; but this argument mistakes trade for aid—it ignores the fact that everything they buy from us they must pay for, and that means they must earn the necessary foreign exchange by their own exports. Second, it is said that they have nothing to export to us; but in fact their exports to the rest of the world on the whole balance their imports, and even if it were true—which it is not—that they have nothing to export to us, they could still balance their imports from us by their exports to others. Third, it is said that they trade through powerful state agencies that exploit the private interests of Western business firms in order to serve their own national interests; but Western governments have counteracted this danger by intervening, through intergovernmental trade agreements with Communist countries, to protect the Western national interests, and we could and should do the same.

Finally, the basic fallacy of the argument against trade with the Communist countries is its assumption that we can live in the same world with them without dealing with them, without developing contacts, without establishing common bonds—and at the same time without going to war with them. But the evidence is very strong that unless we can make positive arrangements with them, on the basis of mutual advantage, we shall continue to drift from crisis to crisis; and moreover, that in each crisis we shall be responding to their initiative, instead of exercising our own initiative. Western European governments have understood this; it is expressed in the British doctrine that it is wrong to conduct economic warfare against a country with which you are at peace.

The history of our trade relations with the Communist countries demonstrates as clearly as any other experience of the postwar period that a purely negative policy, a purely restrictive policy, a policy of boycott or near-boycott, a policy of having nothing to do with them, only works in the long run to their advantage. The Soviet Union alone has increased its total exports and imports from about $2 billion in 1950 to about $15 billion in 1964, and its total exports and imports vis-a-vis the West from about $500 million in 1950 to about $5 billion—that is tenfold—in the same 15-year period in which we have been seeking to isolate them economically. And even if we had had the nerve and the power to establish a total NATO embargo against the Communist countries, as has seriously been proposed from time to time, we would at best only have compelled them to introduce a drastic program of self-sufficiency which might well have left them more united, militarily stronger, and more aggressive than they now are.

I can therefore see no sound reason for the United States to pursue the general policy of restricting normal peaceful trade with Communist countries, and would urge that our recent policy of promoting such trade with Rumania be extended to the Soviet Union and the Eastern European countries generally.

II

At the same time we must face the fact that in trading with Communist countries we confront serious, though by no means insuperable, problems arising from the nature of the Communist system of foreign trade.

There is, as I have already suggested, lack of reciprocity in the relationships between a state trading agency of a Communist country and a private business firm in the West. The foreign trade of each of the Communist countries is a monopoly of the state and is conducted as part of a state system of integral (or "global") economic planning. The state trading agencies of those countries are interested primarily in promoting their countries' national interests, and only secondarily in making profits for themselves. The Western business firm,

on the other hand, is interested primarily in making profits for itself, and only secondarily in promoting its country's national interests. It is because of the absence of reciprocity, in this sense, that our Government has imposed, and must continue to impose, a system of controls on such trade—to protect our national interests, even as the Soviet, or Czech, or East German system protects Soviet, Czech, and East German national interests. The argument that I have made against our present system of controls is not an argument against controls as such; it is an argument for using controls to foster trade, on the basis of mutual national interests, rather than to curtail it.

Permit me to list some of the problems posed for us by the Communist system of foreign trade, and to suggest some of the ways in which our Government should attempt to meet those problems:

(1) The major problem lies in the tendency of the Communist countries, and especially the Soviet Union, to look to us for exports of machinery, industrial goods, plant and equipment that contribute substantially to their military and economic power, and to offer us raw materials, consumer goods and other items that do not substantially contribute to our economic or military strength. The way to meet this problem is to make intergovernmental trade agreements—as virtually all the European countries have done—which provide for programs of exchanges of particular goods in particular quantities over a period of years. Such programed trade agreements are particularly convenient for planned economies, since the so-called contingents of goods, that is, the lists contained in the agreements, can help form the basis for plans of domestic production and consumption. The trade agreements are, in one sense, part of the national economic plan. At the same time, from the point of view of the Western country, an intergovernmental agreement establishing contingents of exports and imports is a means of preventing the export of those goods which for various reasons the Western government does not wish to export to a Communist country. The Western government promises to issue export licenses to its private exporters only for the goods listed in the agreement. In other words, the strategic controls are reflected in the contingents, and the exporter knows in advance what products may be sold. At the same time, the Western government, in negotiating the agreement, has the opportunity to bargain for particular Soviet exports. Thus the mutual advantage of both countries, each viewed from its own national standpoint, can be achieved.

(2) Connected with the difficulties of balancing trade in terms of national economic interest is the problem that arises from the tendency of the Communist countries, and, again, the Soviet Union in particular, to purchase very small quantities of machinery simply for the purpose of copying it—so-called prototype purchases. An intergovernmental trade agreement of the kind I have indicated could also be used to prevent this.

(3) A third problem is the protection of our patents and compensation for technical know-how. As to patents, I believe that the Soviets have shown considerable interest in joining the international convention on patents. A major remaining obstacle seems to be the question of foreign recognition of what they call author's certificates—which they use widely as an alternative to patents. These certificates provide for compensation to the inventor for his surrender of the right to control the use of the invention. We should try to reach an agreement on this and to encourage Soviet participation in the convention. Our Government should also try to secure a Soviet commitment to accept, in principle, the obligation to compensate for know-how, although ultimately that is a matter for individual bargaining.

(4) The problem of dumping occasionally arises in connection with the Communist system of foreign trade, not because the Communist countries wish to disrupt world markets but because they sometimes face acute temporary shortages of foreign exchange and therefore must sell their goods quickly or because they must undersell others in order to get a share of the market. Of course dumping is not solely, or even primarily, a Communist tactic; the United States is by no means the least of those who offend in this regard. Nevertheless, there is a special difficulty in preventing dumping by Communist countries due to the artificiality of their domestic price system. It is virtually impossible to compare Soviet ruble costs of production of tin, for example, with the dollar or pound price obtained abroad. We need a new definition of dumping that would be applicable to this situation, and commitments by the Communist countries, within that definition, not to dump. Again, I would suggest the possibility of incorporating such a definition and commitment into intergovernmental trade agreements.

(5) The settlement of contract disputes that arise in trade with Communist countries also poses some special difficulties. Each of those countries has its own foreign trade arbitration commission. Although these bodies have established a reputation for objectivity and fairness, there is a natural reluctance on the part of many Western business firms to submit to their jurisdiction. Of course, this is a matter for contract negotiation, but it would be useful for our Government to explore the possibility of the establishment of joint bilateral arbitration tribunals, as the Italians have done with the Poles.

(6) The bureaucratic organization of foreign trade in the Communist countries creates severe handicaps for the establishment of normal commercial relations. The Western exporter or importer dealing with the Soviets, for example, must deal with a giant trade combine in Moscow which acts as a broker for the Soviet state producing or consuming enterprise. It is not impossible on occasion to go behind the broker to the customer. Nevertheless, there is redtape, and, more than that, a real lack of long-term relationships. For example, I once represented an American producer of synthetic detergents who wished to explore the possibility of selling to the Soviets. They showed some interest, but discouraged all talk of servicing the product—which is an essential part of any useful trade arrangement in such a product. In this connection it is worth noting that Poland recently gave three large state producing enterprises the right to conclude foreign trade contracts independently, without going through the trading agencies of the Ministry of Foreign Trade. This is an encouraging development. Again, our Government, in negotiating for expanded trade with the Communist countries, should press for such decentralization.

(7) Finally, I would mention the problem of the increase and diversification of Soviet and East European exports to us. The Soviets still practice the autarchic principle of using exports as a means to pay for imports, rather than treating exports and imports as equally valuable in themselves. This means that while imports are planned from below, with each state enterprise studying foreign production to determine what it would like to buy and then sending applications to Moscow, exports are simply ordered from above. The result is that the Soviets do not, speaking very generally, study carefully their own export capabilities. They do not really know what they have to sell abroad, and what resources should be allocated for production for export. One of the best things we could do for them and for ourselves is to send our importers and technicians to Russia to study what the Soviets have to sell us that they do not even know about. And one of the best things about the intergovernmental East-West trade agreements of the past decade has been that they have resulted in an expansion of Soviet and East European exports to the West. In this connection I call attention to the elementary fact that the more resources that the Soviets allocate to production of goods for export, the fewer, relatively, they can allocate to production of military goods.

III

I should like to summarize by making two general points. The first is, that we have paid a very heavy price for our present system of export controls—a heavy price in bureaucracy and in the built-in arbitrariness of a licensing system—without reaping any substantial benefits. (It should be noted that our present system of export controls not only effectively discourages trade with Communist countries, but also places considerable obstacles in the path of exports to Western Europe and other non-Communist countries through its requirements of assurance against transshipment of goods and of technical data.) Everything that our present system accomplishes in restricting exports of strategic goods could be accomplished by intergovernmental trade agreements, and at the same time such agreements could establish a code of fair practices directed specifically to the problems created by the Communist system of foreign trade. The same considerations are applicable to our restrictions against imports from Communist countries, and in particular our discriminatory tariffs and prohibitions. We could get all the needed protection more effectively through bilateral agreements.

Second, by using governmental controls to promote, rather than restrict, trade, especially with the Soviets, we can help persuade them that their own long-range interests are linked with the stability and integrity of the international economic order. In the 1920's and 1930's one of the principal charges levied against the Soviet leaders was that they had withdrawn from the world economy, that their foreign trade system was inherently restrictive and discriminatory, and that their goal was self-sufficiency. In the 1950's and 1960's the Soviet leaders have

come out of their shell, have abandoned their earlier tendency toward economic isolationism, and have sought to establish firmer economic ties with the West. It is strange indeed that they should now be able to charge the United States with subverting economics to politics, with refusal to trade, and with discriminatory trade practices.

In closing I should like to give an answer to a question put in these hearings on Wednesday; namely, what is the greatest single obstacle to the expansion of East-West trade. The answer then given, as reported in the press, was: American public opinion. I would give a somewhat different answer. I would say: American political leaders, who, with a few notable exceptions, fail to give public opinion the leadership and guidance that it needs. We need more statesmen like the chairman of this committee, if I may say so, who will expose the myths upon which public opinion feeds.

I would say that it is our leadership, and not only the public, that is at fault, and I would urge our leaders to take the necessary steps to restore to America our faith in the economic interdependence of all countries as one pillar of world order.

Mr. CHAIRMAN. The next witness is Prof. Isaiah Frank, Clayton professor of international economics, School of Advanced International Studies, the Johns Hopkins University.

Good morning, Dr. Frank; will you proceed, please, sir.

STATEMENT OF ISAIAH FRANK, CLAYTON PROFESSOR OF INTERNATIONAL ECONOMICS, SCHOOL OF ADVANCED INTERNATIONAL STUDIES, THE JOHNS HOPKINS UNIVERSITY

Professor FRANK. Mr. Chairman, my statement is divided into three parts. It is very brief and I think I might read it.

The CHAIRMAN. Certainly. Proceed.

Professor FRANK. The first part deals with our responsibility to the non-Soviet Eastern European countries, the second part is on trade with the Soviet Union, and the third part consists of some observations I would like to make about what our policy ought to be in relation to trade with the less developed world and the Soviet Union, in which I think we have an interest.

UNITED STATES SHOULD ENCOURAGE TRADE INDEPENDENCE IN EASTERN EUROPE

The prime objective of U.S. trade policy with the countries of Eastern Europe should be to encourage a reduction of their heavy economic dependence on the Soviet Union. At present these nations, which rely more heavily on foreign trade than the U.S.S.R. does, have nearly 70 percent of their commerce with other Communist countries. However, it is clear that the Eastern European countries are resisting Comecon efforts to integrate their economies more closely within the Communist bloc. Abundant signs indicate their desire for closer ties with the West. To encourage this tendency, the Executive should be given broad discretionary authority to relax export restrictions, to grant import concessions, and even to offer limited credits in excess of normal commercial maturities.

REASONS FOR U.S. LOW TRADE LEVELS WITH THE U.S.S.R.

The question of U.S. trade with the U.S.S.R. is more complex. The outstanding feature of this trade is its very low level. Owing to recent wheat deals—generally considered a one-shot affair—U.S. ex-

ports to the Soviet Union were abnormally high in 1964. Apart from wheat our trade with the U.S.S.R. has been about $20 million in each direction. It represents about 1 percent of Soviet commerce with all free world countries, developed and underdeveloped, and about one-hundredth of 1 percent of Soviet GNP.

While strategic controls, discriminatory tariffs, and other restrictions partly account for the low volume of United States-Soviet trade, the major impediment lies with the U.S.S.R.'s limited capacity to finance additional purchases. As a consequence of its bilateral trading methods, the Soviet Union does not normally earn convertible currency elsewhere with which to buy in the United States. Its ability to buy from us is, therefore, limited to the volume of its sales in our market (mostly raw materials with limited possibilities for expansion) plus its available gold supply. In the absence of special credits, it is doubtful that Soviet purchases from the United States could increase to much more than $150 million per year even if we reduced export controls to the Cocom level and eliminated legal discrimination against imports of Soviet goods. (Even the granting of credits would only postpone the problem of settlement, not solve it.)

INCREASED U.S.-U.S.S.R. TRADE UNIMPORTANT ECONOMICALLY

The purely economic significance of increased trade on this scale would be unimportant to both the United States and the Soviet Union—U.S. exports to the U.S.S.R. would still be less than 1 percent of our total trade. The main economic advantage would be gained by the producers of capital goods in this country who are denied export business that accrues to their European competitors.

Nor are the prospective gains, measured against the aggregates of GNP and total trade, impressive for the Soviet Union. Still, there are some types of specialized American capital goods that the U.S.S.R. would dearly like to purchase. In 1963, however, the Soviets managed to buy almost $600 million of machinery and equipment from Western Europe. It is doubtful, therefore, that the marginal advantage of possibly having earlier access to advanced capital goods and technology from U.S. sources of supply would have a substantial impact either on the Soviet Union's rate of growth or its military position.

ALINEMENT OF EXPORT CONTROLS TO THE U.S.S.R.'S

In view of the modest economic impact of increased commerce, it is unlikely—and here I disagree with the gentleman who spoke yesterday, to whom Senator Lausche referred—that a policy of trade liberalization could serve as a level for inducing major political concessions. Nevertheless, there would be some real political advantages—and no perceptible disadvantages—for the United States in loosening its trade policy toward the Soviet Union. As an immediate step, I favor the alinement of U.S. export controls with the Cocom list. Not because, incidentally, we should do what the other fellow does. I am not saying we should do it because the Western Europeans do it, I am saying that if we do it when they do it, we are not accomplishing our objective.

Our unilateral controls, despite their ineffectiveness in economic or military terms, may add to the tensions in our relations with the

U.S.S.R. Because the Soviet Union values acceptance in the world arena, our discrimination produces a psychological scar far out of proportion to the physical wound inflicted. I do not think this is in our interest, that it should produce this scar. Whenever the occasion presents itself, the Soviets call for an end to trade discrimination and for the "normalization" of trade relations with all countries. A willingness on our part to loosen up commercial relations could conceivably serve as a prelude to negotiations on broader political issues.

WITHDRAWAL OF EXPORT CONTROLS HELP RELATIONS WITH OUR ALLIES

Regardless of the effect on the Soviet Union, the alinement of our export controls with those multilaterally agreed to in Cocom would reduce friction between the United States and its friends. Although the differences in our trade policies toward Communist China and Cuba would persist, problems, such as our efforts to control sales of products incorporating U.S. components of technology by firms in friendly countries, might be reduced. This has caused major difficulties between us and the Canadians, who have felt that we have been infringing on their sovereignty, in telling duly constituted Canadian firms which happen to be subsidiaries of American countries how to conduct their business.

The CHAIRMAN. What is an example of that? What do you mean?

Professor FRANK. I am afraid I cannot, at this point, give you a specific example, but a couple of years ago this issue arose quite a number of times, Senator. It is an error on our part to reach out beyond our borders and to have American firms which are incorporated in foreign countries act in accordance with our own legislation in relation to a number of our export control policies.

MANY RECOGNIZE NEED FOR FREER TRADE

The main burden of the foregoing points, that we ought to loosen trade with the Soviet bloc, I believe has been recognized by experts in and out of Government. I think the overwhelming sentiment by economists has been that we should do so, and in and out of the Government it seems the overwhelming sentiment of people of responsibility is that we should have freer trade relations with the Soviet bloc—I am talking about the European Soviet bloc at the moment. Yet in the absence of public and congressional support, officials have generally been reluctant to take steps directed toward changing our policy. I do not mean to imply by that that they have been stymied. What I mean to imply is that in order to achieve a change in policy, involves a tremendous investment in effort and capital, political capital in terms of relations. I think by and large, because of the kind of analysis I have given thus far as significant of this problem, high officials have generally been reluctant to undertake the cost in terms of time, energy, and so on, and in view of the priorities and problems that they have to achieve this change of sentiment. However, today, the situation is different. There is a rising tide of sentiment in favor of easing restrictions on nonstrategic trade with the European Soviet bloc; an example is the recent policy declaration by the U.S. Chamber of Commerce calling for the harmonization of our export control policy with that of our allies.

FREE HAND FOR THE EXECUTIVE IN ADAPTING TRADE POLICY

Any changes adopted in our trade policy should leave the Executive a free hand to adapt them, or if necessary to reverse them, in accordance with our national interest. I would apply this principle both to export restrictions and to a possible liberalization of import policies through the extension of most-favored-nation treatment. I am all for that, but I think this is crucial, and I think this would be my answer to some of the questions that were put to Professor Berman, that any changes adopted in our trade policy should not be abolishing export controls or abolishing our import discrimination against the Soviet Union, but they should give the Executive a free hand to apply them or not to apply them, to apply on the export side, to apply most-favored-nation treatment or not to apply most-favored-nation treatment. The President should do it in accordance with his conception of our national interest. Here, too, I question the sharp separation between trade and politics. I am not saying that trade should not be used or should never be used as a political instrument.

Senator LAUSCHE. May I make an inquiry here? Maybe the staff can tell us. In the Johnson Act and the Battle Act and one other——

The CHAIRMAN. The Export Control Act.

Senator LAUSCHE (continuing). Is there in any of them a provision that the prohibition may be waived if the President so declares that it is in the interest of our country?

Mr. HOLT. There is authority in one title of the Battle Act for a waiver. In the Export Control Act, there is given to the President very broad authority for control.

Senator LAUSCHE. But it is not in the Import-Export Bank law?

Mr. HOLT. In our rider on the foreign aid appropriations bill of a little more than a year ago, there is a prohibition on Export-Import Bank guarantees of credits for exports to Communist countries. This prohibition can be waived upon Presidential finding.

Senator LAUSCHE. May I suggest, Mr. Chairman, that the staff prepare a résumé of the laws in which there is given to the President the right to waive, if he deems this in the interest of our country, and have it placed at the end of his statement?

Mr. HOLT. This is quite a research project, sir.

Senator LAUSCHE. Just make it the three we have discussed.

Mr. HOLT. All right.

(This information appears on p. 146.)

Professor FRANK. I should like to point out that on the import side, with respect to most-favored-nation treatment, as I understand it, there is no discretion lodged with the President to establish most favored nation treatment on imports from the Soviet Union.

The CHAIRMAN. That is right, the law is specific. We had a big quarrel about that with respect to Yugoslavia.

Professor FRANK. That is right, there has been some discussion on it in recent years about Yugoslavia and Poland.

May I interject a point here, Mr. Chairman?

The CHAIRMAN. Certainly.

POLITICAL CONSENSUS NEEDED TO ALTER TRADE POLICY

Professor FRANK. I must say I wholeheartedly agree with one point Professor Berman made. Even though in some instances the President's hands are tied by the Congress, as I indicated on the import side and even on the export side, I think most executives are loath to take action which seems to fly in the face of congressional sentiment. Now, it is true that we would like to see him take leadership, but I think it is easier to take leadership when Congress and the public and the Chamber of Commerce, as they have done recently, indicate public support for a particular course of action, or for the President's decision in what he thinks is a compromise in what should be done or what he thinks is acceptable to the public. He cannot go out front on all issues. He must choose those on which he thinks he wants to make a finding.

POSSIBLE PROBLEMS MIGHT ARISE

Among the problems that could arise with expanded East-West trade are: The possibility of large-scale dumping; inequities resulting from the lack of patent protection; and the difficulty of establishing a standard of equivalence with respect to freedom of access to each other's markets. I doubt if these problems need be solved in advance of relaxing controls on trade with the Soviet bloc. The sensitivity of the U.S.S.R. to international public opinion, particularly to charges of dumping, suggests that such problems may not occur. If they do, solutions can be negotiated on a pragmatic basis—provided the U.S. Executive retains the authority to tighten up if he deems it in our interest.

DIFFERING DEFINITIONS OF DUMPING

One point on dumping that I hoped to make as a result of the earlier discussion is that I think we have a tendency to equate sales at lower than the price that happens to be prevailing in a particular market with dumping. This is not necessarily dumping. There are various definitions of dumping. The one in the GATT, I think, would clearly involve some of our own actions abroad as dumping, in the agricultural field. And we certainly have been charged; some of our firms have been charged by the Europeans, just as our firms have charged the Europeans with dumping in our market. The problem arises in relation to the Soviet Union—it is an inherent problem—of determining what their costs are. You can only have a standard of dumping in relation to the prices at which they sell in other markets or in the absence of that, their costs of production. And it is awfully difficult in the case of a Soviet Union to make that determination. It is for that reason that I think one has to have a kind of pragmatic approach when you trade.

It is not in their interest to sell at a lower price than the price they can obtain. If their costs are high and they are selling far below their costs merely to penetrate a market, that is dumping. But I think in order to establish the fact, one is involved in a rather complex area. I am not at all sure that rules can be established in advance of that. So I favor a kind of pragmatic approach to it.

OTHER THAN NORMAL COMMERCIAL CREDITS TO U.S.S.R. OPPOSED

Now, while I favor expanded trade with the Soviet Union, I am opposed to the extension of other than normal commercial credits. The U.S.S.R.'s foreign exchange stringency is largely a reflection of its autarkic outlook and its consequent failure to make those internal adjustments that would enable it to export on a larger scale. But the prospect of easier access to Western capital goods and technology may to some extent induce pressures for a reallocation of domestic resources in the Soviet Union. This might lead, for example, to a shift from armaments to the production of civilian goods for export. The United States, and the West as a whole, should not through long-term credits relieve the Soviet Union of the necessity to make these adjustments which are clearly in our long-term interest.

WHAT ARE STRATEGIC GOODS?

One further footnote, if I may, Mr. Chairman, on this matter of strategic controls. The whole question of what is strategic, I think, is very difficult. One of the things that has struck me is that in many ways, wheat sales to the Soviet Union may be more strategic than sales of advanced machinery. Because the question that the Soviet Union, as a centrally planned economy, faces is how should it use its resources. How can it get most from what it puts in in the way of labor and capital. How can it get most in terms of output?

It may well be that the Soviet Union, which has shown remarkable efficiency in rocketry and heavy machinery and things of that kind and appalling inefficiency in agriculture and producing consumer goods, could maximize its real output, the availability of goods it has, by concentrating somewhat more on producing those things, selling them in the world market and buying those things in the production of which it is weak and inefficient, such as consumer goods and wheat. So I think the whole notion that you can go down a list and say, this is strategic and this is not strategic is far more complex than that. If the Soviet Union could depend in the long term on satisfying a substantial volume of its agricultural needs from outside, it seems to me that would be a real strategic coup for the Soviet Union, because it would fill in the very places where it is weak.

By the same token, the mere fact that the Soviet Union does buy machinery, equipment, transport things, the things which somehow we associate with the ability to fight a war, maybe the best thing to trade with them, because these are the kinds of things in which they are strong anyway.

Perhaps if I move on to the last of the subjects I want to touch on, Mr. Chairman, one of the problems with trading with the Soviet bloc is that there are always risks inherent in such trade. There are risks inherent in the fact that foreign trade is a state monopoly in the Soviet bloc.

POLITICAL CONSEQUENCES OF TRADE BY U.S.S.R. WITH DEVELOPING COUNTRIES

The possibility exists that, as its volume expands and other countries become more dependent on it, trade will be manipulated to support the foreign policy objectives of the Communist state. This risk

is not serious insofar as Soviet bloc trade with the advanced countries of the West is concerned. The biggest Soviet bloc trader, the biggest Western trader with the Soviet bloc in absolute terms is Germany. I do not think we need be fearful that Germany will become excessively dependent on trade with the Soviet bloc. But consideration should be given to ways of insulating less-developed countries from the dangers attending a possible large-scale expansion of their trade with the Soviet bloc.

At present the volume of Soviet bloc trade with the developing nations is small. Of $30.9 billion of exports from less-developed countries in 1963, $22.6 billion went to industrial free-market countries, $6.6 billion consisted of exports to other less-developed countries, and only $1.7 billion comprised exports to the Communist states. In the period 1950–62, however, exports to the Soviet bloc from the developing countries grew much more rapidly than those to the industrial countries.

LOW PRIORITY OF CONSUMER GOODS IN U.S.S.R.

The most important reason underlying the low level of its trade with the developing countries is the high priority that the Soviet bloc has attached to military expenditures and capital investment. Consequently a low priority is assigned to the import of most consumer goods available from the less-developed countries. I was at the preparatory committee as a U.S. representative for the United Nations Conference on Trade and Development. The Soviet bloc was represented there. The representatives of the less-developed countries pointed out that the per capita annual consumption of coffee in the Soviet Union is only one-tenth of a kilogram as compared to 4.3 kilograms in France and 7.3 in the United States.

Senator AIKEN. May I ask, Mr. Chairman, Is it not a matter of price which largely accounts for the low consumption of coffee?

Professor FRANK. Yes, but the price, Senator Aiken, is in turn a matter of conscious decision and manipulation of the Soviet Union. They impose such a price on coffee that only this volume will be taken. I must say that the Soviet reply was that their people prefer vodka to coffee. Until the Communist countries show a willingness to adjust their national plans to accommodate a larger volume of imports from the developing countries, the overall scale of this trade is bound to remain low.

POSSIBLE ADJUSTMENTS IN CONSUMER IMPORTS BY U.S.S.R.

Several developments may encourage the Soviet bloc to make these adjustments. One is the general detente which, despite Vietnam, has characterized recent East-West relations; the second is the view expressed repeatedly by Russian leaders that the time has come for the people of the Communist countries to enjoy more fully the fruits of their Socialist labors; and the third is the collective pressure exerted by the developing countries themselves for expanded markets in the Communist world. At the United Nations Conference, such pressure was exerted.

If this trade should reach a much larger volume, the dependence on it by the developing countries could leave them vulnerable to the superior power and centralized decisionmaking of the Communist state monopolies.

RULES NEEDED FOR TRADE BETWEEN U.S.S.R. AND DEVELOPING COUNTRIES

It becomes important therefore for the United States and other advanced countries to support the efforts begun at the United Nations Conference to develop rules to govern trade between the centrally planned economies—the official U.N. designation for the Communist countries of Eastern Europe and Asia—and less-developed countries, just as the Western countries have agreed in the GATT to rules governing their trade with the less-developed countries.

At the moment, so far as trade between the less-developed countries and the Soviet world is concerned, there is international anarchy. There is no internationally agreed set of rules. Countries do not have anybody to which they can appeal or any set of internationally accepted rules or regulations to which they can point as establishing the norms for this interchange.

As for the type of commitments to be sought from the centrally planned economies, various possibilities exist. At the U.N. Conference the British took the initiative and suggested a set of rules paralleling those undertaken by the West in the GATT program of action. As applied to tropical beverages, for example, they would call for fully satisfying internal demand in the centrally planned economies at world market prices plus distribution costs; imports would not be impeded by internal taxes, tariffs, or quantitative restrictions.

I think this is directly pertinent, Senator, to the question you asked. In effect, what is being suggested here is that if the Soviet Union wanted to behave with respect, let us say, to Brazil and the other coffee-producing countries, the way the United States does—they say that they want to help the less-developed countries. We have no tariffs, no quotas, no internal taxes on coffee in the United States, none whatsoever. What we said to the Soviet Union at Geneva was: "Why do you not sell coffee to your consumers at the world market price plus whatever additions to it for distribution costs are—without loading other costs on to it, and then let's see how much your people will demand and satisfy fully the demand of your people at that price. That will be the equivalent in a Communist system, where you have central planning, equivalent to what we do in relation to Brazil." They did not buy that.

Other possibilities should be considered, such as agreed limitations on the combined height of internal taxes and tariffs in addition to the prohibition of quantitative restrictions, or simply the negotiation of agreed, quantitative import commitments by the countries of the Soviet bloc and some restriction on reexports. An effort should also be made to loosen up the rigid bilateral settlement arrangements now characterizing Soviet bloc trade with the less-developed countries.

ARBITRARY BILATERAL AGREEMENTS OF THE U.S.S.R.

The last point. When the Soviet Union buys wheat from the United States or from Canada, it pays us with a check in dollars. The currency that our sellers receive can be used anywhere in the United States or anywhere else in the world. Typically, when the Soviet Union buys from India or from any other less-developed countries, with a few exceptions, it does not do that. Its purchase of goods ties that country to itself, to a bilateral arrangement.

Senator AIKEN. At their price?

Professor FRANK. The prices are negotiated, and often the prices are very favorable to the Soviet Union. What I am saying here is that a greater effort should be made to get the Soviet Union to multilateralize this, to pay in currency that can be used either in that country or the rest of the world. It would not tie individually developing countries to this kind of bilateral arrangement with the Soviet Union.

The developing countries obtained no firm commitments from the Soviet bloc at the U.N. Conference and in the end simply accepted expressions of good intent. In any event, rules alone are unlikely to prevent the exercise of monopoly power by state-trading countries to the exercise of that power. But multilaterally agreed norms and, perhaps even more important, an international forum for addressing these problems—a form of confrontation to which the weaker countries can appeal—can go a long way toward restraining the Soviet bloc countries in the use of their centralized trading power.

A perfect example was cited by Professor Berman. There was heavy trade between the Soviet Union and Communist China. When Communist China and the Soviet Union disagreed, there was a dramatic falling off of that trade at the initiative of the Soviet Union. This is an example of the kind of thing that can build up when you build that kind of bilateral thing without any sort of restraint on the behavior of the Soviet Union. This international forum may not completely do it, but it would go a long way.

The United States, in concert with its Western allies and Japan, should encourage the developing countries to continue to press for an agreement on acceptable standards and practices in their trade with the centrally planned economies. Although the present volume of that trade is low, its growth potential is great. It is important that increases, as they occur, take place within the framework of internationally sanctioned rules of behavior and accountability that protect the independence and economic welfare of less-developed countries.

The CHAIRMAN. Thank you, very much, Professor Frank. This is a very thoughtful and well-reasoned statement. Senator Lausche, any questions?

Senator LAUSCHE. Yes. I will yield to Senator Aiken.

The CHAIRMAN. Senator Aiken, do you have a question?

SIGNIFICANCE OF AMERICAN INVESTMENT IN WESTERN EUROPE

Senator AIKEN. I have but one question. I will hold it to a minimum. In your opinion, Dr. Frank, how much of a factor have our export licensing restrictions been in the decisions of American companies to establish branch plants, abroad, or at the least to make arrangements with Western European industries to fill their orders in situations where it would not be likely that an export license could be obtained in the United States?

Professor FRANK. I can express an opinion on the basis of no specific facts, Senator Aiken, for whatever it is worth. I doubt very much that a significant motivation for American direct investment in Western Europe, and particularly in the Common Market has been the East-West trade problem. I think the inducement to in-

vest has been the high rate of growth in Western Europe, plus the wider tariff-free marketing area that the European Common Market provides. There may be some marginal cases where what you say is true, but I am not aware of them.

Senator AIKEN. You think it is the expanded market in Western Europe, itself, then, that has been the principal inducement?

Professor FRANK. Largely, yes.

The CHAIRMAN. Senator Lausche?

CRITICISM OF THE PURPOSES OF PRESENT TRADE LAWS

Senator LAUSCHE. This subject which we are now discussing, which might ripen into the adoption of a new policy raises the question: When, if at all, has our present policy, been sound?

Professor FRANK. Frankly, I have been bothered, Senator Lausche, by that policy at least ever since the Battle Act was passed. The Battle Act was an effort to coerce other Western European countries, into falling in line with a policy which we judged to be in our interest. It never worked; we never succeeded in using our aid to Western Europe as a club to get them to conform. We recognized that soon after the Battle Act was passed. We have established multilateral methods of doing so. I think the whole preconception on which the Battle Act was based was in error. So certainly as far as that one goes, I think we have been in error.

I think our effort through the Trade Agreements Act to restrict imports of these items that Professor Berman mentioned have nothing to do with national security. They are purely protective measures. They should not be in there. If we want to protect furs, I do not see why we do it in this particular way as an anti-Soviet measure. I think tying the President's hands with respect to most-favored-nations' treatment, as contained in the Trade Agreements Act, is not in our national interest. I think he could use that authority flexibly and very effectively in dealing with the Soviet world.

Senator LAUSCHE. Is it your opinion, then, that from the very beginning, when these prohibitions or restrictions were inserted in the law, they were not rooted in sound thinking?

Professor FRANK. Well, I would go along with that on the Battle Act, sir. As far as export controls are concerned, I think we should have export controls.

Senator LAUSCHE. That is, on the Battle Act, you feel that it was wrong to have ever written the restrictions into it?

Professor FRANK. I think it was wrong to have ever written a law that was specifically designed to use aid to friendly countries as a club to get them to conform to policies which we decided were in our own interest.

Senator LAUSCHE. What about the Johnson Act?

Professor FRANK. The Johnson Act was passed without relation to the Soviet problem as I understand it, Senator Lausche. I think that act, too, is rather restrictive. Certainly it does prevent us from extending credits to the Soviet Union. I would prefer to see the President in a position to decide that issue unrestricted by legislation, which in any case, is not directed to that issue at all.

Senator LAUSCHE. Do you think the law as it was written was sound in accordance with the conditions that prevailed at that time and since conditions have now changed, the law ought to be changed?

Professor FRANK. I do not regard myself, Senator Lausche, as an expert on the Johnson Act. As I understand it, the law was changed to protect our people from buying bonds of countries that had a record of defaults. It was an effort to discipline other countries and from that point of view, the law may have been perfectly sound. I do not know how it has worked out. But it certainly was not directed to how flexibly an executive can deal with the intricate and subtle relations which we now maintain with the Soviet bloc. I would like to see the President have maximal authority which I think the Congress could trust him to use in the national interest to offer credits or not offer credits, to permit the extension of credits or not. I personally, as I indicated, would be opposed to the extensions of long-term credits to the Soviet Union for the reasons I indicated. There may arise a time next year when it would be desirable. It takes a long time to get a law changed. I would like to see the President enabled to move in the national interest.

REASONS FOR TRADE POLICY REVISION

Senator LAUSCHE. Is the recommendation to change policy, as has been discussed, motivated by a change in the attitude of Russia, or is the recommendation for a change predicated upon the proposition that the policy was wrong from the very beginning?

Mr. FRANK. I do not say the policy was wrong from the very beginning. Export controls are a very blunt instrument for trying to accomplish what we really have in mind. It is not because, necessarily, the Europeans think differently about the Soviet threat than we do.

Senator LAUSCHE. What do you see as what we want to accomplish?

Mr. FRANK. With respect to our export control?

Senator LAUSCHE. As far as expanded trade with the Communist countries? What is our main objective?

Mr. FRANK. I want to be sure I understand the question, Senator Lausche. Do you mean what would be the main objective we might seek in expanding trade?

Senator LAUSCHE. We are seeking to accomplish something, you said. What is it we are seeking to accomplish by this new proposed policy?

Mr. FRANK. My policy, in terms of legislation, would simply leave the President much freer than he now is to order our trading relations with the Soviet Union. I do not see any millennium flowing from a loosening up of our trade with the Soviet Union. What I am convinced of is that our export control policies heretofore have not, in any significant way, weakened the Soviet Union militarily or economically. I do not think they have weakened us militarily or economically. I think they have been a gnawing irritant on the Soviet side. They have made them feel that there is a residual effort on our part to treat them differently and ostracize them, when we treat them the same way in other areas.

Senator LAUSCHE. Do I understand you to say, then, that from the standpoint of politics and economics, there will be no vital change, but we will remove this psychological scar, as you have described it, from the minds of the Soviets?

Mr. FRANK. I will go a little further than that, Senator Lausche. If we did what I have proposed here, I think there would be some increase of trade on both sides. This would be one advantage.

Second, I think our firms would not feel discriminated against vis-a-vis other competing firms in Western Europe when no security or other national purpose is conceivably served thereby.

Third, I believe the establishment of more normal relations with the Soviet Union might serve as the prelude to talks in other fields. One cannot tell about that. I am not suggesting anything irrevocable. I am suggesting that the President ought to be free to follow a trial-and-error policy with respect to this, take a more liberal attitude toward export controls, which I agree with you, are not a matter of law. The restrictions on the President are a matter of administration. He is not told what to let out and what not to; he has a broad area of discretion there.

But one ought to see what response these things produce. This is the kind of relationship we are in with the Soviet Union. I think we should exploit it. We are big and we are strong. We should be able to afford to do it without in any way jeopardizing our security.

ADMINISTRATION OF EXPORT CONTROLS SEEN UNNECESSARILY RESTRICTIVE

There is one factor that I think is implied in what Professor Berman said. I think built into the system of our administration of export controls is a restrictive bias. I have sat at meetings at the State Department where these things were discussed, and often different agencies sit around a table. I do think that when in doubt, and doubt often is not as to whether it is in the national interest or not, but often the theory is when in doubt, if somebody is apt to get up and raise a hue and cry and criticize you, play it safe. As Professor Berman has said, and he is dead right on this, typically, people down the line who, by and large, review these things in the first instance—this is their sole job—tend to play it safe. And "play it safe" does not mean in terms of the national security at all.

I think there is a need for streamlining the whole decisionmaking process in this field, a pinpointing of responsibility when decisions are taken, and avoidance of this tremendous slow, creaking superstructure of committees in which the responsibility for how a decision is made in export controls gets more or less buried. I would like to see the political officers take the leadership on this in the executive, and when they say, as many of them have, that they are in favor of a more flexible trade policy with respect to the Soviet Union, I would like to see them exert more energy to see that that policy is carried out, because in many instances they have the authority to do it. In that respect, I agree with you that it is not a matter of legislation.

Senator LAUSCHE. Just a few questions on your background: You were in the State Department for how long?

Mr. FRANK. Eighteen years, sir.

Senator LAUSCHE. And you are now connected with Johns Hopkins?

Mr. FRANK. Yes, sir.

Senator LAUSCHE. In what capacity?

Mr. FRANK. I am a professor of international economics.

PROPOSAL TO CONTROL COMMODITY PRICES

Senator LAUSCHE. One question about the commodity problem: In these conferences that you attended, has it been advocated by the Communist countries that, in keeping away fluctuation of prices of coffee and cocoa, and other commodities, that there be established an international fund created through an increased price of the commodity in all countries?

Mr. FRANK. I am not aware that the Soviet bloc has taken any initiative on that, sir.

Senator LAUSCHE. Did any of the countries advocate that?

Mr. FRANK. The French advocated something very close to that, Senator Lausche.

Senator LAUSCHE. Was Yugoslavia a participant?

Mr. FRANK. Yes, it was.

Senator LAUSCHE. Did it advocate that?

Mr. FRANK. I cannot at the moment say what the Yugoslavian position was, but I would suspect from what its position was in general, that it would have supported such a position.

Senator LAUSCHE. The proposal was that there be created an international financial pool, made possible through increased prices being charged to consumers, and that money then be used as a subsidy to prevent the collapse of the economy of the commodity-producing countries?

Mr. FRANK. It was a French proposal that was put in officially at the United Nations conference.

Senator LAUSCHE. That is all I have.

WHEAT SALES TO CONTINUE?

The CHAIRMAN. Dr. Frank, I think nearly everything I had in mind has been answered. You did say one thing; on the first page, that the wheat sales were "generally considered a one-shot affair."

According to one of our witnesses, I think Mr. Hardy said the day before yesterday, he does not consider the sale of wheat a "one-shot affair." I think he considers it a long-range program, not that we will be continually participating, but he thinks the Canadians and the Australians have every expectation of Soviet purchases going on for a number of years. Do you have any reason to think that was just solely because of a bad crop that year, or that it might continue to be a demand?

Mr. FRANK. I find that very interesting, Senator Fulbright, because I was in Toronto just about 10 days ago and the Canadians, in talking about how well they have been doing in terms of their balance of payments recently, said this was a kind of special circumstance, that they are doing well because of the Soviet wheat deals recently. Somehow, the impression I gathered was that they were not counting on an indefinite continuation of these deals in the future.

The CHAIRMAN. Mr. Hardy represented a wheat market development association in Kansas, with a very large membership. I think he said that while we are restricting acreage, they are increasing acreage in Canada, in the expectation of continued sales. I do not know that that is particularly significant.

U.S.S.R. SENSITIVE TO INTERNATIONAL PUBLIC OPINION

On page 4, you say that the U.S.S.R. is sensitive to international public opinion, particularly as to charges of dumping. Do you feel very firm on that? It is the general impression that the Soviets are not too sensitive to international opinion.

Mr. FRANK. They are certainly quite insensitive to international opinion in many political and military spheres, Senator Fulbright. But it is my impression that the Soviet Union wants to appear as much as possible as a normal trader. They are meticulous in their payment of bills. They are often willing to see differences adjudicated in a fairly impartial way between traders. I am told by people in the State Department, who are much closer to these particular instances, that they were terribly embarrassed by charges of dumping and wanted to rectify the impression that was then created.

The CHAIRMAN. So this is particularly true in this period of economic activity?

Mr. FRANK. It seems so.

The CHAIRMAN. Do you know of any interest the Soviets have shown in joining GATT?

Mr. FRANK. No, sir. I think their efforts have been directed rather to replacing GATT with a new United Nations international trade organization. I have not been aware of any effort on their part to join GATT.

The CHAIRMAN. I believe that is all.

Thank you very much, Dr. Frank. That is a very interesting statement.

Mr. FRANK. Thank you.

(The information requested by Senator Lausche on p. 136 follows:)

MEMORANDUM DEALING WITH PRESIDENTIAL WAIVER OF PROVISIONS OF CERTAIN LAWS RELATING TO EAST-WEST TRADE

1. JOHNSON DEBT DEFAULT ACT (PUBLIC LAW 80–772 (64 STAT. 744), JUNE 25, 1948, 18 U.S.C. 955)

This act prohibits the purchase or sale of bonds, securities, or other obligations of any foreign government not a member of the World Bank and the International Monetary Fund, issued after April 13, 1934, or the making of any loan to such foreign government, while it is in default in the payment of its obligations to the United States. A violation of the act is punishable by a fine of not more than $10,000 or imprisonment for not more than 5 years, or both.

The provisions of the Johnson Act cannot be waived by the President.

2. MUTUAL DEFENSE ASSISTANCE CONTROL ACT OF 1951, AS AMENDED (PUBLIC LAW 82–213, 65 STAT. 644, APPROVED OCT. 26, 1951—BATTLE ACT)

The Battle Act prohibits the furnishing of assistance to any country which knowingly permits the shipment of certain strategic materials to "any nation or combination of nations threatening the security of the United States, including the Union of Soviet Socialist Republics and all countries under its domination." It contains a waiver provision which states that the President may direct the continuance of assistance to a country which permits shipments of items other than arms, ammunition, implements of war, and atomic energy materials "when unusual circumstances indicate that the cessation of aid would clearly be detrimental to the security of the United States." The President is required to report immediately any determination made pursuant to this provision giving the reasons therefor to the appropriate committees of the Congress.

3. EXPORT CONTROL ACT OF 1949, AS AMENDED (PUBLIC LAW 81–11, AS EXTENDED AND AMENDED BY PUBLIC LAW 87–515)

Under the provisions of this act the President may prohibit or curtail the exportation from the United States, its territories, and possessions, of any articles, materials, or supplies, including technical data, "except under such rules and regulations as he shall prescribe." The act further states that such rules and regulations shall provide for the denial of any request or application for authority to export the articles, materials, or supplies to any nation or combination of nations threatening the national security of the United States "if the President shall determine that such export makes a significant contribution to the military or economic potential of such nation or nations which would prove detrimental to the national security and welfare of the United States."

The Export Control Act does not contain a Presidential waiver provision, as such. It should be noted, however, that the President has discretion to deny export licenses under such rules and regulations as he shall prescribe, if he determines it is detrimental to the national security and welfare of the United States.

4. EXPORT-IMPORT BANK ACT OF 1945, AS AMENDED (12 U.S.C. 635)

According to the provisions of the act, the objects and purposes of the Bank are to aid in financing and to facilitate exports and imports and the exchange of commodities between the United States and foreign countries. In the furtherance of its objects and purposes, the Bank is authorized and empowered to guarantee, insure, coinsure, and reinsure U.S. exporters and foreign exporters doing business in the United States against political and credit risks of loss arising in connection with U.S. exports.

There is no Presidential waiver provision in the Export-Import Act. However, title III of the Foreign Aid and Related Agencies Appropriation Act of 1964 (Public Law 88–258, 77 Stat. 862–863, approved Jan. 6, 1964), provides in part as follows:

"None of the funds made available because of the provisions of this title shall be used by the Export-Import Bank to either guarantee the payment of any obligation hereafter incurred by any Communist country (as defined in sec. 620(f) of the Foreign Assistance Act of 1961, as amended) or any agency or national thereof, or in any other way to participate in the extension of credit to any such country, agency, or national, except when the President determines that such guarantees would be in the national interest and reports each such determination to the House of Representatives and the Senate, within 30 days after such determination."

The President has made such findings in the case of Export-Import Bank credit guarantees on sales of agricultural products to the Soviet bloc and for sale of both industrial and agricultural products to Yugoslavia and Rumania.

The CHAIRMAN. Our next witness is Dr. George F. Kennan, Institute for Advanced Studies, Princeton University, and former Ambassador.

I am sorry, Dr. Kennan, that we have kept you longer than I had expected, but the committee seems to have been more than usually interested in previous witnesses. We are pleased to have you, and we appreciate your taking the time to come down here and enlighten the committee.

STATEMENT OF DR. GEORGE F. KENNAN, INSTITUTE FOR ADVANCED STUDIES, PRINCETON UNIVERSITY, PRINCETON, N.J.

Mr. KENNAN. Senator, the committee will have available to it the full text of my brief report here. If I may, in the interest of saving time, I shall just try to summarize extemporaneously the points I have made in it.

The CHAIRMAN. We shall insert the full statement in the record.

Mr. KENNAN. I should like, first of all, to associate myself strongly, and I think 100 percent, with the first two portions of the statement

that Professor Frank has just made. I was not acquainted with it before, but it meets my own views entirely, and the only reason I do not say the same thing about the third portion is that I do not know enough about it to convey the implication that I am qualified to pass on it. He has said many of the things I should like to say.

Now, when I think of this subject, I think of it really in two categories. First, insofar as it concerns normal trade, by which I mean trade where value is given for value according to the going prices, either in exports or in imports. Beyond that, there is a whole second area when you are talking about favors of one sort or another, long-term credits, aid, things of that sort. This seems to me to present quite a different problem.

BENEFITS OF NORMAL EAST-WEST TRADE

Restricting myself to the first of these categories, to the category of normal trade, I could summarize my views as follows: First of all, in my opinion, Communist countries are not going to pay for normal trade with us by any specific political concessions. I do not think they would consider it for a moment. However, I think that for us to show ourselves willing to permit them to trade normally with us—in other words, to put no special barriers in the way of that—is useful. I think it leads to a better political atmosphere. I think it makes them more conscious of their stake in good relations with this country. I think it encourages independence of policy on the part of various Communist countries and in this way encourages a liberalization of relationships within the bloc, which can only be to our advantage. In other words, I think policies of these countries, if they feel in a position to trade normally with us, will be asked to be somewhat more moderate and more responsible, marked by a greater interest in the maintenance of acceptable political relations with us, than would otherwise be the case, and I would like to see this.

I think the denial of normal facilities for trade with us, especially in cases where we extend them to other countries, does have a definitely adverse effect on the behavior of Communist countries. I think it does appear to them to be both offensive and discouraging from the standpoint of their political relations with us.

In the case of the smaller Communist countries, it causes them to attach a higher value to the cultivation of their relations with the Soviet Union than would otherwise be the case. In this way, it encourages bloc unity, it encourages Moscow authority over the other Communist countries, it prevents us from taking full advantage of the tendencies toward polycentrism, toward independence on the part of these countries which has become apparent for other reasons in recent years.

EXECUTIVE POWER FOR ECONOMIC REPRISALS IN CERTAIN CASES

In saying these things, I would not like to rule out the possibility that measures of economic discrimination against Communist countries may be in order from time to time as reactions to specific instances of Soviet or Communist behavior toward us. I have cited here the example. I should think that a temporary denial of most-favored-

nations treatment, for example, might well be a suitable answer to a situation in which a Communist government encourages absolutely unacceptable types of demonstration against our people, our official properties abroad. If a Communist country is not prepared to abide by the rules of the game and treat us with reasonable courtesy and politeness and correctness in relations, I would think that one would want to give serious consideration then to measures of economic reprisal. But if this is going to do any good, we have to retain our flexibility of action. That, as I see it, means that the executive branch of the Government, the Chief Executive, must have it within his power to extend normal commercial treatment or to withdraw it, according to the circumstances of the moment. If he is either forced to extend it as a matter of principle, or if he is prevented from extending it as a matter of principle, it loses its force as an instrument of international policy. If the respective Communist country knows that the President cannot deny it to them, they are not going to pay any attention to the entire subject. And if, on the other hand, they know that he cannot extend it to them, they are also going to be uninfluenced by any desiderata he may have expressed.

The CHAIRMAN. In a word, you are saying it should not be by legislation.

Mr. KENNAN. I am saying that, sir. I should also like, at this point, to associate myself with what Professor Frank said about the loopholes that are left in some of the existing legislation for discretion by the President. I still think that it is not the best solution to have the legislative branch of the Government on record as opposing a given policy and then permitting it to be done only when the President overrides this. This seems to me an unsuitable way of doing it. I am afraid that it is bound naturally to affect the actions taken by the executive branch in a manner that may not be entirely compatible with the public interest as the President sees it.

POSITION ON LONG-TERM LOANS AND CREDITS

Now, when you come to things that go beyond the category of normal trade, favors of one sort or another, aid programs, long-term credits extended to Communist countries, I, too, am against them as a general proposition. I am sure that there can be and probably will be from time to time exceptions which we ought to note and to respect. But, in general, I think we will be ill advised to go beyond the facilities of normal trade in our economic relations with countries of the Communist world.

Senator SYMINGTON. Excuse me, Mr. Kennan. How would you define, in a period of years, a long-term loan as against a short-term loan?

Mr. KENNAN. Senator Symington, I would define it as something going well beyond the normal limits of commercial credit. That would be one thing. The second would be putting large amounts of money in the hands of the governments of these countries to do anything they please with it. I think this is quite a different thing from Export-Import Bank loans, for example, for construction of industrial facilities, where we have reasonable knowledge of what they are going to do with the money and a certain sort of security.

Senator SYMINGTON. If I may be specific, the West Germans extend the Russians 5 to 7 years' credit, saying that is short term. They

are opposing, however, other members of the NATO alliance extending the Soviet 15-year credit, because they say that is long term. What is your definition of short or long term?

Mr. KENNAN. My answer to that is 5 to 7 years is, in my opinion, a long-term loan. I think, in general, these credits ought to be given for export shipments, and they ought roughly to be tailored to the nature of the shipment and the time that people could reasonably be expected to pay for it.

Senator SYMINGTON. Last year, we sold wheat to the Soviet Union, 25 percent down in gold, 25 percent in 6 months, 25 percent in 12 months, final payment in 18 months. There was a lot of objection, but the point was made that it was a normal business trade. Would you agree that that was normal business?

Mr. KENNAN. In the point of time allotted, these credits do not seem to me to be unusual or exorbitant. I do not think a year and a half is a long time. This does not go into the whole question as to whether we should be selling them wheat.

Senator SYMINGTON. That is right. Thank you.

Mr. KENNAN. I did want to add that in my opinion, the food-for-peace shipments, constitute a borderline case, even under my own concept of what ought to be done here. I think in general, if we are going to make available to other governments especially favorable terms on the purchase of wheat here in this country, then I see no reason in principle to deny it to the governments of the Communist orbit, leaving aside Communist China, but to deny it to the Soviet Union or the Eastern European Communist countries.

POSSIBLE DANGERS OF DEALING WITH THE SOVIET TRADE MONOPOLY

Now, there is one more brief point I should like to make. That is one which Professor Frank made, too. The Soviet Government does conduct its trade through a governmental monopoly. It does take into account political considerations in the manner in which it conducts this trade. This implies certain possible dangers for groups of businessmen, private businessmen, in another country who trade with the Soviet trade monopoly. If these businessmen become too much dependent on it, if it comes to monopolize a given section of the American market, either as a buyer or a seller, in such a manner that it could bring political pressures to bear through these people, this could be a dangerous and undesirable situation, and I think our Government should retain the power to offset such a situation if it arises and should be on the alert to see that it is not permitted to arise and to operate without some reaction on our part. I know of no such situation today which I would feel calls for such a reaction on our part. But I can remember a period during the economic crisis many years ago when I believe well over half, and I am not sure it was not something like 80 percent, of the export trade of the machine tool manufacturers of Saxony, in Germany, were oriented to the Soviet Union. This was already getting to be the sort of situation that I have in mind. I hope that we shall always shape our policies in such a way that we can react to and offset such a danger.

Thank you.

(The complete statement of Mr. Kennan follows:)

STATEMENT OF DR. GEORGE F. KENNAN

It is my understanding that the question to which these hearings of the Senate Foreign Relations Committee are addressed is that of the political value to the West of trade with the Communist countries of Eastern Europe.

In a lecture delivered in New York in the autumn of 1963 and published in 1964 as the second chapter (entitled "East-West Trade") of the volume "On Dealing With the Communist World" (New York, Harper and Row, 1964), I dealt with the problems of East-West trade in a wider context. For a more detailed statement of my views on this general subject I beg to refer the members of the committee to this document, photostatic copies of which are attached.

On the particular question to which these hearings are addressed, I might summarize my views as follows:

This problem falls into two categories of questions, which should be carefully distinguished: (a) those relating to normal trade, in which value is given for value by the Communist trading partner, on the same terms as those available to traders of any other country, and in which no special or one-sided governmental support, such as governmentally supplied or governmentally guaranteed credits, or aid, is extended; and (b) those relating to arrangements where one-sided favors of one sort or another on the Western side do come into the picture.

In the first case, we simply say to the Communist country in question: Our market is open to you, for both sales and purchases, on the same terms as to anybody else. Except where it is a case of strategic goods whose export is subject to special restrictions, you are welcome to buy in our market, on the going commercial terms, if you want to put up the money for this purpose. Similarly, you are welcome to sell in our market, like anyone else, subject, of course, to the usual customs duties and any other general governmentally established restrictions on imports.

In the second case, we would go beyond this and extend special facilities to encourage or expand trade, in the form of long-term credits provided by our governmental institutions or guaranteed by them, special facilities for sales to this country, purchases by our Government at rates more favorable than the commercial ones, aid programs of one sort or another, etc.

With regard to the first of these categories, which I would describe as "normal trade," my views are as follows:

1. Communist countries must not be expected to pay, with any special and specific political concessions, for the extension to them of the privilege of conducting normal trade with Western countries. They do not regard the extension of such facilities, under which they receive no more than value obtained for value given, as a favor on the part of the Western country; and they would find it both humiliating and unacceptable to be asked to undertake to pay for such treatment with any specific political concessions.

2. To the extent, however, that the trade of Communist countries becomes appreciably oriented to the West, this does have a moderating and beneficial influence on their policies. It causes them to be conscious of having a stake in good relations with their Western trading partners. It gives them grounds to avoid any independent anti-Western policies that could lead to the disruption of trade, and to oppose any general bloc policies that could have this effect. In other words, the political policies of Communist countries linked to the West by substantial bonds of foreign trade are apt to be more moderate, more responsible, and marked by a greater interest in the maintenance of acceptable political relations with Western countries, than would otherwise be the case; and the influence which the respective government exerts on other Communist regimes will be shaped accordingly.

3. While the extension to Communist countries of normal trading facilities can thus have a generally favorable effect on their political polices, the regular denial of such facilities, in a discriminatory manner, can scarcely fail to have a definitely adverse political effect. Such denial will be viewed by them as the mark of a deliberate and calculated desire to be politically offensive. It will cause them to feel that they have little to hope for or to work toward in their relations with the Western country in question. I will oblige them to look primarily, if not exclusively, to other Communist countries, particularly the larger ones, as their exclusive commercial partners; and they will see themselves obliged to make serious sacrifices in order to preserve close political relations with those countries. Thus an adversely discriminatory commercial policy with relation to Communist countries serves primarily to encourage bloc

unity, and to discourage tendencies toward independence and diversification of policy on the part of the various Communist governments. The denial of most-favored-nation treatment is a good example (and indeed, in American practice, the most common example) of such an adversely discriminatory policy; and it should, in my opinion, not normally be practiced.

4. What has been said above should not be taken to exclude the possibility of occasional measures of economic discrimination, including even the denial of most-favored-nation treatment, as reprisals for specific hostile actions on the part of a given Communist country in its relations with the United States or other Western countries. I could think it not impossible, for example, that the temporary denial of most-favored-nation treatment might well constitute a suitable reaction to a signal failure by a Communist government to protect American official premises and personnel on its territory from hostile demonstrations. But then, this denial should always be related to specific actions on the part of the Communist country in question. It should not be practiced simply for the reason that a regime calls itself Communist. And it should last only so long as no satisfactory assurance of better treatment for American interests can be obtained. With this possibility in view, it is important that the power to extend or to deny most-favored-nation treatment, as circumstances may require, should lie in the hands of the executive branch of the Government; for only if the Chief Executive has the power to dispose flexibly over this facility can he make any effective use of it. Communist governments will not be apt to pay any attention to the words and desiderata of the executive branch of the Government if they know that its hands are effectively tied, one way or another, by legislation; and in this respect a rigorous legislative inhibition on the extension of normal commercial treatment can be as pernicious in its effects as a similar requirement that such treatment be extended under any and all circumstances.

Insofar as the second of the two categories mentioned above is concerned; namely, that which involves the extension of special favors or aid of one sort or another to Communist countries, I may say without hesitation that I see no reason for anything of this sort as a general practice, and feel that it would be best avoided, at least in U.S. policy. For us, any such extension of special favors to a government (and in the case of trade with Communist countries, we have to do, of course, only with governments) which bases itself on an ideology antagonistic to our own trends to be confusing both ways: for our own public, in whose eyes it is apt to appear as the expression of some ideological sympathy for communism or naivete with regard to it on the part of our own statesmen; and for the leaders of the Communist country in question, who will find it hard to explain to themselves why a capitalist government should go out of its way to do them favors unless it has some deep and sinister ulterior motive for doing so.

It may well happen, of course, that Western country which has special need for promotion of its export trade, will find it advantageous to give governmental guarantees for credits extended by its own exporters to a Communist government making purchases in the respective country, to compensate for the somewhat higher cost of commercial credit when the buyer is a Communist government trade monopoly. The Germans and others did this in the case of Soviet purchases, in the late 1920's and early 1930's, and with considerable monetary success. In the case of our own country, I consider that such a practice would probably be confusing and controversial in domestic opinion; and I doubt that there is any great need for it in the present circumstances.

In summary, it is my view that the best course to follow, as a general and permanent policy of Western countries in matters of commercial exchanges with Communist countries, is to extend facilities for normal commercial exchanges, but not to make special dispositions which would tend to distort, either to the favor or the disfavor of the Communist country, the ordinary terms of the market. In other words, normal trade, but no long-term credits or aid programs.

I should add that shipments of grain and other commodities under the food-for-peace program constitute a borderline case, under this concept. My feeling here is that where especially advantageous terms are offered for the purchase of such commodities to foreign governments and importers generally, then the same terms should be extended to Communist governments with which we do not have special political problems. This would normally be the

case, for example, with Yugoslavia. Here again, there is no particular reason to make exceptions, either to the favor or the disfavor of Communist governments.

I should also add that since we have to do, in the case of the Communist countries, with governmental trading monopolies which often have very considerable trading capabilities and the operations of which can reflect the political interests of the respective government, care should be taken to see that their operations in Western markets, either as buyers or sellers, do not take on such dimensions as to make individual categories of Western producers or consumers heavily dependent on Communist markets or Communist sources of supply, and thus vulnerable to political pressure. Instances of this sort have rarely arisen. Where they do arise, special measures of protection on the Western side might well be in order.

EAST-WEST TRADE

In the first of these occasions I gave my reasons for believing that the West has no choice but to accept the quest for peaceful coexistence as the basis for policy toward the countries of the Communist world. Today, I would like to talk about one aspect of coexistence; namely, that of commercial exchanges between Communist and non-Communist countries, which is always with us and which poses some of the most difficult and baffling problems for Western statesmanship.

The problem of what is called East-West trade is scarcely a new one. For 46 years our statesmen, and those of other Western countries, have been facing it in one form or another. So long and deep is the experience with it that one is taken aback, sometimes, to see to what extent it is treated in our own public debates as a new problem, and to what extent the lessons and precedents of the past are ignored.

Admittedly, these lessons are of limited value. Insofar as they derive from the prewar period, they relate, of course, only to the Soviet Union—and only to a Soviet Union in isolation, at that. Today, we have a wide spectrum of Communist countries to face, and in almost every case the problem presents certain specific features. There have, too, been important subjective changes on our side which have to be taken into account. But there are certain elements of this early experinece of trade with an isolated Soviet Union which ought perhaps to be borne in mind in any discussion of the wider problem of today; and it will be well to mention them at the start.

First, there is the fact that in the period following the consolidation of Communist power in Russia most Western governments, after looking at the problem long and hard, and under the buffeting of much public debate, settled for policies which drew a distinction between normal trade, where value was received for value on the one hand, and one-sided favors, such as long-term credits, grants, aid, etc., on the other; and they showed a dispositon, in general, to permit normal trade but to withhold the favors. This was the policy of the U.S. Government, as of others, in the period before World War II; and the basic reasons for it are fairly clear. To extend favors to an ideologically hostile country could scarcely be defended, on political grounds; and, except for the insistent Soviet effort to obtain long-term credits, there was little demand or incentive for anything of this nature. Foreign aid, prior to World War II, was not yet a concept. On the other hand, it was also not feasible, as a rule, to forbid one's own businessmen to take advantage of favorable trading opportunities that came their way, especially where the other side was prepared to give value for value. In addition, there was at no time sufficient solidarity or self-discipline among Western nations to make possible a unified policy in restraint of such trade. If one's own businessmen did not take the trade, somebody else's businessmen did. The result was that normal trade with the U.S.S.R. became a standard feature of the international economic relations of practically every Western country. The statesmen of the 1920's and 1930's would have been amazed to find that the simple principle involved in this practice was being so widely questioned today.

Second, trade with Russia never became a very important factor in the economic life of the West. It found its limits in the dimensions of the Soviet capacity of pay. In the absence of any sort of convertibility, this capacity was largely identical with the portion of Soviet production which the Soviet Government was able or disposed to make available for export, plus the available

gold production of the Soviet Union; and these items were never very great. In the years from 1921 through 1938, Soviet foreign trade averaged only 1.5 percent of world trade—a small percentage for a country that occupied one-sixth of the world's surface.

The economic significance of what was then called trade with Russia was greater in the case of certain other Western countries, notably Germany and England, than in the case of the United States. The turnover of American trade with Soviet Russia ran only in the order of something like $100 million per annum. The Germans, on the other hand, had at times an important volume of machine tool exports to the Soviet Union, particularly important against the background of the economic crisis of the 1930's; and British imports from Russia, particularly of timber, were of more than minor dimensions. In general, however, the volume of trade with Soviet Russia was not such as to justify the predictions either of the optimists, who saw it assuming dimensions which would constitute a major boon to Western exporters, or of the pessimists, who had visions of the Western markets being swamped and distorted by vast onslaughts of Soviet dumping.

Third, the technical dangers of permitting private firms in a capitalist country to deal with the foreign trade monopoly of an ideologically hostile government proved not to be very great—certainly not great enough to justify the lively fears entertained in Western circles when the Soviet Government first appeared as a trading partner on the world scene. It was clear that such dangers did exist, and had to be guarded against. But Western firms turned out to be pretty well capable of looking after themselves; and where this seemed to be required, as in the case of the German machinery manufacturers or the British timber importers, they found ways of mutual collaboration to guard against their being unduly played off against each other by a stronger trading partner.

These, in the main, were the lessons of the earlier experience of trade with the Soviet Union. They are cited here because all are germane, in some degree, to the problems of the present.

In the recent period, the problems posed for Western statesmanship in this area have been extremely complex, because they are widely differentiated both geographically and functionally. There are a number of different countries or groupings of countries, each of which presents a specific problem from the standpoint of U.S. policy; and yet there are also certain considerations affecting entire categories of commodities, such as wheat and oil, which have to be taken into account in dealings with the Soviet bloc as a whole. And, in addition to this, the problem is different, in many instances, for our allies in the West and East than it is for us; and this raises for us the question of not just what our policy should be at any given point, but of what attitude we should take toward the policies of our allies and friends.

Some of these complexities will become evident if one glances at the various geographic entities involved and notes the special situations with which they confront us.

Let us begin with the Soviet Union itself. Here, we have a long tradition of trade; but, as we have just noted, it has always been trade of modest dimensions. Neither for the West nor for the Soviet Government has it ever had more than a minor economic significance. Since the recent war it has been even further inhibited by the heightened sensitivity of U.S. opinion to the idea of shipping to the Soviet Union anything that could conceivably contribute to the growth of Soviet military strength. This has resulted in an elaborate system of American and NATO export controls, reinforced by the provisions of the Battle Act. These measures may have had some effect in slowing down the rate of advance in Soviet military strength. It is doubtful that they could have done much more. There is little, other than the most highly classified sorts of weaponry, and particularly little when it comes to such things as machine tools and other semi-military goods, which the Soviet Government cannot acquire either from or through neutral countries or by mastering the necessary techniques and developing the respective production itself, if it sets its mind to it. The significance of these export controls, accordingly, has probably lain more in the subjective satisfaction they have afforded to American opinion than in such objective effect as they may have had. But the states of mind behind them have tended, and still tend, to inhibit any extensive development of United States-Soviet trade; and these states of mind have to be taken into account as an important environmental factor.

Recently, a complication has come into this situation in the form of the sudden readiness of the Soviet Government to buy wheat abroad. They, of course, have a great shortage of it—and the United States a great surplus. Both shortage and

surplus are the effect of irrational agricultural policies pursued by the two Governments for ideological reasons. Neither Government is really inclined to depart from these policies merely in order to avoid the shortage or the surplus, as the case might be. In these circumstances, the basis for a deal, or a series of deals, would seem, on the face of it, to be very much present. The United States, by selling its wheat, would make it possible for the Russians to go on giving their farmers inadequate incentive for the production of grain; they, by purchasing it, would make it possible for the United States to go on giving its own farmers too much.

The American statesmen of earlier decades would have been amazed to learn that there could be any hesitation about so obviously advantageous a proposition. In those earlier days, the complaint used to be that the Russians bought only prototypes for industrial equipment, and refused to buy consumer goods; this was cited as evidence that the trade had no proper stability. Now, the Russians have come into the market for consumer goods, and yet numerous echelons of the U.S. Government have had to be occupied for weeks with the decision whether to permit even one such deal to take place. In this, one has an example of the extent to which in the United States the whole question of trade with the Soviet Union has recently become a focal point for political and emotional hesitations.

Turning to the Eastern European satellites, one has a still different set of problems. There is, above all, the general question of whether one wishes to make it easier for these countries to achieve a measure of independence and flexibility in their foreign economic relations, looking not only eastward but also westward for their opportunities; or whether it should be the Western objective to deny them, wherever we can, access to Western markets, both as buyers and sellers, in the hope that this will hamper their economic progress, and embarrass their governments. This last policy, naturally, tends to deprive them of any hope that the West could be of help to them in working out their economic future, and to convey to them that however disasteful the prospect may be (and in some instances it seems very distasteful indeed) they have no choice but to stick closely to the Soviet Union and to look predominantly in that direction for their future economic connections. Both views appear to be represented in Washington; but the second one seems generally to have prevailed when it came to congressional determination of one sort or another. This is, of course, a profoundly political question, and one which cuts to the heart of the problem of coexistence, with particular relation to polycentrism. But it is a question to which policymakers are simply obliged to find answers, because until one answers it, one cannot know whether one should apply to the satellites the same policy concepts one applies to the Soviet Union, or different ones.

A still further problem is presented by Yugoslavia. Here is a country which is not a member of the Soviet bloc and where most of the specific objections raised in the West to the attitudes and conduct of the bloc countries do not apply. Yet there is strong sentiment in the U.S. Congress for denying to Yugoslavia normal commercial treatment and for doing everything possible, by means of tariff barriers and moral suasion on our own business community, to exclude Yugoslav goods from access to our market. Here, again, the basic question is actually the same one that presents itself in the case of the satellites: Whether, namely, one wishes to encourage Communist countries to find independent answers to their economic problems or whether one wishes them to look exclusively to Moscow for these answers. Because the satellites watch the Yugoslav experience very closely, and if one is to penalize normal Yugoslav trade with the West, merely on the grounds that the Yugoslavs continue to call themselves Communists, the satellites can only conclude from this example that even if they were to go a great deal further than any of them have gone or could afford to go in detaching themselves from Moscow's political orbit, this would still not be enough to win them even normal commercial treatment at Western hands.

To all these problems, both with Russia and with the Communist countries of Eastern Europe, a new depth of complexity is added by the fact that the trade of Western Europe with this area is much more important than U.S. trade. We do about $200 million worth of trade with the entire Soviet bloc per annum. Western Europe does something like $5 billion, or 25 times as much. Obviously, restrictive policies on our part are not going to be very effective unless they are also the policies of Western European countries, and unless they are seriously and enthusiastically enforced. This is most unlikely to be the case. Certain important entities; namely, Sweden, Switzerland, and Yugoslavia, are, of course, not embraced at all, even formally, in any system of NATO trade controls. But even

those Western European countries that are so embraced often have somewhat different feelings about the whole procedure than we do. And commercial discipline throughout this area is not much more adequate today than it was in the 1920's and 1930's for the enforcement of trade restrictions which conflict strongly with the interests of tens of thousands of private traders. These disparities are already sharply reflected in the incongruity of the figures on U.S. trade with the bloc and that of Western Europe.

Despite this relatively high level of Western European exchanges with the bloc, a shadow falls today over the future of this trade, in the form of the potential internal protectionism of the countries of the European Common Market. These countries are willing enough, as a rule, to export to Eastern Europe; but to what extent they will continue to show themselves receptive to imports from that area, and particularly to imports of agricultural products, is another question. Anxieties on this score exist in several of the Eastern European countries, especially in Yugoslavia and Poland, both of which have an important stake in exports of agricultural commodities to Germany and other Common Market countries. These anxieties are perhaps somewhat exaggerated. But they are probably inevitable, particularly in the light of the fact that it seems to have been impossible for the governments of these countries, to date, to find anyone who would, or could, undertake to discuss responsibly, on behalf of the Common Market, the problems of their future trade with the countries of that area. They are left, in this way, to bat in the dark; and whoever bats in the dark normally has exaggerated fears.

Such anxieties are, of course, not peculiar to the countries of Eastern Europe. They are shared by a considerable number of governments across the globe, not to mention the European neutrals. But there is perhaps a special sensitivity in Eastern Europe by virtue of the political overtones that surround every question of this sort. This has been heightened by the fact that whereas a good deal of public discussion has been devoted in Western Europe to the question of relations between the Common Market and the European neutrals, the similar problem, as it affects the Eastern European countries, has received very little attention, particularly in Germany. In any case, the gravity of this problem for the Eastern European governments, as they face the difficult questions of orientation between East and West, is not appreciably mitigated by the fact that they have company in other parts of the world.

Here again, opinion as to what constitutes the American interest will be divided according to political outlooks. Those who wish to see the satellite countries, and Yugoslavia, deprived of possibilities other than those of a close and exclusive association with the Soviet Union and with each other, will no doubt welcome a Western European protectionism which tends to exclude Eastern European products from the Western markets; and they will continue to regard our own denial of normal tariff treatment to the Eastern European countries as a useful example to the countries of the Common Market. Those, on the other hand, who see value in the achievement by the satellites of a more flexible and independent position, which would permit them to develop trading relations with both East or West as their interests may suggest, will naturally look at it the other way.

So much for the background situation, insofar as the Soviet Union and the Communist countries of Eastern Europe are concerned. China and its satellite regimes in Asia constitute another problem again: one which resembles in many ways that presented by the Soviet regime in its infancy. But since the problems of trade with Russia and Eastern Europe today are probably closely akin to those of trade with China in the future, it may be permissible for purposes of this discussion to stick to the former.

As one attempts, against the background of what has been outlined above, to think out the problems of policy which East-West trade presents for the United States at this juncture, certain broad considerations present themselves.

First, it must be recognized that the overriding values here involved are political rather than economic. Particularly is this true when it comes to United States trade with Russia and the bloc; for here the economic dimensions are entirely of a secondary order. But it is also true when it comes to the question of Western European policies in this field. For while the economic aspects of Western Europe's trade with the East are not negligible, and deserve respect in themselves, its most important aspect is really the effect it will have on the future orientations and policies of the Eastern European countries, and

on their relations with one another and with the Soviet Union in particular. The problem of East-West trade is, in short, primarily a political problem, and should be approached as such.

Secondly, I think we should recognize that a policy designed primarily to throttle economic exchanges between the Soviet bloc and the West, as a means of impeding the military-industrial development of the Soviet Union, is simply not apt to be very successful, at least not in the sense of accomplishing anything more than to increase autarkic tendencies within the bloc as a whole and to slow down, to a minor and undecisive extent, the advance of the Soviet economy. It might be questioned whether even a total Western blockade of a region so vast and rich and possessing already so highly developed an industrial base as does the present Soviet bloc could really be effective in accomplishing more than this. In any case, to reduce East-West trade to a level which would have a major and decisive effect along these lines would require, at the least, something like a total Western blockade of the entire Communist orbit. But the effort to establish such a blockade would involve so severe a conflict with natural trading compulsions, and would place so heavy a burden on private as well as national economic interests, that the invitations to evasion would be ubiquitous, and the prospects for success would not be favorable even if the effort was one sponsored by the governments of all the major Western trading countries, and not just a portion of them.

In addition, it must be remembered that such an undertaking runs directly counter to the development of a healthy political and economic polycentrism within the bloc. Admittedly, there is as yet no adequate concensus, in the United States at least, as to whether such a polycentrism is what we wish to encourage. But it must be recognized that what is done in the field of trade policy is going to affect this situation one way or another, whether one wishes it to or not. And one should probably expect that the negative attitude toward this question—the view, that is, that polycentrism is not to be encouraged and that the West has most to gain by forcing the Communist countries in upon themselves economically—is one that is apt to encounter greater resistance in some European countries than it does in our own.

There is also a fundamental theoretical consideration on which a sharp division must be expected between important segments of American and European opinion. The distinction was mentioned above between normal trade, on the one hand, and such things as long-term credits on abnormally lenient terms or other forms of what is in reality "aid," on the other. Now the question exists as to whether normal trade with a Communist government should be regarded as a favor, extended by us to it, to be requited by concessions to us in the political field, or whether it should not. There are, of course, those who would say that where the law of supply and demand is permitted to operate normally, where value is only exchanged for value, no question of ulterior obligation is involved, and that there is no more reason why we should ask a Communist country to give us some sort of a political reward for permitting such trade to proceed than there is for them to expect the same thing of us. The British, I understand, now go even further, and hold that not even the extension of long-term credit should be regarded as a proper quid pro quo for political concessions. It is quite evident, on the other hand, that in the minds of a great many Americans, trade with a Communist country, even on normal commercial terms, represents an act of graciousness on our part for which we should demand political concessions in return. This view is based, as a rule, on the thesis that the scales of values which prevail on the world markets and which normally govern international commercial transactions do not accurately reflect the real extent to which political interests are served on both sides when trade takes place between a Communist country and a non-Communist one. This was the view, for example, of a special mission of the House of Representatives which visited Europe a year ago to study these problems.

We have here a difference as beween influential segments of American and European opinion, which, again, will not be easily overcome, particularly because the sacrifices implicit in the American view are ones which would fall much more heavily, economically, on the Europeans than they do on us. To demand politicial concessions as a quid pro quo for normal commercial transactions is, after all, only another way of renouncing trade altogether, for Communist countries will never yield to overt demands of this nature. And obviously, such a renunciation would come harder to some of the Europeans than it would to people in the United States.

But there is another sense in which the suggestion of a connection between

trade and politics has greater substance. If Communist governments cannot be expected to give political concessions for specific trading deals, they have shown a disposition, particularly the Russians, to place a high value on the readiness of others to talk and negotiate, at the governmental level, on governmental measures designed to promote trade. It is evident that they regard such a disposition as having an important symbolic value; and more than once, in the history of Communist diplomacy, trade talks have evidently been regarded, and have served, as an important preliminary approach to more far-reaching political dealings. Western governments will do well to bear in mind, therefore, that even if one cannot expect specific commercial deals to be requited with political concessions, there may be times when a readiness on their part to discuss in a constructive manner with Soviet or other Communist representatives the possibilities for a development of commercial relations in general will be appreciated and reciprocated on the other side as important evidence of a desire to improve relations across the board.

With these considerations in mind, it is perhaps now permissible to ask oneself what the outlines of a sensible American policy might be.

When it comes to the trade of the United States with the bloc, it seems to me that the first thing we could usefully do would be to relax and not to make such heavy sledding of it. In economic terms, this trade is still of minor importance. In the case of the Soviet Union, it amounted in 1961 to only 1 percent of the total Soviet trade, and something like two-tenths of a percent of ours. Communist countries are not going to be decisively benefitted if this trade increases somewhat; nor are they going to be importantly injured if we restrict it still further. The Soviet Government is not going to fall if we deny it wheat; and the heavens are not going to fall if we permit wheat to be shipped. The amount of agony of decision addressed to this subject in recent months has been out of proportion to what was actually involved.

Secondly, it may as well be recognized that the emotional overtones which this subject carries for much of American opinion, added to the unresolved differences among us over basic questions of political policy toward the bloc, make it idle for us to think that we can approach the problem of our own role in East-West trade on the basis of a cool and detached appraisal of national interest. One does not need to argue about just what the configurations of a policy so calculated would be. Whatever they would be, if they involved any appreciable liberalization of what we have been doing in recent years, they would at once become controversial, particularly in congressional opinion, to a degree that would militate greatly against their effectiveness. It is, in short, a matter in which we are simply incapable of acting at this time in any purely detached manner. For this, a calmer state of opinion would be necessary, and there would have to be a wider consensus on fundamental questions of policy. For the moment, therefore, anything in the way of a major relaxation of our export controls or extension of our commercial dealings with Russia and the bloc, has to be regarded as simply subjectively unfeasible. The Russians and the satellites will have to understand that if they have favorable chances at all for trade with the West, these chances do not lie in our direction—at least not until there is a marked and prolonged improvement in the political atmosphere.

On the other hand, it should, I think, be recognized that in view of the many variations in the way this problem presents itself to us—the differences, for example, between the considerations affecting trade with the Soviet Union and those affecting trade with the satellites, or between those prevailing in the case of Yugoslavia and those affecting trade with other Communist nations—it is not a problem which lends itself favorably to treatment by sweeping general determinations of policy, and particularly not in the form of legislative strictures. To deal in any way effectively with this problem, we need flexibility of approach—we need the ability to discriminate intelligently. Even a policy which is in essence one of denial or restriction of trade, should not be anchored in sweeping legislative injunctions which leave nobody—not even the legislative branch itself—in a position to make intelligent exceptions. It would be better to have a more restrictive and negative policy which rested on a firm understanding between congressional leaders and the Executive but left somebody free to use his head when it needed to be used, than to try to pursue more liberal policies against the background of a jealous congressional disposition to prescribe and limit their effects by legislative action.

When it comes to our attitude toward the trading policies of our associates in Western Europe, quite other considerations apply than do in the case of our

own trade. Here, again, the best answer would seem to be: relax—but relax in the other direction. If at home the need is for a reduction of tension and controversy by accepting the internal compulsions that make it difficult for us to trade with the bloc, in the case of our European associates it is a question of accepting those external compulsions which make it difficult for them not to trade.

This is not to be taken as a suggestion that our European friends should be told that so far as we are concerned anything goes, and that there are no measures of prudence we would consider to be in order. There will still be need, of course, for agreement with them over the definition of what constitutes strategic materials, unsuitable for release to a politically hostile government. There may well be, as in the case of Soviet oil shipments, instances in which it will be necessary for us to take a sympathetic attitude toward, or even associate ourselves with, measures of collective defense, designed to prevent Western markets from being dangerously affected by Soviet trading practices. But whether we should try to bring pressure on the Western Europeans in matters of normal trade with the Communist bloc is another matter. They are not apt to agree entirely, no matter how hard we press, with those outlooks in this country which place such heavy limitations on our own ability to shape policy in this field. Their problems are in many respects their own, not ours. And we, divided and vacillating as we are in our basic judgments as to how to face the problem of international communism, are not apt to be very helpful guides to others in the shaping of their economic policies in the field of East-West trade.

Continued pressure on our European allies for the restriction of their trade with the Soviet Union and the bloc are unlikely to be very effective in hampering Soviet economic development. But there are two other effects they are likely to have. The first, which may be predicted with some confidence on the basis of past experience, is to place further strain on our relations with our European partners and to give us one more thing to disagree and argue about. The second is to throw just enough uncertainty into the minds of the Western Europeans to prevent them from doing anything very effective on their own in the way of giving Eastern Europe the alternative it needs, and to some extent is seeking, to an exclusive economic association with the Soviet bloc. To the extent that the Western Europeans are willing to move in the direction of expanded East-West trade, it would not seem to be our business to attempt to stop them, whatever our own feelings. For the opposite concept, the one which sees Russia's economic advance being importantly impeded by something like a Western blockade, is not going to work anyway beyond a point; and in moving to prevent the first one from being tried, even by our allies, we will simply be assuring that there can be no effective Western policy at all in this field: no effective policy of the denial of trade, because objective conditions do not permit it; no effective policy of its extension, because our pressures will be just sufficient to make it a halfhearted and halfway measure.

These are my reasons for suggesting that, while exercising in regard to our own trade with the East whatever restraint is necessary to retain a reasonably adequate consensus of opinion behind our policy, we reduce the claims we place on the policies of our various allies and associates throughout the world, and leave them greater freedom to decide for themselves what they want to do. This will ease our relationship with them. It will permit us to satisfy our own pangs of conscience about trading with a political antagonist. The loss to be suffered, in terms of the pace of Russia's economic advance, will not be great, even in the eyes of those who see our purposes advanced only by Russia's economic setbacks. And meanwhile, we will at least permit to be conducted, to the extent of our Western European friends have the inclination to conduct it, an experiment in which many of us may not greatly believe but which it is unnecessary and perhaps dangerous for us to inhibit: whether; namely, the possibility of better trading opportunities with the West—for Russia, the possibility of a better international division of labor in the interests of her own economic advance; for the satellites, the prospects of a reinclusion into the community of Europe in at least one important respect—whether this possibility will not have a useful effect on the Communist bloc as a whole, and produce such changes as to cause the entire problem of East-West trade to assume, eventually, a different and less forbidding aspect.

LIKELIHOOD OF SOVIET AGREEMENT TO ETHICS CODE

The CHAIRMAN. With regard to that last question, Senator Javits has made a suggestion that we should draw up a code of ethics for trading with the Communist nations. What do you think of such a proposal? Is there any merit in that?

Mr. KENNAN. To the extent that we could get agreement for it, I should think it would be good to have an accepted basis of reciprocal behavior in these respects.

The CHAIRMAN. Do you think there is any likelihood that the Soviets would agree to protection of patents and copyrights?

Mr. KENNAN. Senator Fulbright, that is so complicated a matter that I hesitate to speak to it. I am not an expert on it. It is my impression that they have shown some interest in this line in recent years, but that we have been not able to get very far with it. I do think if there were general improvement in our political relations, we might find it easier to talk with them in some of these matters.

The CHAIRMAN. And whether or not they are developing goods from which they would benefit from copyrights and patent protection, it would be to their benefit, would it not?

Mr. KENNAN. Yes; it would.

The CHAIRMAN. If they are developing some sophisticated microscopes, which is one thing I heard about today, that would cause them to be more interested?

Mr. KENNAN. Quite.

The CHAIRMAN. You made one comment about the denial of most-favored-nation treatment. Could you give us the benefit of your opinion about the wisdom of that action?

EFFECT OF DENYING MOST-FAVORED-NATION TREATMENT TO YUGOSLAVIA

Mr. KENNAN. Well, it was a source of great chagrin and disappointment to me when measures were taken here in the legislative branch of the Government which would have had the effect of depriving the Yugoslavs of this treatment. It was a disappointment to me and worried me, because I could not explain this action to them. This was a punishment being inflicted on them which had not been inflicted on them in the days when they were part of Stalin's empire. Now, years later, they were fully independent in their policies, and while we did not always agree with them about policies toward third countries, I found them, I must say, correct in their bilateral dealings with us. They owed us money; they were making a faithful effort to pay it. To deprive them of this treatment, which had the effect of raising duties several hundred percent on a number of their items of exports to this country, merely made it more difficult for them to pay off this debt. It seemed to me a gratuitous action against them and one which I was unable to explain to them. I knew of nothing specific that they had done to warrant this treatment, and I felt it to be very unfortunate from the standpoint of our political relations, not just with Yugoslavia but with the countries of Eastern Europe generally, for whom this served as a sort of example. It conveyed, of course, to the other Eastern European countries, the idea that even if they were to go very far, even if they were to leave the Warsaw Pact and make their policies completely independent of those of Moscow, even if they were to

give up any association with subversive Communist efforts in our country, even if they were to do a number of the things that we were demanding of them or asking of them by implication that they do, they still could not be sure that we would give them normal commercial treatment.

The CHAIRMAN. It had a very adverse effect in Yugoslavia with regard to us, did it not?

Mr. KENNAN. It did, yes; and I doubt, really, that the shock of this has entirely passed to this day. I think that it had the effect of making the Yugoslavs simply that much less interested in relations with us. It had the effect of making them discount us to a certain extent and say, well, we can expect just so much from the Americans and no more.

It is true, as I understand it, that this measure has now been rescinded and that it is possible for this treatment to be given. Nevertheless, it was a jolt, and as far as I can see, a wholly unnecessary one, to the general tenor of our relations.

Please let me explain in this respect that it was not that we were in full agreement with the Yugoslavs. We had our difficulties with them, as we have with a great many other countries in this world. These difficulties were certainly complicated by the fact that these people had an ideology founded in Marxism-Leninism, and had ideas about the outside world which were in conflict with our own. But we had come a long way in this relationship. At the time this action was taken, I think our relations with them were really on a better basis than they had been at any time in the past, and this was a setback.

"REVISIONIST" POLICY OF YUGOSLAVIA

The CHAIRMAN. What is meant by the accusation leveled against Yugoslavia that they are "revisionists"? You said their ideology is founded on Marxism. How would you describe the evolution of that system in Yugoslavia?

Mr. KENNAN. "Revisionist" is one of these terms that are bandied about among Communist leaders and governments and has a sort of algebraic meaning, I suppose, rather than a precise one. What it means in this case is that the Yugoslavs have come away from Soviet practices in several very important respects. They have done away with the centralization and the control of industry and the management of industry. They have abandoned, to a certain extent, the foreign trade monopoly. They have licensed several hundred semi-independent economic entities to conduct foreign trade rather independently as a normal private firm would. They have, of course, no forced collectivization. Over 85 percent of the agricultural land in the country is farmed by private farmers. They have a very liberal system, a very liberal regime for contacts with foreigners, for the travel and activity of foreigners within Yugoslavia. It bears very little relation to that which exists for the Eastern European countries. In fact, it is more like what exists in the West.

Foreigners go in there every year, now by the millions, as tourists. They can get visas at the border. They travel entirely freely throughout that country. The atmosphere is almost universally friendly.

In fact, in all the years that I spent there, I must say I never had an unpleasant experience with people.

Now, this is a very different story than the one that you come up against if you go further east.

EFFECT OF YUGOSLAV POLICY ON EASTERN EUROPEAN COUNTRIES

The CHAIRMAN. In that connection, do you think the experience of Yugoslavia has had any effect upon the other Eastern European countries—the smaller ones in particular?

Mr. KENNAN. Yes, sir; I do. I think it has had a profound effect on Rumanians, on Hungarians, and on the Poles, because the Yugoslavs have, in general, done better since they severed their bond of obedience to Moscow than have these other countries. And the others have had to look across the border and to ask themselves some very painful questions; namely, If a country, which had defied the authority of Moscow, could get along better economically and could, at the end of a 15-year period, still command great respect in Moscow, what then, were the rewards of continued faithful obedience and imitation? Should they not do the same?

And I must say that I think the Yugoslav example has had a great deal to do with the loosening of the bonds of association and of Soviet authority throughout Eastern Europe; less on the Bulgarians and on the Czechoslovaks than the others, and very little on Eastern Germany. But on the other three, yes.

The CHAIRMAN. You think that accounts partially, at least, for the interest the Rumanians have shown in trade with the West?

Mr. KENNAN. I am quite confident that it does. Rumania and Yugoslavia are very similar countries in many ways, statistically; that is, in point of population, in point of the degree of industrialization, and things of that sort. I am sure that the Rumanians have been very sensitive to what was happening across the border.

MOST-FAVORED-NATION TREATMENT FOR BULGARIA OR CZECHOSLOVAKIA?

The CHAIRMAN. I noticed you excluded Bulgaria from this influence. About a month ago, the Bulgarian Ambassador, for the first time since I have been here, asked to come to see me. What he wished to discuss was this very question. He said:

> You have most-favored-nation treatment with Yugoslavia and other countries. We are a small country. We have never attacked you, we have no reason to be discriminated against. Why are we not engaging in trade?

He was specifically interested in selling us small amounts of tobacco. He said it was the same kind of tobacco that we bought from Greece and other countries. The tariff, since Bulgaria does not have most-favored-nation treatment, was prohibitive and they could not sell any at all.

What do you think about that? Should we give most-favored-nation treatment to Bulgaria?

Mr. KENNAN. In principle, I should think it ought to be extended to them. But personally, if I had it to do, I would like to tell them that when one year goes by that we do not have a demonstration against our Embassy or our reading rooms in Sofia, we will talk to you about this.

The CHAIRMAN. This is a little like the hen and the egg. Maybe that is the reason they demonstrate; I do not know.

Mr. KENNAN. I do not think it is, sir.

The CHAIRMAN. I thought it was interesting that he sought an interview and presented his case. I suggested that there might be certain things they could do that would make it easier for us to extend this to them.

A very similar occurrence happened with the Czechs. A visitor, one of the members of a legislative body nominally comparable to the Committee on Foreign Relations was visiting here and called upon me. In the course of the conversation, he asked why relations could not be improved, why they could not have most-favored-nation treatment. I suspected at the time that both representatives might have been inspired by the experience of Yugoslavia.

Mr. KENNAN. I think that is very true.

May I make one explanation of what I have just said, Senator?

The CHAIRMAN. Surely.

Mr. KENNAN. I do not mean to imply that the Yugoslav experience has had no effect at all on Bulgaria or on Czechoslovakia. I think it has had an effect—and in both of these countries, you will find today within the official establishment quite differing opinions on how their relations with us ought to develop—some people who would favor a policy closer to that of the Yugoslavs and others who would like to stick to a Stalinist line. So far, it seems to me that in Bulgaria, in particular, this issue has not been decided yet in favor of better relations with the West.

But it is very important, I think, that we should continue to dangle before the eyes of people in those countries the possibility of better treatment from our standpoint any time they want to conduct themselves in a manner more fitting with normal political relations.

The CHAIRMAN. Senator Symington?

Senator SYMINGTON. Thank you, Mr. Chairman.

Mr. Kennan, it is always a pleasure to see you, sir.

Mr. KENNAN. Thank you, Senator.

RESTRICTION OF TRADE PENALIZING ONLY THE UNITED STATES

Senator SYMINGTON. We asked Secretary Dillon last year, also Secretary Hodges, if they knew of any highly industrialized country which was not doing its best to sell everything it could behind the Iron Curtain except the United States. In both cases, the answer was "No." We tax the American people pretty heavily to obtain the nuclear umbrella which would seem to have some restraint on the Soviets moving further into Europe. How long, economically speaking, can we continue not to trade with countries like Rumania, while our friends and allies do their best first to obtain that trade, and then increase it?

West Germany exports and imports the most from behind the Iron Curtain. Inasmuch as price is what you trade on, price being equal, and inasmuch as volume is so important to price, how long can this unilateral action on our part go on without having a major effect on the economy?

Based on the actions of President de Gaulle, it is becoming clear that we are going to lose some of our current most successful and important markets; for example, our largest cash markets for agricul-

tural products are the six countries of the Common Market in Europe; and it appears that much if not most of that market is going to disappear. Inasmuch as our physical strength, in our way of life, can only come from our economic strength, and that physical strength is expressed by nearly a million Americans living in Europe today, counting dependents, there to defend Europe, there seems to be some dichotomy of thought here. Based on your unsurpassed experience, do you think we can continue along these lines, and be as successful economically in the future as we have been in the past?

Mr. KENNAN. Of course, this is a question of our own economy. We are a big country and we can impose certain penalties and restrictions on ourselves economically. It is also true, as Professor Frank quite correctly pointed out here earlier this morning, that the possibilities of our trade with the Soviet Union and Eastern European countries, would not be very great in monetary terms even if these present restrictions did not exist. So I should think this could go on for some time.

It has been my feeling that if this made us feel better subjectively, if we were happier by not sending anything, that was the reason for not doing it; but if we thought this was going to hinder materially the growth of the Soviet Union, we are kidding ourselves very badly indeed. Meanwhile, we were, of course, accepting a certain economic penalty for the privilege of this good conscience which we encourage on our own part.

Now, I have raised many times in my own mind in these last 2 or 3 years precisely the question you have raised: How long can this go on and at what point will we begin to realize that we are penalizing ourselves in a manner that is really not just to ourselves? I do not think it will come very soon—I mean not tomorrow. But I would think that this was a matter of the next 3 or 4 years, that increasingly we shall become aware that we are forfeiting economic opportunities for the luxury of indulging what are very understandable ideological feelings.

RESTRICTIONS ON TRADE HURTS DOMESTIC INDUSTRY

Senator SYMINGTON. Let me approach it from another angle. The President, in his balance-of-payments speech, asked for cooperation from our own private sector with respect to deposits of profits abroad, running accounts, and investments abroad. I can imagine some stockholders over here are happy about profits being increased as a result of profits of foreign subsidiaries. But the people who believe rightly or wrongly, that they are not working in Detroit or St. Louis or Dallas as a result of the shifting of much business abroad are not as happy as said stockholders. It is distressing to want work and not be able to find it; and the unemployment problem over here is pretty serious.

If I as an American were in the business of manufacturing and of selling abroad, and there were no restrictions on me, it would be pleasant to pick up some automobile business from Rumania through my foreign subsidiaries, even if at the same time I was not allowed to ship out of this country because it may be against the ideological concepts of some over here.

Would you comment on that?

Mr. KENNAN. I think that is quite right. I would like to see us

reduce the restrictive policies and try to eliminate the other conditions which handicap us in producing these things for the same purposes here in this country, rather than try to force the withdrawal of these industries abroad.

Of course, I am not an economist and I am only a private citizen now. I live like everybody else in this country. But it seems to me that in many instances in our country, labor costs are very high and the costs of production are in certain ways unnecessarily padded. I think we just have to exercise discipline enough on ourselves to be able to produce and to sell and to trade as advantageously as anybody else. I would be inclined to oppose artificial measures to try to put this back into shape. I would rather see a little influence exercised here by the bite of real economic forces on ourselves.

Senator SYMINGTON. I am not an economist either, but noticed a famous economist, Dr. Galbraith, suggested this morning that we apply a 25-percent special income tax on Americans who live abroad over 6 months of the year. I can see why, with the tremendous potential market abroad, Americans would want to invest abroad.

We do not restrict our allies from such trading.

I think this is mighty important. I have done some producing of hard-line goods for sale abroad, and I must say I have seen little that would have as much effect on value as does volume.

U.S. TRADE COMPETITION WITH WESTERN EUROPE

I asked Secretary Hodges if he felt one of the chief reasons General de Gaulle recently recognized Red China was because he (De Gaulle) was getting tired of watching such people as the British merchants quietly building up their trade with China for the last 10 years. He said there was no question about it.

But we are not discussing Red China this morning. Based on what you said about Yugoslavia, I saw an interesting program about Rumania the other night CBS put on. It seems to me, in the long run, this ideological denial of trade behind the Curtain, as our friends promote and increase theirs, and especially some of our best friends who are raiding our Treasury these days, could give us serious economic problems someday. Do you have any comment?

Mr. KENNAN. It seems to me this is one of the reasons we should liberalize our policy here and give ourselves a little less cramped position when it comes to not only trading with Communist countries, but possibly others. I do not think the dangers of dealing in Communist trade with Communist countries and others are as great as people think they might be. I have seen this since the 1920's. I remember we had a book in the 1920's written by the economist, Knickerbocker, called "The Red Trade Menace," in which he painted the specter of the world being flooded with Soviet exports. None of this has ever come out as hot—it has never been eaten as hot as it was cooked. I do not think they have great possibilities for such a situation.

But there is a certain margin which could be filled if we had policies more suitable to our filling it, which is not filled today. It is not great, but it is probably not unimportant or insignificant.

DENIAL OF TRADE TO EAST DOES DAMAGE TO POLITICAL RELATIONS

Senator SYMINGTON. My final question. Based on your experience as our Ambassador to Yugoslavia, and to Russia, and your long experience in the State Department, do you believe that trade in itself—I want to be sure—promotes the possibility of more good will between nations in this nuclear age?

Mr. KENNAN. To a slight extent. But I think the denial does a lot of damage. I think really, the extending of normal trading facilities to people is a sort of clearing of the decks so that you can then begin to discuss other things with them in the normal way. And it does not mean you have yet ironed out the difficulties that you have to discuss. But if you deny them these facilities from the beginning, then I think you put handicaps on your ability to discuss anything with them in a useful way.

Senator SYMINGTON. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Aiken?

Senator AIKEN. I have no questions.

CHANGE IN SOVIET SOCIETY SEEN

The CHAIRMAN. Mr. Kennan, I appreciate very much your coming here. I should have said that in addition to your being our Ambassador to Yugoslavia, I think all of us who have been here a long time know that you were also our Ambassador to the Soviet Union. I have at least one or two question of a general nature which are not directly on trade, but since we have you here—I wonder if you would just briefly comment on the possibilities of change in the practices of communism as distinguished from the ideology in Eastern European countries and the Soviet Union. Do you think these societies which sometimes are regarded as very rigid, are going through changes of any significance?

Mr. KENNAN. I think they are going through changes of great significance. I think what has happened in the years since Stalin's death has really been quite remarkable. I see evidences on every hand in these countries of restlessness, of a realization of the inadequacies of the outlook which was official in Stalin's time, and of the need for looking closely at Western examples, the need for reforming their systems with a view to making them more successful economically.

And in addition to that, I see in the case of the Soviet Union something that has nothing to do directly with economics, but is of tremendous importance. This is a new and massive breakthrough of insistent curiosity about all those areas of reality in which the Soviet leaders in earlier years tried to impose a rigid and absurd sort of orthodoxy—curiosity about the outside world, curiosity about their own past, curiosity about certain subjects such as economics and psychology which they were never even permitted to study in a free way in earlier years. I see this coming through, and I think this is bound in the course of time to bring great changes to them. For this reason, I regard policies and behavior of the Soviet Government today as a variable on the world scene, as something which can go one way or can go another. It is certainly going to evolve, and the way it evolves will be, to some degree, and not a negligible degree, the result of the way in which we ourselves handle our affairs and the way we treat them.

In other words, I feel very strongly that we have it within our power to influence these people by what we do and we must regard their reactions as in part the product of our own policies.

WISE U.S. POLICIES COULD HELP CHANGES IN COMMUNIST SYSTEM

The CHAIRMAN. In other words, we could encourage these changes with wise policies?

Mr. KENNAN. We can affect them, and I think it is vitally important that we should. I agree so strongly with what was said here earlier this morning, that one must not accept the thesis of the inevitability of war, of the termination of our relationships with them by armed conflict. This is obviously, these days, simply an unacceptable thought.

I am also persuaded that it is by no means necessary. I do not see anything in this situation which means that you would have to have a war to clear it up. We have to play for the most hopeful possibility, which is that of a gradual evolution of our relations in a positive and constructive way.

I think in everything we do, we should have in mind the need not to damage that possibility but to cause it to flourish and progress.

The CHAIRMAN. And there are many ways other than trade, which could encourage not only those changes, but other more cooperative attitudes, are there not?

Mr. KENNAN. There are indeed. And there are, in my opinion, unnecessary irritants today on our part in Soviet-American relations. There are also unnecessary irritants for which the Soviets are responsible.

When I say these things, I mean in no way to imply that all that is wrong in our relations with the Soviet countries is what we have failed to do. But I think we should be concerned to demonstrate to the people in Russia, not just the leaders of today but all the people around them and the common people themselves, the fact that if they wish, they can have a decent and satisfactory and, for them, profitable relation with this country, whether they call themselves Communists or not. I do not believe that people should be penalized simply because they profess attachment to a given doctrine. I want to see how they behave rather than what they say they believe. I think it is much more important.

We cannot attempt to control or to shape to our desires the ideological beliefs of people all over this world. People are going to believe all sorts of things that will be unacceptable to us. But that is not our business, and we would not want them controlling our beliefs here. What we have to ask ourselves about is how do they conduct themselves on the world scene, particularly in their relations with us, but also in their relations toward world peace in general; what sort of sense of responsibility do they show? If they show a proper one, and if they are willing to treat us with respect, to leave us alone in our internal affairs, to conduct themselves decently in our bilateral relations, and to show a reasonable regard for the peace of the world, a reasonable sense of responsibility by maintaining world peace, I do not care whether they call themselves Communists or Buddhists.

RUSSIAN SOCIETY SEEN MOVING FROM EXTREME POSITIONS

Senator AIKEN. I was just wondering, Mr. Kennan, do you think that Russia, Yugoslavia, and possibly other countries, are veering away from statism faster than the United States is veering in the other direction?

The CHAIRMAN. That is a good question.

Senator AIKEN. I think it is an important question.

Mr. KENNAN. Well, I think that the pressures of modern industrialization and urbanization are pressing us toward the center. Actually, I do think that they are coming a bit faster toward it than we are. That is my feeling. If you take the last 15 years.

Senator AIKEN. These trends become almost uncontrollable. You can try to stop them or you can try to steer them so as to get from them the greatest good. Is it not inevitable that the pendulum is always swinging?

Mr. KENNAN. Yes.

Senator AIKEN. And it so happens that in the case of Yugoslavia, particularly, I would say it is swinging back at least toward center.

Mr. KENNAN. That is correct. I am speaking now as a professor of history. I think that history tends to iron out in the course of time all the great extremisms. The Russian revolution was such an extremism. It has taken one or two generations for this ironing out process to begin. But it seems to me that I see the Russians today moving in many ways back to a new appreciation of what they had before the revolution, a new interest in what was happening in Russia before this great shock occurred to them.

I see them also increasingly interested in the West, because what has happened in the economy of the great industrial countries in these last 50 years is really everywhere revolutionary. This is the first time in history that it is possible to have such abundance that the distribution of wealth among individuals is no longer the greatest problem of the state. This is a realm into which we have come and into which, sooner or later, they are going to come. They are already coming toward it. When that happens, we are going to find that both of us have problems to which the Marxist doctrine, which was concerned with the distribution of wealth among individuals, is quite irrelevant and we are going to be pressed more and more into similar molds of conduct.

This is, after all, in that sense, one world, and these people are people just like ourselves, who by and large want for themselves in their personal lives, just about the same sort of think we want.

The CHAIRMAN. Senator Symington says he has one more question.

Senator SYMINTON. I am sorry I was not here earlier to hear these other witnesses, but am very glad to hear you. We had Secretary McNamara before Armed Services this morning.

SOVIET ATTITUDE TO CHINA'S AND U.S. PARTICIPATION IN VIETNAM

No American knows more about the psychology of the Kremlin than you. Assuming that, in South Vietnam, it is necessary for us to escalate our retaliation as a result of attacks made on that country to a point where the Chinese Communists decide to have a more direct interest in the war, specifically actual participation with troops and/or planes, to the point where we felt it necessary in retaliation to bomb,

with conventional weapons, say, the island of Hanoi and/or the Chinese mainland, what do you think would be the reaction of the Soviets? Would their reaction be theoretical, or practical?

Mr. KENNAN. They would be both, I think. It is my feeling that in these circumstances, they would feel themselves compelled to give military aid to China, probably short of getting into a nuclear exchange with us themselves. But in the process, I think Soviet-American relations would be very, very seriously damaged for a long time to come. If we were to put the greatest possible premium on the overcoming of the differences between the Soviet Union and Communist China, I must say this seems to me to be unnecessary and unfortunate, because I think the problem we have over the next few years with the Chinese Communist regime is a tremendously serious one, much greater than the problem with the Russians. If we are going to face successfully the solution of this problem with the Chinese, I think we need all the help we can get, and I think we need precisely something like a decent relationship with the Soviet Union. In other words, if we are going to cope successfully with the Chinese Communists, we must opt, if we can—it does not lie with us—to have one Communist adversary rather than two. It does not help us to force the Russians to come down on the Chinese side in conflict against us.

Senator SYMINGTON. As I understand it, what you are saying is that if the Chinese decide to enter the war actively in South Vietnam, our position would be difficult unless we expected to take on the Russians, too?

Mr. KENNAN. No, I did not mean to imply that. I perhaps misunderstood the question. I did mean to say that if we go on into a phase here of operations that brings us into effective war with Communist China, we will put people in Moscow in a very difficult position, a position in which they have, as they see it, no choice but to come down formally on the Chinese side.

Now, I think they will still be concerned to avoid a nuclear war with us, and that might well constitute the barrier beyond which they would not want to go in their assistance to the Chinese. This, of course, is mere speculation and a great deal would depend on the circumstances in which all this happened.

But at the same time, I think all this would have had a most unfortunate effect on Soviet-American relations and would, indeed, have influenced the whole world situation in a manner not at all to our advantage.

Senator SYMINGTON. I used the wrong phrase in saying "Take on the Russians too." To be sure, because I have such respect for your opinion, you feel that the Russians would probably logistically support the Red Chinese, as they did in North Korea, and that it would much affect their good will toward this country?

Mr. KENNAN. Not just the fact that we supported them, but the fact that we had put them in this position, I think, would have a real effect on our relations. I view that with apprehension, Senator Symington, because I just do not feel that we are so all powerful in a political sense and that we can afford to antagonize more great powers than we need to in this world.

Senator SYMINGTON. Very interesting. Thank you, Mr. Chairman.

MARXIST SYSTEM NOT SUITED TO PEOPLE'S DEEP NEEDS

The CHAIRMAN. Well, Mr. Kennan, you inspire me to one last question. You said, I believe, that you thought the Communists were moving somewhat more rapidly toward a liberal regime than we are toward statism. Do you think that perhaps one reason for this is that the original Marxist doctrine assumed a level of less egoism on the part of our people than our own Founding Fathers did, and our system is more nearly in accord with the actual capacity of the human race than theirs is? This might be one reason they are moving more rapidly toward adaptation to the realities of human beings? Is this true?

Mr. KENNAN. I think this is absolutely true. They made the great mistake of taking what was really an economic doctrine, a materialistic economic doctrine, and trying to make out of it a philosophy of life. This was a doctrine that had no answer to the deeper needs of people, it had no answer to the phenomenon of death, and it was not an adequate philosophy, and they are going to have to eat this error, gradually or suddenly, but they are going to have to eat it.

The CHAIRMAN. I thought you had suggested that question, but since you have had such long experience in dealing with them, I know of no one better qualified to comment on this than you.

I appreciate very much your coming. I apologize for keeping you so long.

Mr. KENNAN. Thank you, Mr. Chairman.

The CHAIRMAN. Our last witness is Dr. N. R. Danielian, president, International Economic Policy Association.

Dr. Danielian, I also offer my abject apologies to you for keeping you waiting so long.

STATEMENT OF DR. N. R. DANIELIAN, PRESIDENT, INTERNATIONAL ECONOMIC POLICY ASSOCIATION

Mr. DANIELIAN. You need not apologize, Mr. Chairman, because I think it was a great opportunity for me to learn from three professors who are so well versed in this field. I feel somewhat embarrassed, following these gentlemen since I have not been in Russia; I have not had the advice of the State Department, and my association with Harvard is 30 years old.

I realize that at this late hour, it would be an imposition on this committee to read my statement. Therefore, I ask your permission to insert it in the record.

The CHAIRMAN. Certainly we shall. We did the same with the previous witness. We shall insert the entire statement.

LITTLE TRADE WITH SOVIET BLOC BY AMERICAN SUBSIDIARIES ABROAD

Mr. DANIELIAN. I shall very briefly comment on its conclusions. Before I proceed with the statement, however, I would like to take an opportunity to answer one question that was raised with regard to the extent that the U.S. subsidiaries in Europe trade with Communist countries. There is some factual data on this subject. Secretary Dillon testified, page 233 of volume I of your East-West hearings, that out of 1,000 questionnaires that they sent out to find out how much trading

was being done by American corporations with the Soviet bloc, they found only about 10 companies that had sold no more than $13 million worth of goods over a period of 2 years. So you can see that this is not a motivation for U.S. business in going to Europe.

Our group, as you know, Mr. Chairman, represents substantial U.S. business corporations. They have total revenues of $23 billion and investments of over $17 billion, and they employ well over a million people. We have considered the question of East-West trade very carefully in our committees, and the precise position of our group is given in our written statement. Let me, therefore, briefly summarize what it is.

ONLY NORMAL EAST-WEST TRADE DESIRABLE

First, our group feels that normal trade under commercial conditions, with only commercial credit involved, involving consumer products and end products, as well as raw materials with nonstrategic significance, with the Soviet and to the Eastern European satellite countries, is desirable. In the field of agriculture, we think that this will indeed be of help to us as well as to them and that this should take place under world competitive market price conditions, with no particular handicap such as the cargo preference requirements (upon which I know of no statutory authority except that it is an executive rule) and also without restrictions such as the Latta amendment, because we feel the subsidies given to U.S. agriculture are strictly for domestic reasons and the world crisis at which agricultural products are sold should not hinder conditions. Otherwise, of course, U.S. agriculture will not be able to sell in competition with Australia, Canada, and Argentina.

Our group is quite unanimous in having no interest in selling complete plants and know-how behind the Iron Curtain. They also have no interest in long-term credit sales behind the Iron Curtain. This will correct, perhaps, an impression left here by previous witnesses that business is helter-skelter interested in taking advantage of these opportunities. I find no interest at all in selling know-how and plants in our group. There may be others who have this interest; I have not consulted with them.

On the question of long-term credits, we tend to agree with Secretary Rusk that they have some of the characteristics of foreign aid, and if you are going to give foreign aid, it should be restricted to the underdeveloped countries, and not include those behind the Iron Curtain. Since there is a shortage of capital in the world, and we have to apportion it, I think perhaps we should have some concept of priorities as to who deserves it most.

FOREIGN DEBT SETTLEMENT CALLED FOR

The group feels that any relaxation of trade should have some conditions attached to it. First and foremost, of course, is the settlement of debts, both governmental and private; private debts resulting from past expropriations. Moreover, we feel that such settlements should come as close to full value as possible. After all, the Foreign Aid Act is asking our friends among the developing countries to make full value restitution in the case of expropriation, and we can ask the Soviets no less.

MUST PROTECT PROPERTY RIGHTS BEFORE RELAXING TRADE RESTRICTIONS

We feel that there are certain implications in the proposed relaxation of trade where plants and know-how and long-term credits may be involved, which should be very carefully weighed by the Government and by the Congress. If I may diverge a moment, I think that, historically you see a very clear indication of certain major policy lines on the part of the Communists over the past two generations, and all of them have been really designed to undermine the earning power of Western Europe and the United States. One, of course, was the dismantling of the colonial system, which was a source of income for Western Europe. Next, of course, is the virulent attack upon the oil industry that you find all over the world, both in the organization of Communist cells as well as in an attempt to undersell Western oil.

Senator SYMINGTON. Organization of what?

Mr. DANIELIAN. I am talking about the oil industry and the organization of Communist cells. When you travel, you find everywhere around the world, that oil workers are among the first that have been organized and infiltrated by the Communists in those countries.

Then, of course, the Communists are trying to undermine the Western markets in oil. If they succeed, they are going to take away another good chunk of earning power for the Western countries.

Now I notice another thing as I travel around the world. I notice that there is a concerted attack upon the industrial property rights, by which I mean patents, trademarks, and copyrights, and an attempt to obtain industrial know-how without any commitments as to payment or as to protection of these rights in third markets. You will find an attack on the patent structure all over the world. You will find it in Argentina, Brazil, Colombia, in India. When you see the uniformity in this area, there is no question in my mind that it has a central generating point from which the campaign starts.

It seems to me that if the relaxation of trade conditions with the Communists will result in increased transfer of know-how and capital, then I think we must pay much attention to how we can protect the industrial property rights of our citizens as well as those of other Western countries. I do not know whether sufficient attention is being paid by the Government to this field.

Certainly, among the conditions should be the adherence of Russia to the Paris Convention on the Protection of Industrial Property Rights.

DEVELOPING COUNTRIES SHOULD ADOPT PROPERTY RIGHTS CONVENTION

It seems to me also that in looking ahead, not being able to anticipate the character of future leadership in these countries and whether or not they are going to abide by these agreements, it may be necessary, perhaps, to make sure that third countries, particularly developing countries, do adopt and adhere to certain basic principles of protecting industrial property rights. I share with Senator Symington the concern about the earning power of American industry in exports and in income on investments abroad, and it is necessary for us to look ahead and take those steps that will protect the earning power of American industry in exports, through the protection of investments and the

income thereof, as well as the services and royalty fees and so on. We cannot afford to dissipate the earning power of U.S. firms in this international field and, at the same time, maintain the defensive posture for security reasons and expend another $3 or $4 million in foreign economic and military aid.

It may well be that our balance-of-payments deficits signify that our overall international policies the last 15 years have outlived their usefulness.

U.S. FOREIGN INVESTMENT—IMPORTANT SOURCE OF INCOME

I have two other points. One is that foreign direct investments are an important source of income. We are receiving over $4 billion in interest and dividend income and about $5 billion of exports that is related to our investments abroad. That accounts practically for 30 percent of our earning power abroad, and we cannot deal with this situation without more careful respect for the facts.

CAUTIOUS APPROACH TO MOST-FAVORED-NATION CLAUSE

Second, I think the most-favored-nation clause, if all of these suggestions that have been made here are accepted, will be run into the ground, because of the illusions of the competitiveness of American business in the nonsubsidized sectors of our economy. This has to be very carefully studied. I do not find many countries that are anxious to buy consumer products from us. They want, mostly, know-how; that is, technology and capital goods. And after a while, you are going to find that they are going to be producing their own end products and they are going to be excluding us from their markets. I am afraid that the proliferation of the most-favored-nation clause as it is being talked about here is going to ring its death knell, politically and economically, in this country. So again, I think we need to consider some of these policies very carefully in the context of our present as well as evolving future relationships in this industrial field with the underdeveloped countries as well as with the Communist countries.

DEFINE OBJECTIVES IN RELAXATION OF EAST-WEST TENSIONS

I feel personally, beyond the position of our group—they have not advised me on any political and social attitudes they wish to take individually—that in the relaxation of relations with the Communist countries, the coin with which we are going to be paid cannot be only in terms of gold or dollars, because, as has been pointed out here—and our statistics in our statement text indicate—there is not much ordinary commercial business to be done unless we are willing to accept products such as oil in large quantities and timber in large quantities. The prospects of greatly expanded commercial trade with Communist countries, without long-range credits are not very great. So it seems to me that if we are going to go into a long-range program with the hope of relaxing tensions between our countries, perhaps we ought to define it a little more clearly as to what we mean by a relaxation of tensions. As long as those countriess are controlled from the top, in a dictatorial fashion, people are going to be throwing rocks at our embassies and then withdrawing when we make a con-

cession to them. Somehow, I think we ought to define our objectives in the relaxation of tensions somewhat more clearly as to the relationship between the Government and the people. I pride myself on being a liberal, but my definition of liberalism is in terms of the liberties and freedoms of the individual in relation to his neighbors and in relation to his Government. It seems to me that if there are evidences of relaxation such as has been described here taking place in Yugoslavia and in other countries, that is in the right direction and perhaps we should encourage that kind of liberalization of the treatment of human beings and economic institutions in these countries.

So I would like to know what is the coin in which we are going to be paid? Is it going to be in gold, in goods, in good will, in freedom of the individual, respect for their rights within their own countries? Is it going to be in the evolution of democratic institutions? Is it going to be in the direction of respect for the rights of other nations in the general environment of neighborliness?

Therefore, I, for one, would want, in this dialog which must go on between this Government and the other governments, more attention to be paid to the values of our civilization.

Thank you very much.

(The complete statement of Mr. Danielian follows:)

STATEMENT OF DR. N. R. DANIELIAN, PRESIDENT, INTERNATIONAL ECONOMIC POLICY ASSOCIATION

The International Economic Policy Association consists of a group of American international business corporations and individuals vitally concerned with the success of our foreign economic policies, the advancement of economic and social progress, and the raising of the standards of living of all peoples through freedom of choice.

The member companies comprise a substantial segment of the American economy, productivity, and employment. Their combined annual gross revenues are in excess of $23 billion, with a combined capital investment of over $17 billion. Together, they employ well over a million people in the United States.

The issues involved in East-West trade are indeed of great importance to our national interest; to our present and future relationships with the Soviet bloc; to the preservation and emergence of free governments and institutions based on Western culture and ideology throughout the world; and to the forces of unity which constitute the Western alliance. These issues go beyond the economic ramifications of an expanded trade with Communist bloc nations. Since, however, the IEPA is concerned basically with the establishment of rational economic policies consistent with the national and international interests of the United States, we will basically confine our remarks to what we consider are the pertinent economic issues of an expanded East-West trade.

1. TRADE ON A CASH OR SHORT-TERM CREDIT BASIS

The member companies of IEPA are in general agreement that commercial trade with selected Communist countries on a cash or short-term credit basis, less than 5 years, is unobjectionable as applied to consumer goods, end products, and raw materials, excluding, of course, Communist China, North Vietnam, North Korea, and Cuba, excluding items in the Government's strategic list.

In our view, the export of agricultural products in which we have a commodity surplus to Soviet bloc countries should be encouraged. Our policy is consistent here as we would favor neither long-term credits nor hindrances to such trade (through cargo preference or the Latta amendment). In other words, sales of surplus agricultural commodities at world market prices, and short-term commercial credit, is, in our view, in the U.S. interest.

At the same time, however, there is lack of interest in selling complete plants and technological know-how directly or indirectly to any Communist countries. Our position is one which accepts the desirability of selling consumer products,

nonstrategic finished goods or certain raw materials to Russia and/or the Eastern European satellites for cash or on a commercial credit basis.

As to the question of defining what strategic means in terms of the types of goods involved, we feel that most consumer goods and certain raw materials are outside of the strategic category. We are, on the other hand, against the sale of manufacturing plants and of products which can be employed directly or indirectly for military ends.

2. LONG-TERM (5 YEARS OR MORE) CREDIT

On the question of granting long-term credit (i.e., 5 years or more), we feel that it would be a mistake to extend such credits and should not be a policy of the U.S. Government to encourage such credits. This view holds also with respect to Government guarantees of long-term credits.

We agree with the Secretary of State that "long-term credits have some of the characteristics of foreign aid" and we feel strongly that such aid should be directed only to less-developed countries. Long-term credits will allow these countries to divert productive resources away from consumer-oriented needs toward military and other strategic needs. Secondly, the United States is faced with a critical balance-of-payments problem, and the granting of long-term credits for trade with Communist-bloc countries is not at all helpful to our current international accounts. In the third place, we simply have no guarantee that such credits will ever be repaid, and any speculation on the nature and characteristics of the Communist governments in 10 to 15 years is academic. Finally, long-term credits to these countries can be repaid primarily by increased exports from them to the West, and it is difficult to foresee what categories of goods these countries can sell to us, in large-enough quantities, to permit the liquidation of their debts, given the most impeccable credit worthiness.

3. CAPACITY OF COMMUNIST BLOC TO TRADE ON COMMERCIAL BASIS WITH WEST

Within the above-stated conditions, what is the capacity of the Eastern European countries and the U.S.S.R. to buy for cash or on a short-term credit basis? To answer this, we must ask ourselves two further questions: (1) What is the current volume of gold production in the Soviet bloc countries and what is the total gold stock of these countries, and (2) what kinds of goods are we willing to import from the Soviet bloc in return for U.S. exports to that bloc.

In January 1964, the Central Intelligence Agency of the U.S. Government estimated that Russian gold holdings were just under $2 billion, and their annual production $150 to $175 million.[1] These estimates were widely criticized by other informed sources as being too low. On March 2, 1964, the Wall Street Journal published a report in which the U.S. Bureau of Mines estimated the annual Russian gold production to be as high as $425 million a year. According to Barron's National Business and Financial Weekly of January 27, 1964, the Soviet gold statistics had been leaked to the Financial Times of London. The latter placed the Soviet gold hoard at $2.5 billion, plus special deposits of $450 million, plus $1.25 billion owned by Soviet-controlled banks in London and Paris, for a bloc total of nearly $5 billion.[2] It may be that the only way to test how much gold the Soviets and their satellites possess is to offer to sell them nonstrategic goods for cash.

Russian gold sales in London and in other markets were put tentatively by British sources at $350 million for the first 10 months of 1964 and $440 million for the entire year 1963.[3] Obviously this is well above the CIA estimate of annual production and must result in the reduction of gold reserves. If this is true, then there is reason to doubt the capacity of these countries to trade on a commercial (i.e., cash or short-term credit) basis with the West, to any large extent. These limitations must be kept in mind lest we raise too high hopes for expanding lucrative business.

Thus, the questions become—what types of goods will we accept from Communist bloc nations in return for our exports? Will Western European countries allow Soviet bloc countries to achieve a net export surplus with them, thus providing the Soviet bloc enough foreign exchange to import more from the United States on a commercial basis?

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[1] CIA press release, January 1964.

[2] Oscar Altman of the IMF in an article entitled "Russian Gold and the Ruble. IMF Staff Papers, April 1960, estimated Russian gold holdings of $4 to $6.5 billion at the end of 1959.

[3] First National City Bank of New York, Monthly Economic Review, January 1965, p. 8.

The data presented in the Senate Foreign Relations Committee report on East-West trade indicates that the Soviets and their satellites have been exporting to other Western countries mostly petroleum and petroleum products, other types of fuels (mainly coal and lignite briquets and coke), wood, food products, machinery, and steel products.[4] These are obviously products in which we are well supplied from domestic sources and other friendly countries, and therefore they would find no ready market in the United States.

These considerations lead us to the conclusion that the volume of commercial trade on a cash or short-term credit basis with the Communist nations will be limited by the economic realities, irrespective of whether or not the U.S. Government seeks to encourage such trade.

An examination of trade statistics of trade between the Soviet bloc and Western European countries indicates that imports and exports tend to be equal. This is due to barter arrangements. It is doubtful that the bloc countries can earn enough free foreign exchange to buy more from us. The alternative would be similar barter arrangements with us.

There are certain exceptions to this rule. Where the bloc countries sell goods and services to reserve surplus countries, such as the oil producing lands of the Middle East, they, of course, earn foreign exchange that is freely usable elsewhere. Again, when they receive interest and repayments of principal on loans and investments they make in certain less-developed countries, then they may have free exchange to use elsewhere. Our foreign aid help to those countries would, of course, facilitate such a debt repayment.

4. PROTECTION OF INDUSTRIAL PROPERTY RIGHTS

I realize, Mr. Chairman, that in spite of the limitations of prospective United States-Communist trade, there may be steps taken to encourage the expansion of such transactions, even including long-range credits and transfer of plants and technological know-how. In the present stage of our knowledge as to our Government's hopes and aspirations in this area, it is difficult for us to define with precision and realism what it is that we want to get in return. Are we going to be repaid in gold, in goods, in good will, in freedom for their people, in freedom of enterprise within their borders, in the establishment of democratic institutions, in the withdrawal of their subversive activities within the free world? It is obvious they want U.S. technology and capital, but what is the coin in which we are going to be repaid? Personally, I would not feel we are well repaid unless some concessions are obtained in these noncommercial fields.

I am not now referring to the dollar-and-cent creditworthiness, but all the other necessary ingredients of good neighborly existence on this globe which involve moral commitments without enforceable contracts. There is still the nagging doubt that future changes in leadership in Communist countries may result in nonperformance of agreements and create new threats to our form of society.

It is possible that regardless of these considerations, there may still be a desire, for reasons not clearly apparent to us, to extend long-term credits and sell plants and know-how; in which case the U.S. Government must take every possible step to protect industrial property rights, including technological know-how, patents, and trademarks. It is quite clear that one of the principal aims, from the Soviet point of view, of trading with the West is precisely to import technological know-how. This was recognized by a U.S. congressional study published in 1962 which stated:

"Soviet economic intercourse with industrialized non-Communist countries has always represented a time-saving device, for trade has made possible a rapid shift away from a primitive to a modern, more productive technology in a large number of industries. So long as some part of the Soviet economy lags technologically behind the West, the U.S.S.R. will always have available a ready device for buoying its growth rate through imports. In shifting to a more advanced—i.e., more productive—technology, the Soviet Union borrows all the resources, including time, that must go into the research and development of more efficient techniques."[5]

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[4] See: Committee on Foreign Relations "East-West Trade," pt. I (Washington, 1964), pp. 273–337.

[5] Dimensions of Soviet economic power, p. 430.

If it is the judgment of the executive and legislative branches of the U.S. Government that it is in the U.S. interests to provide technological know-how with trade, maximum protection should be secured for industrial property rights.

This is necessary to protect the competitive position of U.S. industry in third markets; it is necessary to increase our income so vitally needed in our balance of payments; it is necessary to protect us in the future from politically motivated raids to undermine the U.S. economic position in the world. Recently Mr. Arthur K. Watson stated in his speech before the International Chamber of Commerce in New Delhi, that communism with adequate cost accounting equals capitalism. But in a government-owned economy, there is no assurance that proper cost accounting would be applied and unless royalties are paid to the owners of patent and trademark rights, to pay for research and development costs, future Communist competition may be underpriced and destructive of U.S. industrial position. The protection of these rights is therefore vital.

The U.S.S.R. has a patent law, allowing 15-year patent protection from date of registration, but to the best of our knowledge it has not been tested.* Under Soviet patent law the following categories of inventions are not patentable: (1) Medical compositions, (2) chemical products, (3) pure scientific discoveries, and (4) foodstuffs and articles of refreshment.

Since all means of production are Government owned, the value of such patent rights and possible royalty payments would be a matter of reliance on judicial proceedings against infringement by the Government. Without an independent judiciary to enforce these rights, such reliance might often be disappointed.

The Communist countries are desperately trying to modernize their industries, in order to compete with the industrialized countries. They need Western technological know-how. Once the Communists get hold of it, they are not likely to give any quarter in the competitive struggle.

What protection can U.S. industry and Western technology expect in the future when the Soviet countries, after satisfying minimal domestic requirements, enter the world markets in order to earn foreign exchange by exporting both products and machinery? These constitute even now half of their total exports to underdeveloped countries. Should there be any limitation on the reexport of such technical know-how that we provide them? Would it be enforceable? If there is any doubt, we should take the necessary precautions to protect our position in third countries should our optimistic expectations of Communist good behavior not materialize.

There are three aspects of the question of protecting U.S. technical know-how which must be analyzed separately before a correct U.S. policy may be established:

1. Industrial property rights of U.S. citizens in patents, trademarks, and copyrights;
2. U.S. national economic interest; and
3. U.S. long-range security interests.

U.S. holders of industrial property rights are naturally interested in securing adequate compensation in royalties and license fees for the use of their inventions and industrial processes by others. They are also interested in protecting themselves against unfair competition from both governments and compulsory licensees which have not borne the cost of research and development.

The United States, as a nation, is concerned with receiving income, in royalties and license fees, and with protecting export markets for the future, as indispensable balance-of-payments receipts.

The United States is also concerned with the national security aspects of the transference of technological know-how and capacity. In specific industries, with a definite military application, the issue is clear, although where to draw the line is not so easy. In broad economic terms, it must be realized that the ability of the United States to maintain an adequate Defense Establishment, without an undue lowering of the U.S. standard of living, depends upon the internal, taxpaying production of domestic industry, and upon export earnings,

* It should also be pointed out that U.S.S.R. patents are: (1) Very expensive, (2) vague in the claims "formula" they possess, and (3) obscure in delineating the extent to which royalty payments reflect how the patent is being put to use in the U.S.S.R.

and foreign investment and service income. These sources of income should not be jeopardized lest we weaken the relative strength of the U.S. economy and its ability to maintain defense expenditures without inflation at home, and military and foreign aid expenditures abroad.

U.S. industries may negotiate with the Soviets for the best possible present price, and may insist upon the inclusion in contracts of safeguards against uncompensated infringement of its industrial property rights in third markets. How good these commitments will be 10 years from now is another question. Therefore, the best long-range protection of both private and U.S. public interest can be attained by a network of international conventions and bilateral agreements among the nations of the free world, including all the underdeveloped countries receiving public and private capital from the West for their development, establishing the principle of respecting industrial property rights, and through the enactment and enforcement of adequate internal law.

The first step should be the adherence of the U.S.S.R., as a precondition of sale of industrial know-how, to the Convention of Paris for the Protection of Industrial Property of March 20, 1883, as amended.

5. A COMMON POLICY AMONG WESTERN NATIONS IN EAST-WEST TRADE

I would like to turn attention now to the issue of whether the United States should press its allies to formulate a common set of policies on the terms and conditions of trading with Soviet bloc countries. The desirability of such an agreement should be obvious to all. The usual argument advanced by advocates of more liberal trading arrangements with the Soviet bloc is: Our allies are doing it, so why shouldn't we?

When countries like Great Britain and Italy continue to grant long-term credits to Communist nations, and at the same time borrow heavily from the United States and international agencies, the net effect is that the United States is in fact assisting the financing of their loans to Communist countries. Could not and should not the United States influence the policies of these countries when they are dependent on our bilateral credit facilities to stabilize their currencies?

There is presently no formal agreement governing the extension of credit to Communist countries by Western European countries. The 23-member countries of the Berne Union (an association of insurers, including the Export-Import Bank, and the FCIA) have informally agreed to certain standards as to reasonable terms for insuring credit on certain types of products sold to Communist-bloc countries. There is, however, no binding agreement and there are likely to be more and more Western European countries extending longer than 5-year terms to Soviet-bloc countries. Great Britain, for example, granted a 15-year credit to the Soviet Union last year for a synthetic fiber plant. Italy and France are also granting long-term credits to Eastern European countries.[7] Thus, the key to holding the credit line by EEC countries lies in influencing the British and the Italians. Is this beyond the capacity of the U.S. Government to accomplish?

6. REPAYMENT OF DEBTS

A minimal requirement, of course, for trading and credit arrangements should be evidence of economic good behavior. The recognition and payment of debts previously contracted by the Soviet countries, including lend-lease, must be a part of any liberalized trade relations with the Soviet bloc. In addition, expropriated property of citizens of Western countries must be paid for in full value. We have made this a condition of our aid to underdeveloped countries; we can do no less in relation to the Soviet bloc.

SUMMARY

In conclusion, Mr. Chairman, the member companies of the IEPA would favor an increased commercial trade with selected Communist countries in nonstrategic goods. We are against the extension of long-term credits and the exportation of technological know-how to these countries. The U.S. Government should make

[7] See app. A.

more assiduous efforts to establish a common free world policy on terms and conditions of trade with the Communists, and make bilateral short-term credits contingent upon the adoption of such a common policy. The protection of industrial property rights is of vital concern to the United States. The Soviet Union and her satellites should become members of the International Convention for the Protection of Industrial Property.

There are other matters that also must be settled before any expanded East-West trade should be encouraged. These would include the Soviet and satellites governments' role in aiding Communist revolution in southeast Asia, Africa, and South America, and the repayment of lend-lease and other debts. Most important of all, we should know exactly what we are receiving in return, not merely in the coins of the realm, for the commercial prosperity is small, but in the values of our civilization.

APPENDIX A

SOME RECENT ACQUISITIONS OF WESTERN TECHNOLOGY BY THE U.S.S.R.

UNITED KINGDOM

1. *Polyethylene plants.*—Simon-Carves, Ltd., signed a £20 million contract with Techmashimport in 1963 for delivery to the U.S.S.R. of four polyethylene plants, two of which will have a capacity of 48,000 tons each, the other two 24,000 tons each. The plants will employ ICI processes, patents, and technology. Substantial United Kingdom financing has been arranged by a private group led by Lazard Bros., which will provide a 5-year, $13 million credit.

2. *Airborne navigation equipment.*—Standard Telephones & Cables, Ltd., contracted with Avia Export in 1962 for the supply, service, and maintenance of £250,000 worth of airborne navigation equipment, including radio equipment, instrument landing systems (ILS), and VHF omnidirectional range (VOR) equipment for the Aeroflot fleet of TU–104 jet and IL–18 turboprop airliners.

3. *Animal feed mill.*—W. S. Barron & Son, Ltd., a subsidiary of Simon Engineering, recently negotiated a £600,000 contract with Technopromimport for the construction of an animal feed mill at Kirov, a suburb of Leningrad.

4. *Production of auto engine parts.*—Glacier Metal Co. delivered late in 1963 an estimated £1 million worth of machinery for the production of tin-aluminum crankshafts for car and truck engine bearings in a U.S.S.R. auto engine plant located near Gorky.

5. *Fiber plants.*—Courtaulds, Ltd., is completing its fifth plant in the U.S.S.R., a £6 million triacetate fiber factory contracted for in May 1962. The United Kingdom firm has, since 1958, contracted for and built one £4.25 million fiber plant (sold through Technopromimport) and three more plants for an aggregate value of £15 million (sold through Techmashimport) to produce viscose tire cord, acrylic fiber, and acetate yarns. The plants are operating with Courtaulds processes and technology.

6. *Chemical Plants.*—Wycon Services, Ltd., a joint subsidiary of Fisons, Ltd., and Constructors John Brown, Ltd., obtained two orders from Techmasimport in March 1961 for a 4,200-ton MCPA (weed killer) factory in Ufa (already completed) and a 12,000-ton DMEU rayon plan in Sterlitamak (scheduled for completion in 1966). The two turnkey projects represent a global order of £2 million for Wycon Services.

7. *Production of detergents.*—Constructors John Brown, Ltd., have built two fatty alcohol factories, in Volgadonsk and Shebekino, contracted for in 1960 with Techmashimport for a total value of £2.8 million.

8. *Polyester fiber plant.*—Polyspinners, Ltd., a joint venture of Constructors John Brown and Stone-Platt Industries, won a £30 million order from Techmashimport—said to be the largest commercial contract ever signed between the United Kingdom and U.S.S.R.—for a polyester plant to be built in Siberia. ICI will provide know-how for its terylene process. The financing will come mainly from a £24-million, 15-year loan by British banks and insurance companies, carrying an ECGD financial guarantee.

FRANCE

1. *Chemical plants.*—Speichim (Société pour l'Equipement des Industries Chimiques), of the Schneider group, has supplied three complete plants on a turnkey basis, and is constructing four more plants. Total value: $40 million. One plant is producing printing ink for Pravda and its publications; three are producing (or will produce) phosphoric acid. Speichim is providing technical assistance and production supervision on a continuous basis.

2. *Sugarbeet procesing and cement plants.*—Société Fives Lille-Cail, of Paris, has sold in recent years, for a total $50 million: three plants to treat 5,000 tons each of sugarbeets daily, for which the company is currently supplying equipment; and a cement plant already in production in Siberia (7,700 tons per day).

3. *Production of insulating cardboard.*—Ensa (Enterprises SA), of the Schnieder group, contracted in 1962 for the sale (including technical assistance up to start of production) of a plant to produce dielectric pasteboard near Moscow.

DENMARK

1. *Production of diesel engines.*—Burmeister & Wain has licensed in the U.S.S.R. its technology for the production of certain types of marine diesel engines and is providing technical assistance.

ITALY

1. *Production of ball bearings.*—RIV Spa, of Turin, sold some $320,000 worth of machinery to the U.S.S.R. 2 years ago, for the production of ball bearings. The Italian firm, however, is not providing technical assistance and, before 1962, was an exporter of ball bearings to the U.S.S.R.

2. *Tractor plant.*—Fiat Spa has been negotiating for the past 2 years for the construction of a $168 million plant that would turn out some 120,000 tractors per year.

WEST GERMANY

1. *Chemical plants.*—Friedrich Krupp constructed a $10 million chemical plant in Kursk in 1959 for the production of polyester fibers and has now received a new order for a $4 million expansion of the plant. The same German group was awarded a $5 million contract by Techmashimport early in 1964 for the supply of installations to produce fertilizers in the U.S.S.R.

AUSTRIA

1. *Production of rayon.*—Lenzing-Chemiefaser AG is in the last stage of negotiations to license its newly developed process for the manufacture of rayon fiber. Lenzing would provide plans and know-how for the necessary plant installations, while Krupp of Germany would execute the construction.

2. *Steel plant.*—VOEST signed an agreement with the U.S.S.R. early in 1963 for delivery and construction of a $35 million oxygen converter (LD process) steel plant in Lipezk, southeast of Moscow. Operations are scheduled to start in 1965, with an initial capacity of 2 million tons of steel per year. Fifteen other Austrian and German firms are suppliers to this project, for which the U.S.S.R. will pay 75 percent in hard currencies and the balance in goods (including raw materials).

NETHERLANDS

1. *Caprolactam plants.*—Continental Engineering NV of Amsterdam, an affiliate of Verenigde Machinefabriek NV, signed a contract with Techmashimport in August 1964 for the design, delivery, and construction of two caprolactam plants (cost over f100 million). The two plants, which will begin operating in 1968, will each have an annual capacity of 50,000 tons of caprolactam (raw material for nylon and plastics, with fertilizer as a byproduct). They will use a process developed by Nederlandse Staatsmijnen NV (Dutch State Mines), whose subsidiary Stamicarbon NV will participate in the design and construction. Continental and Stamicarbon have already supplied four complete urea factories to the U.S.S.R.

SWEDEN

1. *Pulp and paper mills.*—Karlstads Mekaniska Werkstad AB, which in 1963 supplied a magazine-papermill to the U.S.S.R. for Kr67 million and in 1964 completed a Kr250-million pulpmill near Lake Baikal, has been asked by a Soviet trade delegation to tender on a Kr400-million order to more than double the present capacity of the latter (580,000 tons annually), with the know-how to be provided by another Swedish firm (possibly Uddeholms AB). The same Soviet delegation has invited Sunds Verkstäder AB (a subsidiary of Svenska Cellulosa AB) to bid on a Kr50-Kr60 million order for equipping a cellulose plant with 190,000 tons annual capacity.

APPENDIX B

ANALYSIS OF SOVIET TRADE WITH THE WEST

EXPORTS BY COUNTRIES

In absolute dollar amounts, there has been a 40-percent increase in total exports from the European NATO countries to the Soviet bloc, excluding Communist China, between 1959 and 1963—from $1.365 billion a year to $1.912 billions (table 2).

Trade with Communist China during that same period declined by more than 50 percent—from $330 million in 1959 to $157 million in 1963.

It is interesting to note that, although total dollar volume of exports from European NATO countries to bloc countries (excluding Communist China) has increased in dollar amounts, the percentage of this trade to total exports of these countries has remained fairly constant. It was 3.6 percent in 1959. It went up to 4 percent in 1961 and 1962 and was down again to 3.6 percent in 1963 (table 1). This means, in effect, that the expansion of exports to the Soviet bloc countries has only kept pace with the total increase in worldwide exports of the NATO countries.

The uniformity of export percentage to total exports of European NATO countries is not representative of individual countries in the group. The analysis indicates that there has been a substantial increase in the exports of Greece, Italy, and Great Britain, both in volume and in percentage of their total exports. The exports of other NATO countries have diminished or remained constant.

The total volume of imports from the European NATO countries has increased in the case of the U.S.S.R., 56 percent, and in the case of the European satellite countries, about 33 percent.

A further breakdown of the figures by countries indicates that in addition to the U.S.S.R., Poland, Hungary, and Rumania are the principal beneficiaries of these increased imports from the West, whereas Bulgarian and Albanian imports have gone down (table 3). One of the significant items is that trade with the Soviet occupation zone of Germany has remained pretty much constant between $328 million and $352 million during this period.

Canada has increased its export trade with the European Soviet countries (which includes Russia) from 0.7 percent of its total exports in 1959 to 2.8 percent in 1963, largely because of grain exports. In total amounts, the increase of Canadian exports to the European Soviet bloc has increased 485 percent—from $37 million in 1959 to $179 million in 1963, as compared with only 40-percent increase in European NATO countries' exports.

U.S. trade with the European Soviet bloc has varied between 0.6 and 1.2 percent of total exports. In dollar amounts, this has ranged from $90 million in 1959 to $166 million in 1963.

Total U.S. exports in 1963, $23 billion, were 27.5 percent of the total exports of all NATO countries (including Canada and the United States) of $83 billion. U.S. export trade with the European Soviet countries is but a fraction of the European NATO countries' exports; whereas the latter's exports range between 0.6 and 1.2 percent (table 1). The United States would have to have a threefold to fourfold increase in its exports to the European Soviet countries to equal in percentage that of the European NATO countries.

The conclusions to be drawn from these figures are that there has been a substantial increase in European NATO exports to the Communist countries in dollar amounts, but in percentage these exports have only kept pace with their total exports to the world. In the case of the United States, having established a restrictive policy in the past, the proportion of this trade remains substantially less than the NATO countries' trade and has declined as a percentage of total U.S. exports from 1.2 percent in 1959 to 0.07 percent in 1963.

IMPORTS BY COUNTRIES

If we look at the imports of the European NATO countries from the Soviet bloc (excluding Communist China), we find a 50-percent increase in dollar volume between 1959 and 1963—from $1.6 to $2.38 billion (table 5). However, in percentage of gross imports from all countries, again, the imports from the Soviet bloc (excluding Communist China) have been constant—around 4 percent (table 4). Therefore, one may say that there has been a substantial increase in dollar volume of imports from the Soviet bloc, but only in step with the overall expansion of imports of the European NATO countries from all sources.

As far as Canada and the United States are concerned, imports have remained a fractional percentage of their total imports.

Imports of the European NATO countries from Communist China, as in the case of exports, have gone down during these years.

Imports into European NATO countries from European satellite countries have increased proportionately. The Russian exports have increased by about 45 percent (table 4). Poland, Soviet occupied Germany, Czechoslovakia, Hungary, Rumania, Bulgaria, have all benefited from the increased exports to the NATO countries. Albania is the only country whose trade has diminished (table 6).

In dollar volume, the greatest increases in imports from Soviet bloc countries have taken place in West Germany, Italy, the United Kingdom, France, Belgium, and Luxembourg (table 6). These increases in dollar volume have been in proportion to total imports, except in the case of the United Kingdom, Italy, and Greece, whose imports from the East have gone up also in percentage of total imports (table 4).

U.S. imports have stayed constant at around $80 million a year (table 5) and the percentage of this to total imports has remained constant (table 4).

BY COMMODITIES

An analysis of the commodity composition of the U.S.S.R. trade with the industrial West, including all of the NATO countries, indicates that Soviet imports have been concentrated over the years primarily in machinery and equipment, and fabricated metal products; these account for 62.8 percent of their imports (average 1955–62), surpassing 70 percent in 1962; whereas consumer goods have varied between 5 and 10 percent (table 8).

Looking at their exports to the industrial West, we find that fuels, ores, and concentrates, and base metals and manufactures account for 37.9 percent of their exports (average 1955–62), the percentage of these items to total exports has been going up steadily during this period from 25 percent in 1955 to 42 percent in 1962—wood and wood products being also important, accounting for up to 20 percent of their total exports (table 7).

Looking at U.S.S.R. trade with underdeveloped countries, it is interesting to find that Russian exports to them are a little over 50 percent of their exports to the industrial West, and that the most important item in this export trade is machinery and equipment, an item which has risen in the total exports to half of their annual trade with underdeveloped countries in 1962 (table 9). Surprisingly, in dollar volume, these exports to underdeveloped countries in machinery and equipment equal half of their imports from the West of the same type of products. This does not mean to say, of course, that the same items that are imported are necessarily reexported, but it does pose the problem that the greater their capacity to manufacture machinery and equipment, the greater is it likely this category will loom large in the exports of Soviet countries to underdeveloped countries.

TABLE 1.—*NATO countries' trade with the Sino-Soviet bloc as a percentage of their world trade, 1959–63*

Countries	Countries' exports to the world (f.o.b. annual totals: million U.S. dollars)					Countries' exports to the Sino-Soviet bloc as a percent of their total world exports					Countries' exports to the Soviet bloc (excluding Communist China) as a percent of their total world exports				
	1959 (1)	1960 (2)	1961 (3)	1962 (4)	1963 (5)	1959 (6)	1960 (7)	1961 (8)	1962 (9)	1963 (10)	1959 (11)	1960 (12)	1961 (13	1962 (14)	1963 (15)
Belgium/Luxembourg	3,297.72	3,745.08	3,907.44	4,343.28	4,850.52	2.8	3.7	2.6	2.2	1.7	1.8	2.5	2.3	2.0	1.5
Denmark	1,374.48	1,462.80	1,510.20	1,625.40	1,865.40	4.2	3.9	3.4	4.9	4.3	4.0	3.8	3.1	4.7	4.3
France	5,621.40	6,866.52	7,224.48	7,363.92	8,084.88	3.5	4.0	3.8	4.2	3.5	2.8	3.2	3.3	3.6	2.8
Federal Republic of Germany [1]	10,067.04	11,665.22	12,914.80	13,489.12	14,832.06	7.0	6.7	5.7	5.6	4.5	5.7	5.9	5.5	5.4	4.4
Greece	204.00	203.04	223.32	248.64	290.16	16.4	22.0	23.4	20.3	19.9	16.4	22.0	23.4	20.3	19.9
Iceland	64.80	66.48	71.52	84.24	94.20	33.7	23.1	14.1	18.5	17.3	33.7	23.1	14.1	18.5	17.3
Italy	2,914.68	3,669.60	4,215.12	4,697.88	5,074.56	5.4	5.8	5.9	5.6	5.7	4.1	4.7	5.2	5.1	5.3
Netherlands	3,607.32	4,027.80	4,306.92	3,584.48	4,962.00	1.0	.7	11.9	1.7	1.7	1.6	1.6	1.8	1.7	1.4
Norway	809.28	879.60	929.28	973.20	1,073.52	5.6	4.8	4.5	4.0	4.6	4.7	4.4	4.0	3.9	4.3
Portugal	290.04	325.32	330.60	366.96	416.88	2.3	2.3	1.4	1.5	1.6	2.1	2.2	1.4	1.5	1.5
Turkey	354.48	320.40	347.16	381.24	368.04	11.5	12.2	8.6	7.0	9.6	11.5	12.2	8.6	7.0	9.6
United Kingdom	9,676.80	10,297.32	10,754.40	11,058.60	11,854.68	2.8	3.5	3.9	3.6	3.7	2.1	2.6	3.5	3.3	3.2
Total, NATO Europe	38,282.04	43,529.18	46,735.24	49,216.96	53,766.90	4.4	4.7	4.4	4.3	3.9	3.6	3.9	4.0	4.0	3.6
Canada	5,405.52	5,562.00	5,819.52	5,933.40	6,471.60	.7	.8	3.8	3.1	4.3	.7	.7	1.6	.8	2.8
United States	17,372.40	20,299.20	20,628.48	21,359.04	22,921.68	1.2	1.0	.6	.6	.7	1.2	1.0	.6	.6	.7
Total, North America	22,777.92	25,861.20	26,448.00	27,292.44	29,393.28	.6	.9	1.3	1.1	1.5	.6	.9	.9	.6	1.2
Total, NATO	61,059.96	69,390.38	73,183.24	76,509.40	83,160.18	3.0	3.3	3.3	3.2	3.0	2.4	2.8	2.9	2.8	2.7

[1] In the case of the Federal Republic of Germany, figures comprise both exports to the various states of the Soviet bloc and interzonal trade deliveries to the Soviet-occupied zone of Germany.

TABLE 2.—*NATO countries' trade with the Sino-Soviet bloc—Exports to the bloc, 1959–63*

U.S.S.R., TOTAL EUROPEAN SATELLITES, COMMUNIST CHINA

[Annual totals, f.o.b. In millions of U.S. dollars]

Exporting countries	Importing countries														
	U.S.S.R.					European satellites					Total, Soviet bloc (excluding Communist China)				
	1959 (1)	1960 (2)	1961 (3)	1962 (4)	1963 (5)	1959 (6)	1960 (7)	1961 (8)	1962 (9)	1963 (10)	1959 (11)	1960 (12)	1961 (13)	1962 (14)	1963 (15)
Belgium-Luxembourg	7.44	18.84	27.00	25.56	13.20	52.68	75.48	64.80	61.08	60.48	60.12	94.32	91.80	86.64	73.68
Denmark	14.88	16.20	5.04	20.64	28.92	39.84	39.24	42.12	55.20	51.24	54.72	55.44	47.16	75.84	80.16
France	90.00	115.56	109.92	138.12	64.20	68.40	105.00	124.92	129.00	161.88	158.40	220.56	234.84	267.12	226.08
Federal Republic of Germany [1]	90.96	185.28	204.00	206.76	153.60	480.12	500.90	500.20	522.88	500.10	571.08	686.18	704.20	729.64	653.70
Greece	11.76	18.72	18.72	19.20	22.44	21.72	26.04	33.48	31.20	35.28	33.48	44.76	52.20	50.40	57.72
Iceland	11.88	9.96	5.28	10.92	10.68	9.96	5.40	4.80	4.68	5.64	21.84	15.36	10.08	15.60	16.32
Italy	43.92	78.96	90.00	103.20	114.96	76.32	93.96	127.32	138.72	156.24	120.24	172.92	217.32	241.92	271.20
Netherlands	11.88	11.76	19.68	31.92	23.76	46.44	50.76	58.32	44.52	48.12	58.32	62.52	78.00	76.44	71.88
Norway	16.08	12.84	12.48	10.44	12.72	21.60	25.56	24.72	27.12	33.60	37.68	38.40	37.20	37.56	46.32
Portugal	1.56	2.40				4.44	4.68	4.68	5.52	6.36	6.00	7.08	4.68	5.52	6.36
Turkey	4.80	4.80	4.44	5.52	7.08	36.00	34.32	25.44	21.12	28.32	40.80	39.12	29.88	26.64	35.40
United Kingdom	97.56	148.92	194.40	161.04	178.80	105.48	121.20	187.20	207.72	195.24	203.04	270.12	381.60	368.76	374.04
Total, NATO Europe	402.72	624.24	690.96	733.32	630.36	963.00	1,082.54	1,198.00	1,248.76	1,282.50	1,365.72	1,706.78	1,888.96	1,982.08	1,912.86
Canada	13.20	8.40	24.24	3.12	139.20	24.24	28.20	71.16	42.48	40.32	37.44	36.60	95.40	45.60	179.52
United States	7.20	39.60	45.48	20.04	22.92	82.80	153.60	87.48	104.76	143.52	90.00	193.20	132.96	124.80	166.44
Total, North America	20.40	48.00	69.72	23.16	162.12	107.04	181.80	158.64	147.24	183.84	127.44	229.80	228.36	170.40	345.96
Total, NATO	423.12	672.24	760.68	756.48	792.48	1,070.04	1,264.34	1,356.64	1,396.00	1,466.34	1,493.16	1,936.58	2,117.32	2,152.48	2,258.82

Exporting countries	Importing countries									
	Communist China					Total, Sino-Soviet bloc				
	1959 (16)	1960 (17)	1961 (18)	1962 (19)	1963 (20)	1959 (21)	1960 (22)	1961 (23)	1962 (24)	1963 (25)
Belgium-Luxembourg	33.48	44.04	10.08	7.92	9.48	93.60	138.36	101.88	94.56	83.16
Denmark	3.48	2.04	3.72	3.60	.60	58.20	57.48	50.88	79.44	80.76
France	39.72	52.68	36.36	43.32	58.44	198.12	273.24	271.20	310.44	284.52
Federal Republic of Germany [1]	128.64	95.40	30.48	31.20	15.36	699.72	781.58	734.68	760.84	669.06
Greece						33.48	44.76	52.20	50.40	57.72
Iceland						21.84	15.36	10.08	15.60	16.32
Italy	36.60	39.96	29.76	19.08	19.44	156.84	212.88	247.08	261.00	230.64
Netherlands	11.04	6.84	4.08	3.60	12.84	69.36	69.36	82.08	80.04	84.72
Norway	7.56	4.08	4.92	.96	3.36	45.24	42.48	42.12	38.52	49.68
Portugal	.60	.24		.12	.24	6.60	7.32	4.68	5.64	6.60
Turkey						40.80	39.12	29.88	26.64	35.40
United Kingdom	69.36	89.76	36.48	24.12	37.44	272.40	359.88	418.08	392.88	411.48
Total, NATO Europe	330.48	335.04	155.88	133.92	157.20	1,696.20	2,041.82	2,044.84	2,116.00	2,070.06
Canada	1.80	9.12	122.88	138.12	97.20	39.24	45.72	218.28	183.72	276.72
United States						90.00	193.20	132.96	124.80	166.44
Total, North America	1.80	9.12	122.88	138.12	97.20	129.24	238.92	351.24	308.52	443.16
Total, NATO	332.28	344.16	278.76	272.04	254.40	1,825.44	2,280.74	2,396.08	2,424.52	2,513.22

[1] In the case of the Federal Republic of Germany, cols. (6) to (15) and (21) to (25) comprise both exports to the various states of the Soviet bloc and interzonal trade deliveries to the Soviet-occupied zone of Germany.

TABLE 3.—*NATO countries' trade with the Sino-Soviet bloc—Exports to the bloc, 1959–63*

INDIVIDUAL EUROPEAN SATELLITES

[Annual totals, f.o.b. In millions of U.S. dollars]

Exporting countries	Importing countries																			
	Poland					Soviet occupation zone of Germany					Czechoslovakia					Hungary				
	1959 (1)	1960 (2)	1961 (3)	1962 (4)	1963 (5)	1959 (6)	1960 (7)	1961 (8)	1962 (9)	1963 (10)	1959 (11)	1960 (12)	1961 (13)	1962 (14)	1963 (15)	1959 (16)	1960 (17)	1961 (18)	1962 (19)	1963 (20)
Belgium-Luxembourg	14.16	16.09	10.44	7.68	8.04	8.28	12.00	11.52	13.68	14.28	14.16	23.28	24.96	20.40	16.68	7.68	11.88	8.88	8.64	9.36
Denmark	13.68	13.08	14.64	18.60	25.08	14.88	16.44	12.36	21.84	14.40	7.08	6.48	10.68	6.96	5.88	2.76	2.04	2.28	2.76	3.60
France	14.28	21.60	21.96	24.96	44.04	8.28	14.04	21.48	15.96	18.12	15.36	16.68	23.88	25.56	21.00	13.56	18.48	21.36	27.96	40.20
Federal Republic of Germany	69.96	72.36	69.24	65.76	65.40	[1]256.80	[1]245.30	[1]227.80	[1]225.40	[1]215.10	59.88	65.16	76.20	75.00	58.80	35.88	52.80	50.76	49.56	63.24
Greece	4.08	6.24	7.44	5.64	8.64	2.16	2.16	6.48	4.56	4.92	8.16	7.08	9.12	8.28	7.80	3.36	5.04	6.12	6.48	6.12
Iceland	1.20	.48	1.44	1.20	1.68	3.48	2.16	.96	.72	.96	5.04	2.40	2.16	2.28	1.56	------	------	------	.24	.36
Italy	16.56	20.76	29.76	28.20	33.96	6.24	6.84	10.80	7.92	12.96	10.44	16.92	26.28	27.36	21.48	16.32	22.68	22.32	23.40	26.76
Netherlands	14.28	14.16	10.08	8.76	9.12	11.28	15.36	16.08	9.24	12.12	8.28	10.56	18.00	11.28	9.12	4.56	5.64	9.12	10.08	11.88
Norway	4.44	5.04	4.68	6.84	9.12	6.72	8.40	6.00	6.12	7.32	5.76	7.08	8.40	9.48	9.60	.96	1.44	1.68	2.28	3.60
Portugal	1.08	1.20	1.08	.96	.96	.48	.48	.36	.36	.48	2.16	1.56	1.56	1.56	1.80	.12	.24	.24	.48	.84
Turkey	7.44	3.48	3.84	4.68	7.32	8.64	6.12	4.68	1.32	5.64	11.64	14.76	10.08	9.24	9.72	6.48	6.96	3.84	3.96	2.76
United Kingdom	46.32	40.92	65.04	92.28	78.60	11.64	23.16	27.48	27.00	22.44	22.56	24.72	31.32	39.72	33.48	11.76	12.48	16.44	19.56	21.00
Total, NATO Europe	207.48	215.40	239.64	265.56	291.96	338.88	352.46	346.00	334.12	328.74	170.52	196.68	242.64	237.12	196.92	103.44	139.68	143.04	155.40	189.72
Canada	16.32	17.16	41.16	34.92	25.20	------	.96	1.56	.12	1.20	5.16	6.96	20.64	3.36	12.36	1.08	.96	.60	.36	.36
United States	74.40	142.80	74.64	94.44	108.60	1.20	3.60	2.76	1.68	6.36	2.40	4.80	7.20	6.96	9.72	1.20	1.20	1.20	.84	17.28
Total, North America	90.72	159.96	115.80	129.36	133.80	1.20	4.56	4.32	1.80	7.56	7.56	11.76	27.84	10.32	22.08	2.28	2.16	1.80	1.20	17.64
Total, NATO	298.20	375.36	355.44	394.92	425.76	340.08	357.02	350.32	335.92	336.30	178.08	208.44	270.48	247.44	219.00	105.72	141.84	144.84	156.60	207.36

Exporting countries	Importing countries														
	Rumania					Bulgaria					Albania				
	1959 (21)	1960 (22)	1961 (23)	1962 (24)	1963 (25)	1959 (26)	1960 (27)	1961 (28)	1962 (29)	1963 (30)	1959 (31)	1960 (32)	1961 (33)	1962 (34)	1963 (35)
Belgium-Luxembourg	3.00	6.96	5.16	5.64	8.52	4.80	4.92	3.36	5.04	3.72	0.60	0.36	0.48		
Denmark	.48	.60	1.20	4.68	1.32	.72	.24	.48	.36	.96	.24	.36	.48		
France	8.76	25.08	23.64	20.64	20.76	7.56	7.08	11.88	9.96	16.92	.60	2.04	.72	3.96	0.84
Federal Republic of Germany	16.44	35.64	57.84	82.08	73.32	40.68	29.16	18.00	24.48	23.64	.48	.48	.36	.60	.60
Greece	1.80	2.40	2.40	2.88	3.24	1.92	2.76	1.68	3.36	4.68	.24	.36	.24		
Iceland				.36	1.08						.24	.36	.24		
Italy	8.16	16.32	23.28	37.56	42.12	16.80	7.92	9.60	13.44	16.80	1.80	2.52	5.28	.84	2.16
Netherlands	2.40	3.12	3.00	3.72	3.84	5.28	1.56	1.68	1.32	1.92	.36	.36	.36	.12	.12
Norway	2.76	2.16	1.44	1.44	.60	.72	1.08	2.16	1.08	3.48	.24	.36	.36		
Portugal	.36	.84	1.08	1.80	1.68			.24	.36	.60	.24	.36	.12		
Turkey	.48	1.08	1.80	.72	.84	1.08	1.56	.86	1.44	2.16	.24	.36	.24		
United Kingdom	6.60	11.88	41.40	25.56	33.24	6.24	7.68	5.16	3.48	6.00	.36	.36	.36	.12	.48
Total, NATO Europe	51.24	106.08	162.24	187.08	190.56	85.80	63.96	55.20	64.32	80.88	5.64	8.28	9.24	5.64	4.20
Canada	1.20	1.32	1.08	.48	1.20	.12	.48	.24	.36		.36	.36	5.88	2.88	1.00
United States	2.40	1.20	1.32	.84	1.20	1.20				.12			.36		.24
Total, North America	3.60	2.52	2.40	1.32	2.40	1.32	.48	.24	.36	.12	.36	.36	6.24	2.88	1.24
Total, NATO	54.84	108.60	164.64	188.40	192.96	87.12	64.44	55.44	64.68	81.00	6.00	8.64	15.48	8.52	5.44

[1] Interzonal trade deliveries.

TABLE 4.—*NATO countries' trade with the Sino-Soviet bloc as a percentage of their world trade, 1959–63*

IMPORTS

Countries	Countries' imports from the world (c.i.f. annual totals; million U.S. dollars)					Countries' imports from the Sino-Soviet bloc as a percentage of their total world imports					Countries' imports from the Soviet bloc (excluding Communist China) as a percentage of their total world imports				
	1959 (1)	1960 (2)	1961 (3)	1962 (4)	1963 (5)	1959 (6)	1960 (7)	1961 (8)	1962 (9)	1963 (10)	1959 (11)	1960 (12)	1961 (13)	1962 (14)	1963 (15)
Belgium-Luxembourg	3,444.48	3,888.84	4,163.76	4,471.20	5,112.60	2.4	2.2	2.1	2.3	2.4	2.2	1.9	2.1	2.2	2.2
Denmark	1,594.32	1,794.72	1,859.52	2,116.68	2,114.64	4.9	4.9	4.5	4.1	4.2	4.5	4.3	4.1	3.9	4.0
France	5,094.12	6,282.24	6,682.44	7,521.48	8,729.88	3.5	2.8	2.7	2.8	3.1	3.1	2.5	2.5	2.6	2.9
Federal Republic of Germany [1]	8,583.51	10,403.32	11,169.70	12,504.42	13,274.76	7.0	6.8	6.1	5.9	5.6	6.3	6.2	5.7	5.6	5.3
Greece	564.12	701.28	714.12	701.28	804.36	7.4	7.9	7.0	7.8	8.5	7.4	7.9	7.0	7.8	8.5
Iceland	94.68	88.80	74.76	89.28	109.56	30.5	22.7	23.0	19.2	17.7	30.5	22.7	23.0	19.2	17.7
Italy	3,363.24	4,747.44	5,256.48	6,097.68	7,580.88	5.0	6.1	6.2	5.7	5.9	4.6	5.6	5.9	5.5	5.6
Netherlands	3,938.76	4,530.72	5,112.00	5,347.44	5,967.24	3.4	2.6	2.3	2.1	2.3	2.8	2.1	2.0	1.9	2.0
Norway	1,314.72	1,459.92	1,614.48	1,654.92	1,821.72	3.7	3.4	3.1	3.0	2.9	3.5	3.1	3.0	2.9	2.8
Portugal	473.40	543.94	653.64	586.56	651.00	1.0	1.5	1.3	.8	.7	.9	1.4	1.2	.8	.7
Turkey	441.96	467.64	509.52	622.20	690.72	9.6	9.1	7.7	6.1	7.3	9.6	9.1	7.7	6.1	7.3
United Kingdom	11,172.24	12,758.16	12,314.16	12,577.56	13,496.52	3.4	3.6	4.2	4.0	4.0	2.9	3.1	3.5	3.5	3.6
Total, NATO Europe	40,079.55	47,666.92	50,124.58	54,290.70	60,363.88	4.5	4.4	4.3	4.2	4.2	4.0	3.9	4.0	3.9	3.9
Canada (f.o.b.)	5,897.88	5,663.16	5,696.40	5,851.80	6,081.24	.3	.3	.3	.3	.4	.2	.2	.3	.3	.3
United States (f.o.b.)	14,986.80	14,652.00	14,357.28	16,249.44	17,013.72	.5	.5	.6	.5	.5	.5	.5	.6	.5	.5
Total, North America	20,884.68	20,315.16	20,053.68	22,101.24	23,094.96	.5	.5	.5	.4	.5	.4	.5	.4	.4	.4
Total, NATO	60,964.23	67,982.08	70,178.26	76,391.94	83,448.84	3.1	3.2	3.2	3.1	3.2	2.8	2.9	3.0	2.9	3.0

[1] In the case of Federal Republic of Germany, figures comprise both imports from various states of the Soviet bloc and interzonal trade deliveries from the Soviet-occupied zone of Germany.

TABLE 5.—*NATO countries' trade with the Sino-Soviet bloc—Imports from the bloc, 1959–63*

U.S.S.R., TOTAL EUROPEAN SATELLITES, COMMUNIST CHINA

[Annual totals, c.i.f. In millions of U.S. dollars]

Importing countries	Exporting countries														
	U.S.S.R.					European satellites					Total Soviet bloc (excluding Communist China)				
	1959 (1)	1960 (2)	1961 (3)	1962 (4)	1963 (5)	1959 (6)	1960 (7)	1961 (8)	1962 (9)	1963 (10)	1959 (11)	1960 (12)	1961 (13)	1962 (14)	1963 (15)
Belgium-Luxembourg	32.76	27.12	34.08	43.08	51.12	41.64	48.36	51.36	54.12	62.88	74.40	75.48	85.44	97.20	114.00
Denmark	27.48	28.80	27.60	23.40	24.84	43.68	48.96	49.56	59.64	60.00	71.16	77.76	77.16	84.04	84.84
France	101.04	94.68	97.20	110.64	141.12	59.28	59.88	69.24	86.76	109.80	160.32	154.56	166.44	197.40	250.92
Federal Republic of Germany [1]	105.36	158.52	142.32	186.36	163.68	432.63	484.00	498.94	509.82	545.16	537.99	642.52	641.26	696.18	708.84
Greece	15.96	28.20	19.80	20.28	28.44	25.80	27.12	30.48	34.44	39.96	41.76	55.32	50.28	54.72	68.40
Iceland	15.12	12.24	10.92	10.32	11.88	13.80	7.92	6.24	6.84	7.56	28.92	20.16	17.16	17.16	19.44
Italy	78.48	126.48	151.08	166.92	176.76	77.40	140.28	160.20	166.44	249.36	155.88	266.76	311.28	333.36	426.12
Netherlands	63.12	44.40	39.36	36.36	47.28	47.28	52.92	64.80	62.76	73.20	110.40	97.32	104.16	99.12	120.48
Norway	18.60	19.32	19.44	18.24	21.36	27.72	26.64	28.80	29.40	30.12	46.32	45.96	48.24	47.64	51.48
Portugal	1.68	2.28	1.56	---	.36	2.76	5.52	6.48	4.44	4.20	4.44	7.80	8.04	4.44	4.56
Turkey	6.48	5.88	8.40	6.48	8.88	35.76	36.60	31.08	31.20	41.28	42.24	42.48	39.48	37.68	50.16
United Kingdom	176.40	209.76	238.20	235.56	254.64	149.28	179.52	198.24	206.16	226.68	325.68	389.28	436.44	441.72	481.32
Total, NATO Europe	642.48	757.68	789.96	857.64	930.36	957.03	1,117.72	1,195.42	1,252.02	1,450.20	1,599.51	1,875.40	1,985.38	2,109.66	2,380.56
Canada (f.o.b.)	2.28	3.24	2.64	1.68	2.16	9.96	10.20	13.20	14.16	16.68	12.24	13.44	15.84	15.84	18.84
United States (f.o.b.)	27.60	22.80	22.68	16.32	21.24	51.60	56.40	57.60	62.16	59.40	79.20	79.20	80.28	78.48	80.64
Total, North America	29.88	26.04	25.32	18.00	23.40	61.56	66.60	70.80	76.32	76.08	91.44	92.64	96.12	94.32	99.48
Total, NATO	672.36	783.72	815.28	875.64	953.76	1,018.59	1,184.32	1,266.22	1,328.34	1,526.28	1,690.95	1,968.04	2,081.50	2,203.98	2,480.04

See footnote at end of table.

TABLE 5.—*NATO countries' trade with the Sino-Soviet bloc—Imports from the bloc, 1959–63*—Continued

U.S.S.R., TOTAL EUROPEAN SATELLITES, COMMUNIST CHINA—Continued

[Annual totals, c.i.f. In millions of U.S. dollars]

Importing countries	Exporting countries									
	Communist China					Total, Sino-Soviet bloc				
	1959 (16)	1960 (17)	1961 (18)	1962 (19)	1963 (20)	1959 (21)	1960 (22)	1961 (23)	1962 (24)	1963 (25)
Belgium-Luxembourg	8.64	9.72	3.24	4.68	8.16	83.04	85.20	88.68	101.88	122.16
Denmark	7.08	10.20	6.60	3.84	4.20	78.24	87.96	83.76	86.88	89.04
France	16.20	22.68	15.84	16.92	21.12	176.52	177.24	182.28	214.32	272.04
Federal Republic of Germany [1]	66.12	69.36	39.60	39.24	40.80	604.11	711.88	680.86	735.42	749.64
Greece	.24			.12	.12	42.00	55.32	50.28	54.84	68.52
Iceland						28.92	20.16	17.16	17.16	19.44
Italy	13.32	24.12	12.24	14.16	19.20	169.20	290.88	323.52	347.52	445.32
Netherlands	21.96	21.36	15.24	13.92	15.72	132.36	118.68	119.40	113.04	136.20
Norway	2.52	3.12	1.68	1.56	1.92	48.84	49.08	49.92	49.20	53.40
Portugal	.12	.24	.24	.12	.12	4.56	8.04	8.28	4.56	4.68
Turkey						42.24	42.48	39.48	37.68	50.16
United Kingdom	55.20	69.72	86.40	64.80	51.84	380.88	459.00	522.84	506.52	533.16
Total, NATO Europe	191.40	230.52	181.08	159.36	163.20	1,790.91	2,105.92	2,166.46	2,269.02	2,543.76
Canada (f.o.b.)	5.04	5.76	3.24	4.20	4.80	17.28	19.20	19.08	20.04	23.64
United States (f.o.b.)			.36	.24	.24	79.20	79.20	80.64	78.72	80.88
Total, North America	5.04	5.76	3.60	4.44	5.04	96.48	98.40	99.72	98.76	104.52
Total, NATO	196.44	236.28	184.68	163.80	168.24	1,887.39	2,204.32	2,266.18	2,367.78	2,648.28

[1] In the case of the Federal Republic of Germany, cols. (6) to (15) and (21) to (25) comprise both imports from the various states of the Soviet bloc and interzonal deliveries from the Soviet occupied zone of Germany.

TABLE 6.—*NATO countries' trade with the Sino-Soviet bloc—Imports from the bloc, 1959–63*

INDIVIDUAL EUROPEAN SATELLITES

[Annual totals, c.i.f. In millions of U.S. dollars]

Importing countries	Exporting countries																			
	Poland					Soviet occupation zone of Germany					Czechoslovakia					Hungary				
	1959	1960	1961	1962	1963	1959	1960	1961	1962	1963	1959	1960	1961	1962	1963	1959	1960	1961	1962	1963
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)
Belgium-Luxembourg	8.88	9.48	9.72	12.36	11.40	12.84	15.48	14.16	16.92	19.68	10.80	12.84	13.44	11.52	14.52	4.56	4.92	4.08	4.68	5.76
Denmark	18.48	22.08	20.16	28.08	28.32	14.88	14.40	15.84	16.32	17.04	7.08	8.88	9.36	10.20	8.52	2.52	2.88	2.76	4.20	5.16
France	14.28	14.88	16.56	24.12	23.28	7.08	6.96	8.40	8.52	12.60	12.96	11.28	15.36	14.88	15.72	7.20	8.16	6.96	8.16	10.92
Federal Republic of Germany	81.00	76.20	84.36	81.96	80.52	[1]212.31	[1]239.80	[1]229.30	[1]224.70	[1]255.60	56.28	61.68	61.92	65.88	65.40	42.36	44.40	47.16	48.60	57.96
Greece	4.68	4.56	4.80	5.52	6.36	2.64	1.56	2.64	3.96	4.80	8.64	10.32	10.20	9.12	8.76	2.40	5.16	5.16	5.88	8.16
Iceland	2.04	1.44	1.56	2.28	2.64	6.60	3.12	1.92	1.68	1.20	4.92	3.12	2.40	2.28	2.16	.12	------	------	.24	.36
Italy	21.36	37.08	39.36	45.84	57.24	5.88	14.52	14.28	11.52	12.36	15.24	23.28	29.04	33.12	40.80	15.24	19.32	17.52	23.16	49.44
Netherlands	7.56	8.04	9.36	12.24	13.80	15.48	18.60	17.52	17.64	23.28	16.80	18.24	22.92	20.76	21.36	3.96	4.32	6.72	6.60	9.24
Norway	4.56	4.56	4.80	7.44	7.80	8.28	8.16	8.40	7.68	6.00	10.44	9.12	10.68	10.44	11.16	1.32	1.80	1.92	2.16	3.48
Portugal	.72	.72	2.52	1.56	1.20	.36	.48	.24	.24	.24	1.44	1.32	.96	1.44	1.08	.12	.12	.12	.12	.36
Turkey	6.00	8.52	5.52	7.44	7.92	11.04	7.80	6.12	4.32	5.76	12.48	11.64	11.64	11.76	14.16	3.84	5.16	4.32	4.56	7.44
United Kingdom	91.44	100.92	103.32	107.76	112.56	12.84	17.52	18.72	18.48	21.12	25.32	31.44	38.04	37.08	45.72	8.88	12.12	11.88	13.32	16.20
Total, NATO Europe	261.00	288.48	302.04	336.60	353.04	310.23	348.40	337.54	331.98	379.68	182.40	203.16	225.96	228.48	249.36	92.52	108.36	108.60	121.68	174.48
Canada (f.o.b.)	1.80	1.92	3.24	4.44	6.24	.84	.84	.96	.84	1.08	6.72	6.84	8.40	8.40	8.52	.24	.24	.36	.36	.48
United States (f.o.b.)	31.20	38.40	41.16	45.60	42.72	3.60	2.40	2.52	3.00	3.24	12.00	12.00	9.12	9.96	9.96	2.40	1.20	2.04	1.68	1.56
Total, North America	33.00	40.32	44.40	50.04	48.96	4.44	3.24	3.48	3.84	4.32	18.72	18.84	17.52	18.36	18.48	2.64	1.44	2.40	2.04	2.04
Total, NATO	294.00	328.80	346.44	386.64	402.00	314.67	351.64	341.02	335.82	384.00	201.12	222.00	243.48	246.84	267.84	95.16	109.80	111.00	123.72	176.52

[1] Interzonal trade deliveries.

TABLE 6.—*NATO countries' trade with the Sino-Soviet bloc—Imports from the bloc, 1959–63*—Continued

INDIVIDUAL EUROPEAN SATELLITES—Continued

[Annuals totals, c.i.f. In millions of U.S. dollars]

Importing countries	Exporting countries														
	Rumania					Bulgaria					Albania				
	1959 (1)	1960 (2)	1961 (3)	1962 (4)	1963 (5)	1959 (6)	1960 (7)	1961 (8)	1962 (9)	1963 (10)	1959 (11)	1960 (12)	1961 (13)	1962 (14)	1963 (15)
Belgium-Luxembourg	3.24	3.48	7.08	5.64	8.64	0.96	1.92	2.40	3.00	3.00	0.36	0.24	0.48	----	----
Denmark	.24	.12	.72	.36	.48	----	.12	.24	.48	.60	.48	.48	.48	----	----
France	14.76	14.40	17.04	22.08	34.32	2.64	3.84	4.32	9.00	12.84	.36	.36	.60	----	0.12
Federal Republic of Germany	24.96	41.88	52.32	61.80	56.28	15.36	19.68	23.52	26.76	29.28	.36	.36	.36	0.12	.12
Greece	5.04	3.36	3.96	6.00	6.36	2.04	1.80	3.36	4.08	5.64	.36	.36	.36	----	----
Iceland	----	----	----	.36	1.32	----	----	----	----	----	.12	.24	.36	----	----
Italy	11.40	31.68	42.12	35.40	62.52	7.08	13.68	16.92	16.08	25.32	1.20	.72	.96	1.32	1.68
Netherlands	1.68	2.16	5.40	3.24	3.72	1.56	1.20	2.64	2.16	1.68	.24	.36	.24	.12	.12
Norway	2.76	2.64	2.40	.72	.84	.12	.12	.24	1.08	.96	.24	.24	.36	----	----
Portugal	----	2.64	2.38	.96	1.32	----	----	----	----	----	.12	.24	.36	.12	----
Turkey	1.44	1.68	1.44	.72	2.64	.72	1.44	1.68	2.52	3.48	.24	.36	.36	----	----
United Kingdom	6.00	11.04	16.92	19.80	20.76	4.32	6.24	9.12	9.36	10.20	.48	.24	.24	.36	.12
Total, NATO Europe	71.52	115.08	151.68	157.08	199.20	34.80	50.04	64.44	74.52	93.00	4.56	4.20	5.16	2.04	2.16
Canada (f.o.b.)	----	----	.24	.12	.12	----	----	----	----	.12	.36	.36	----	----	.12
United States (f.o.b.)	1.20	1.20	1.32	.60	.72	1.20	1.20	1.08	1.20	1.08	----	----	.36	.12	.12
Total, North America	1.20	1.20	1.56	.72	.84	1.20	1.20	1.08	1.20	1.20	.36	.36	.36	.12	.24
Total, NATO	72.72	116.28	153.24	157.80	200.04	36.00	51.24	65.52	75.72	94.20	4.92	4.56	5.52	2.16	2.40

TABLE 7.—*Commodity composition of Soviet exports to the industrial West, 1955–62*

[In millions of current U.S. dollars and percent of total]

	1955		1956		1957		1958		1959		1960		1961		1962	
	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent
Total, exports [1]	543.7	100.0	597.2	100.0	690.1	100.0	669.6	100.0	855.5	100.0	971.8	100.0	1,059.9	100.0	1,105.1	100.0
Fuels, lubricants, and related materials	72.3	13.3	101.8	17.0	145.1	21.0	143.7	21.5	207.7	24.3	245.8	25.3	279.3	26.3	320.9	29.0
Coal and coke	27.2	5.0	39.0	6.5	49.1	7.1	53.3	8.0	55.0	6.4	57.1	5.9	65.1	6.1	77.7	7.0
Petroleum and petroleum products	45.1	8.3	62.8	10.6	9.0	13.9	90.4	13.5	152.7	17.9	188.7	19.4	214.0	20.2	243.3	22.0
Ores and concentrates	12.8	2.4	22.4	3.8	28.6	4.1	23.9	3.6	25.6	3.0	33.1	3.4	31.4	3.0	25.1	2.3
Manganese ore	7.7	1.4	16.2	2.7	21.7	3.1	16.2	2.4	14.6	1.7	14.9	1.5	13.3	1.3	9.0	.8
Base metals and manufactures	52.2	9.6	90.4	15.1	112.9	16.4	95.3	14.2	95.5	11.2	111.3	11.5	118.6	11.2	118.2	10.7
Ferrous metals	42.2	7.8	63.9	10.7	65.8	9.5	33.1	4.9	47.0	5.5	70.9	7.3	80.9	7.6	84.0	7.6
Pig iron	24.8	4.6	34.7	5.8	30.3	4.4	12.4	1.9	23.8	2.8	34.7	3.6	40.6	3.8	46.0	4.2
Rolled ferrous metals	7.9	1.5	13.4	2.2	17.8	2.6	10.3	1.5	11.8	1.4	18.9	1.9	24.0	2.3	24.0	2.2
Nonferrous metals	10.0	1.8	26.5	4.4	47.1	6.8	62.3	9.3	48.5	5.7	40.3	4.1	37.7	3.6	34.2	3.1
Tin			1.0	.2	21.9	3.2	32.2	4.8	23.7	2.8	13.1	1.3	1.8	.2		
Aluminum	2.8	.5	17.2	2.9	14.5	2.1	20.8	3.1	15.2	1.8	7.3	.8	6.6	.6	14.7	1.3
Wood and wood products	112.4	20.7	95.3	16.0	115.8	16.8	122.9	18.4	129.4	15.1	157.2	16.2	177.3	16.7	200.9	18.2
Lumber	73.2	13.5	63.7	10.7	79.5	11.5	75.1	11.2	83.8	9.8	99.0	10.2	106.7	10.1	109.6	9.9
Textile raw materials and semimanufactures	65.4	12.0	58.7	9.8	42.0	6.1	39.3	5.9	60.5	7.1	70.1	7.2	52.1	4.9	52.6	4.8
Cotton fibers	47.4	8.7	34.5	5.8	26.6	3.9	22.0	3.3	39.2	4.6	50.3	5.2	34.7	3.3	28.8	2.6
Consumer goods	107.8	19.8	117.0	19.6	135.9	19.7	123.4	18.4	171.7	20.1	169.1	17.4	207.3	19.6	183.8	16.6
Food	70.0	12.9	77.4	13.0	96.1	13.9	85.0	12.7	126.4	14.8	117.2	12.1	158.1	14.9	103.1	11.8
Grain	47.5	8.8	54.1	9.1	68.2	9.9	63.1	9.4	99.1	11.6	85.3	8.8	128.2	12.1	93.2	8.4
Other consumer goods	37.8	7.0	39.6	6.7	39.8	5.8	38.4	5.7	45.3	5.3	51.9	5.3	49.2	4.6	53.7	4.9
Furs and pelts	35.6	6.6	36.2	6.1	35.7	5.2	34.1	5.1	39.9	4.7	44.2	4.5	41.4	3.9	46.2	4.2
Other merchandise	68.4	12.6	75.8	12.7	83.1	12.0	93.4	13.9	120.1	14.0	146.1	15.0	128.4	12.1	122.0	11.0
Unspecified	52.4	9.7	35.8	6.0	26.9	3.9	27.6	4.1	45.2	5.3	39.1	4.0	65.6	6.2	81.6	7.4

[1] Because of rounding, components may not add to the totals shown.

TABLE 8.—*Commodity composition of Soviet imports from the industrial West, 1955–62*

[In millions of current U.S. dollars and percent of total]

	1955		1956		1957		1958		1959		1960		1961		1962	
	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent
Total imports [1]	430.6	100.0	578.8	100.0	672.5	100.0	622.2	100.0	756.5	100.0	1,069.5	100.0	1,087.7	100.0	1,264.6	100.0
Machinery and equipment	181.5	42.1	229.2	39.6	217.3	32.3	194.1	31.2	293.9	38.8	456.4	42.7	469.8	43.2	596.0	47.1
Chemical equipment			.3	.1	7.4	1.1	19.5	3.1	77.8	10.3	135.4	12.7	131.9	12.1	88.0	7.0
Transport equipment	101.4	23.5	145.7	25.2	97.3	14.5	76.7	12.3	91.6	12.1	121.1	11.3	66.1	6.1	149.9	11.8
Base metals and manufactures	53.4	12.4	123.0	21.3	146.3	21.8	161.9	26.0	219.1	29.0	297.2	27.8	241.9	22.2	294.9	23.3
Ferrous metals	12.3	2.	74.0	12.8	104.2	15.5	106.3	17.1	175.9	23.3	252.1	23.6	192.9	17.7	242.7	19.2
Rolled ferrous metals	8.1	1.9	65.9	11.4	88.8	13.2	97.6	15.7	94.4	12.5	135.7	12.7	96.5	8.9	109.9	8.7
Pipes	1.3	.3	2.6	.4	5.3	.8	1.1	.2	68.9	9.1	101.9	9.5	80.7	7.4	119.6	9.5
Nonferrous metals	41.1	9.5	49.1	8.5	42.1	6.3	55.6	8.9	43.3	5.7	45.1	4.2	49.0	4.5	52.2	4.1
Copper	40.2	9.3	45.9	7.9	40.5	6.0	54.1	8.7	35.7	4.7	38.2	3.6	32.0	2.9	44.9	3.6
Wood and wood products	48.9	11.4	63.5	11.0	77.4	11.5	63.4	10.2	49.2	6.5	52.2	4.9	70.1	6.4	64.5	5.1
Textile raw materials and semimanufactures	29.6	6.9	40.7	7.0	61.2	9.1	50.7	8.1	43.3	5.7	79.5	7.4	83.8	7.7	77.3	6.1
Wool fibers	18.4	4.3	20.2	3.5	34.4	5.1	17.1	2.7	10.2	1.3	48.1	4.5	37.1	3.4	29.5	2.3
Synthetic fibers	7.3	1.7	15.4	2.7	15.0	2.2	18.9	3.0	20.1	2.7	12.9	1.2	28.7	2.6	20.9	1.6
Consumer goods	43.1	10.0	64.3	11.1	64.6	9.6	71.5	11.5	56.8	7.5	46.0	4.3	73.5	6.8	59.2	4.7
Other merchandise	28.7	6.7	54.2	9.4	67.9	10.1	70.0	11.3	85.4	11.3	115.2	10.8	126.5	11.6	147.9	11.7
Unspecified	45.5	10.6	3.9	.7	37.8	5.6	10.6	1.7	8.8	1.2	23.0	2.2	22.1	2.0	24.8	2.0

[1] Because of rounding, components may not add to the totals shown.

TABLE 9.—*Commodity composition of Soviet exports to underdeveloped countries, 1955–62*

[In millions of current U.S. dollars and percent of total]

	1955		1956		1957		1958		1959		1960		1961		1962	
	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent
Total exports [1]	112.3	100.0	179.5	100.0	282.8	100.0	389.3	100.0	343.5	100.0	345.6	100.0	507.3	100.0	567.7	100.0
Machinery and equipment	5.4	4.8	23.4	13.0	87.7	31.0	160.5	41.2	112.8	32.8	125.7	36.4	235.9	46.5	285.9	50.4
Complete plants	1.1	1.0	7.6	4.2	47.2	16.7	112.3	28.8	69.3	20.2	68.6	19.8	138.8	27.4	184.9	32.6
Petroleum and petroleum products	31.9	28.4	39.3	21.9	49.9	17.6	78.2	20.1	80.2	23.3	61.3	17.7	67.4	13.3	62.2	11.0
Rolled ferrous metals	16.2	14.4	43.5	24.2	45.6	16.1	33.4	8.6	29.2	8.5	24.3	7.0	23.4	4.6	31.7	5.6
Wood and wood products	15.3	13.6	16.4	9.1	21.0	7.4	30.5	7.8	30.5	8.9	38.8	11.2	38.1	7.5	34.0	6.0
Food	10.5	9.4	25.0	13.9	40.0	14.1	45.6	11.7	45.2	13.2	39.3	11.4	47.6	9.4	68.7	12.1
Other merchandise	28.8	25.7	31.7	17.7	36.4	12.9	38.1	9.8	40.8	11.9	50.2	14.5	56.0	11.0	64.9	11.4
Unspecified	4.1	3.7	.2	.1	2.3	.8	2.9	.7	4.9	1.4	6.0	1.7	38.9	7.7	20.3	3.6

[1] Because of rounding, components may not add to the totals shown.

TABLE 10.—*Commodity composition of Soviet imports from underdeveloped countries, 1955–62*

[In millions of current U.S. dollars and percent of total]

	1955		1956		1957		1958		1959		1960		1961		1962	
	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent
Total imports [1]	210.4	100.0	296.5	100.0	435.3	100.0	481.6	100.0	522.2	100.0	574.8	100.0	584.1	100.0	614.0	100.0
Cotton	18.9	9.0	53.5	18.0	122.6	28.2	135.2	28.1	111.6	21.4	139.4	24.3	122.0	20.9	112.0	18.2
Natural rubber	25.5	12.1	96.8	32.6	67.6	15.5	131.4	27.3	144.0	27.6	151.8	26.4	224.8	38.5	205.9	33.5
Food	95.8	45.6	80.4	27.1	143.0	32.8	91.9	19.1	106.8	20.5	123.3	21.5	98.7	16.9	140.3	22.8
Nonferrous metals	.2	.1	.3	.1	.2	(2)	------	------	33.9	6.5	33.2	5.8	19.9	3.4	20.4	3.3
Other merchandise	47.8	22.7	65.4	22.1	100.9	23.2	121.8	25.3	124.4	23.8	126.4	22.0	114.1	19.5	128.7	21.0
Unspecified	22.1	10.5	.1	(2)	1.1	.3	1.2	.2	1.5	.3	.8	.1	4.6	.8	6.6	1.1

[1] Because of rounding, components may not add to the totals shown.

[2] Negligible.

The CHAIRMAN. Well, Mr. Danielian, I certainly agree with what you say, particularly that last point. The problem has been how we induce such a definition, and I think what you have said is most interesting. I find a rather consistent element running through this between what you have said and what other witnesses have said, not only today but on previous occasions.

Senator Symington?

SERIOUSNESS OF BALANCE-OF-PAYMENTS PROBLEM

Senator SYMINGTON. Doctor, I would like to compliment you. To the best of my knowledge, you are the first expert in this field who warned of the basic seriousness of these continuing unfavorable balance of payments. I have been much impressed by how rapidly the prophecies you made some year and a half ago, as to the growing seriousness of this problem, have come true. I only wish more people had listened to you then, or at least as many people as agree with you today.

But when you talk about how we are going to get a return, I was thinking of the French, a country with which we have had many economic ties. They have been rather rough on us, it seems to me, in recent years. They have taken their fleet out of NATO, and their planes, and much, if not most of their army.

DRAIN OF U.S. GOLD SUPPLY AGGRAVATED BY THE FRENCH

They have been working with the Chinese against our policies in South Vietnam, and working with the Russians against our policies in South Vietnam, and they have been conducting the greatest raid since Jeb Stuart's days against our Treasury.

As I understand it, if the French go through with their plans in March, we will have lost over five times as much gold already this year as we lost all last year. You have been traveling extensively in recent weeks?

Mr. DANIELIAN. Yes, I have just returned from a 2-month trip to the Far East and around the world.

Senator SYMINGTON. There is a story that, politically, General de Gaulle is not satisfied with ownership by American corporations, of too much of the French economy, specifically, I read that he opposed the General Electric Co.'s purchase of an electronic computer plant which was making certain secret components for his nuclear force de frappe.

The more I watch his operations, the more I remember that saying about one can take care of one's enemies, but deliver one from his friends. Inasmuch as General de Gaulle apparently intends to continue to sell his dollars for gold, despite the embarrassment he knows he is now giving us, and inasmuch as I saw some figures the other day which would imply we have not had enough gold to start with anyway for growing world trade since 1938, increased gold from $25.9 to $39.9 billion, an increase of about $14 billion. At the same time, we have increased world trade from $44 to $298 billion, how can he now think we should go back to the gold standard.

If he continues to draw down our gold, what would be the repercussions, in your opinion, if we started holding him to account for the some $6 billion France owes us from World War I?

Mr. DANIELIAN. I do not know the legal status of that.

Senator SYMINGTON. Let us take the premise, that they do owe us this money.

Mr. DANIELIAN. If you have a claim which is exercisable at our option, obviously we should demand payment and perhaps credit the gold that he is trying to take away to this debt. I would have to look into the facts of the case. If we do have a legal claim, I do not understand why the State Department does not exercise it.

Senator SYMINGTON. With the premise that we do have a legal claim, what would be the repercussions around the rest of Europe if we requested payment?

Mr. DANIELIAN. I should not imagine that they would be unfavorable to us.

Senator SYMINGTON. You do not think there would be any negative reaction from say West Germany, or Holland, or Belgium, or the Western European community, primarily based upon the Common Market, under his leadership and with atomic weapons over which he would have a monopoly.

About a year ago, I asked people in our Government if they were not apprehensive about the growing problems incident to De Gaulle's continuing collection of gold for dollars, and asked what would happen if he started selling more heavily dollars for gold. They said not to worry, because the French bankers were perhaps the most cooperative of all bankers in the free world. Since you have just come back from over there, do you believe the French bankers can operate independently of any political decision General de Gaulle decides to make?

Mr. DANIELIAN. If I were to make a broad generalization on the relationship between business and the government in the various countries of Europe, I would say that the business community, including the banking community, is more readily responsive to governmental direction—they call it dirigisme—than the business communities in any other countries.

Senator SYMINGTON. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Aiken?

Senator AIKEN. Mr. Chairman, the testimony of Dr. Danielian and the preceding witnesses has made this one of our most productive and valuable hearings. In evidence of that, I submit the rather unusual fact that during practically the whole hearing, expert witnesses have been listening to each other.

I have no questions.

The CHAIRMAN. Thank you very much, Dr. Danielian. I am sorry to have kept you so late.

Mr. DANIELIAN. Thank you, sir.

The CHAIRMAN. The committee is adjourned.

(Whereupon, at 1:40 p.m., the committee was adjourned, to reconvene subject to call of the Chair.)

(The following letters and statements were subsequently received for the record:)

McGRAW-HILL BOOK CO.,
New York, N.Y., March 5, 1965.

Hon. J. WILLIAM FULBRIGHT,
Chairman, Committee on Foreign Relations,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: I would like this letter to appear in the printed record of the recent hearings before your committee on the general subject of East-West trade.

Unfortunately, we did not learn about the hearings until it was too late to make a personal appearance. I would have welcomed the opportunity to present in person to your committee the problem we have on copyright relations with the U.S.S.R. I shall not attempt in this letter to cover the entire subject but would like to request that a rather detailed statement be printed in the record which is a chapter from a report made by an official delegation to the U.S.S.R. in August and September of 1962. I am enclosing a complete copy of this report but would ask only that the title page, the preface, perhaps the introduction, and chapter XVI be printed in the record of your hearings. Chapter XVI goes into considerable detail on the lack of copyright relations between the U.S.S.R. and the United States (and all other countries as well) as of 1962. If anything the situation has retrogressed since that time. Following the visit of our delegation in 1962, a committee was set up in Moscow to make a further study of the question of international copyright relations, and this committee was still in existence when the reciprocal Soviet book delegation visited the United States in the spring of 1963. However, when an official delegation of British book publishers visited the U.S.S.R. in September and October 1964, there seemed to be no evidence of functioning of this committee.

Nevertheless, we believe that there is a real possibility that the Government of the U.S.S.R. will eventually see the advantages to themselves as well as other countries of their adhering to the Universal Copyright Convention. In our opinion, many of the authors and professional people in the publishing industry already recognize these advantages.

We would hope also that in any intergovernmental negotiations on the matter of increased trade between the U.S.S.R. and the United States that our Government would keep the matter of copyright relations high on the agenda. and incorporate it into any formal agreements which may be made between the two countries. I should add that there is not a similar problem on copyright with any of the Eastern European countries, all of whom are members of the older Berne Convention and respect international copyright. They have the same problems with the U.S.S.R. that we do in the copyright field.

If by any chance your committee should have additional hearings on this subject of East-West trade in the future, we would appreciate being notified and given the opportunity to present testimony orally.

Very truly yours,

CURTIS G. BENJAMIN,
Chairman, Delegation to the U.S.S.R., 1962, Representing the American Book Publishers Council and the American Textbook Publishers Institute.

BOOK PUBLISHING IN THE U.S.S.R.

REPORT OF THE DELEGATION OF U.S. BOOK PUBLISHERS VISITING THE U.S.S.R., AUGUST 20–SEPTEMBER 17, 1962

(American Book Publishers Council, Inc., American Textbook Publishers Institute, Inc., New York, N.Y.)

PREFACE

The report which follows was prepared by the group of book publishers which visited the U.S.S.R. under the official U.S.–U.S.S.R. Exchanges Agreement for 1962–63 signed in Washington on March 8, 1962. A similar group of Soviet specialists in book publishing is scheduled to come to the United States on a reciprocal visit.

The Department of State welcomes the preparation of reports such as this one by the U.S. groups which go to the Soviet Union under the exchanges program.

Such reports contribute to the purposes of the program by making available to broad business and professional circles as well as to the general public the information and impressions gained by groups of specialists which are necessarily limited in size. The Department is also grateful to the companies and individual businessmen assuming the considerable expenses involved in making such trips to the Soviet Union, as well as to the trade associations which shoulder the responsibility of the programs for the return visits to the United States of exchange groups. The exchange program could not operate successfully without this generous support in time and money from business and other private sources.

RALPH A. JONES,
Deputy Director, Soviet and Eastern European Exchanges Staff, U.S. Department of State, Washington, D.C.

MEMBERS OF THE DELEGATION OF U.S. BOOK PUBLISHERS TO THE U.S.S.R. AUGUST–SEPTEMBER 1962

Curtis G. Benjamin, chairman of board, McGraw-Hill Book Co., 330 West 42d Street, New York, N.Y., chairman, Joint Committee on Copyright of the American Book Publishers Council (ABCP) and the American Textbook Publishers Institute (ATPI).

Kurt Enoch, president, New American Library, 501 Madison Avenue, New York, N.Y., member of board of directors ABPC.

Storer B. Lunt, chairman of board, W. W. Norton & Co., Inc., 55 Fifth Avenue, New York, N.Y., chairman of the Committee on Reading Development, ABPC, member, executive committee, International Publishers Association.

M. R. Robinson, president, Scholastic Book Services, 50 West 44th Street, New York, N.Y., president, American Textbook Publishers Institute.

W. B. Wiley, president, John Wiley & Sons, Inc., 440 Park Avenue South, New York, N.Y., chairman, Joint Committee on International Trade of the ABPC and the ATPI.

Robert W. Frase, director, Joint Washington Office of the ABPC and the ATPI, 1820 Jefferson Place, NW., Washington, D.C.

I. INTRODUCTION

The U.S.–U.S.S.R. Cultural Exchanges Agreement for 1962–63 was signed on March 8, 1962. In accordance with the agreement, the objective of the American book publishers visiting the U.S.S.R. was to be twofold:

1. To make a study of the methods of book selection, the printing of books and their distribution;

2. To encourage the exchange of books, magazines, newspapers, and other publications devoted to scientific, technical, cultural, and general educational subjects both through commercial channels and between the libraries, universities, and other organizations of each country.

Also related to the book industry was a provision of the agreement providing for an exhibit of technical books from each country in three to four cities of the other country. Finally, a comparable group of U.S.S.R. publishers is scheduled to visit the United States in 1963.

On March 20 the representatives of the American Book Publishers Council and the American Textbook Publishers Institute met in Washington to formalize the details of the proposed exchange. Our preliminary request for six publishers and for a full month's survey—as opposed to five publishers for 3 weeks—was presented.

Subsequently the six American delegates were named by the presidents of both the council and the institute. Messers. W. B. Wiley and M. R. Robinson were to represent the institute. Messers. K. Enoch and S. B. Lunt were to represent the council. Messers. C. G. Benjamin and R. W. Frase were joint appointees of both organizations. Mr. Benjamin was designated chairman, with Mr. Frase serving as secretary of the delegation.

In the official acceptance of our proposals by the U.S.S.R. dated July 12 our suggestions as to the number of delegates and the 4-week duration of the visit to the U.S.S.R. were accepted. We were requested to appear in Moscow on August 20. Prior to leaving the United States, there were consultations in Washington with those officially concerned and we also met with officials in the Embassy of the U.S.S.R.

Before proceeding to Moscow we assembled as a delegation in London and there we were guests at a luncheon given by the British Publishers Association. Two

of the British publishers present had also been to the U.S.S.R. on a publishing mission. The London publishers were generous with helpful information, and it became clear that along with a common language, we both share common problems and that we will do well to work closely together and keep each other informed of further developments. It should here be pointed out that English is the principal world language used in the U.S.S.R., being increasingly taught in the schools and widely known. On the return trip via London, two of the delegation met again with the British publishers and reported informally on our visit.

We made it our business to see as much of as many of the leading people in the U.S.S.R. book industry—officials, publishers, printers, book distributors, authors, librarians, managers of bookstores of various types—and to explore and study as many areas of the industry as could be managed. This offered many opportunities to register and underline the importance of the Universal Copyright Convention, and its long-term real advantages to all countries, including the U.S.S.R., and also to explore ways and means whereby U.S. publications could be made more available to the people of the U.S.S.R

Moscow made the major claims on our time both at the outset and at the termination of our visit, but distinct and important findings came from our visits of several days each to Leningrad, Kiev, Sochi, and Alma Ata along with neighboring villages and one visit to a collective farm. At our first meeting with the Soviet State Committee for the Coordination of Scientific Research, one of our hosts, the U.S.S.R. officials accommodated our every request both on our itinerary and on our appointments in each locality to be visited. Official cars were always available to us, and we were met and seen off by local government officials and publishing representatives wherever we went. Further, arrangements for conferences—some 50 altogether—were meticulously planned; and directors with their management subordinates were prepared to talk freely and information was fully given. Our questions were countered with responsive and factual answers in practically every instance. Our final official meeting in Moscow was with Mrs. Furtseva, the U.S.S.R. Minister of Culture, with whom the discussions were very frank, timely, and pointed.

We were fortunate in being accompanied throughout our visit by two English-speaking representatives of the U.S.S.R. publishing industry: Mr. N. Sabetski, a skilled and experienced author, editor, and deputy director of the U.S.S.R. Publishing House of Foreign Literature, and his younger colleague, Mr. O. Sergeyev, who served as interpreter. The delegation was particularly fortunate in having during our entire stay the knowledgeable skills and expert guidance of Mr. Herbert S. Okun, then second secretary of the U.S. Embassy in Moscow. To these three gentlemen go our acknowledgment and our thanks.

It is usual in a report such as this to state that within so limited a time a complete picture could not be obtained. This is so. A complete picture could not be secured; but we feel that it may be fairly stated that once we understood the pattern of the organization of the Soviet book industry, we developed a very fair grasp of the methods of operating it. In this report we have cited exact statistics from documentary sources wherever possible. When such sources were not available we have given as approximations figures from our notes which had been provided to us orally in our conferences with Soviet bookmen. This report has been authored by each one of us and the facts and opinions here expressed are shared by the entire delegation.

CHAPTER XVI. COPYRIGHT

On every appropriate occasion we presented the problem of international copyright, and argued the disadvantages of the Soviet Union's present position as a nonadherent to the Universal Copyright Convention and the advantages, both national and international, that would flow from their joining the UCC. We spoke of the Universal Copyright Convention rather than the Berne Convention because joining the UCC would require fewer changes from present copyright practice within the Soviet Union. The resulting discussions usually were frank and direct, but in most instances the directors or editors-in-chief of publishing houses would protest at the outset that this was properly a matter for discussion on the governmental level and not between publishers or representatives of publishers' organizations.

Nevertheless, our arguments were received politely and patiently in almost every conference, and usually there was rebuttal of varying kind, strength, and conviction. We were surprised to find that many of the Soviet publishing officials were uninformed or even misinformed on general facts and issues as

well as on critical technical points. Obviously most of them had not been exposed to, nor much interested in, the true position and posture of the U.S.S.R. on the international copyright scene, except as it involved their "sister Socialist republics." Hence our many discussions served not only to give fairly wide ventilation to the problem of copyright, but also to inform and often to correct certain widely held misconceptions.

Our most useful discussions in this area seemed to be those with Mrs. Ye. A. Furtseva, Minister of Culture; Mr. S. K. Romanovsky, chairman of the State Committee for Cultural Relations with Foreign Countries; and Mr. A. P. Rybin, Chief of the Main Administration of Publishing Houses (Glavizdat) in the Ministry of Culture. At the end of a frank and spirited but friendly debate with Mrs. Furtseva, which took place at the very end of our stay in the Soviet Union, she stated that perhaps her Ministry needed more information on the legal technicalities, the publishing problems and the economic issues involved. She then went on to suggest that a special committee might be appointed to investigate the matter. Following this, we had another session with Mr. Rybin, who had attended the meeting with Minister Furtseva, at which the position of each side was examined in some detail.

In the publishing houses, nearly everyone agreed that the present situation was not a happy one. Nearly everyone also agreed that the publication of translations without the consent of the author and without royalty payments was wrong in principle. Several officials agreed in principle that the U.S.S.R. should become a member of the UCC, but they were very wary of the practical difficulties (political, legal, and economic) involved. When the subject had been broached successfully, we usually found ready interest and willingness to discuss it within a limited frame of authority and responsibility. Only once was the discussion cut off by the Soviet chairman's saying that it was not a proper subject for discussion at that time, place, and level.

So in the end we felt that these discussions had had much value to both sides—that they had paved the way to a better understanding of the true issues involved and a better appreciation of the interests on each side of each issue. We are encouraged to feel that our discussions might even lead to a reconsideration of the problem by the appropriate officials and organizations in the U.S.S.R.

For those who have a special interest in this matter, the balance of this chapter is devoted to a summary of our arguments and of the Soviet counterarguments, as we understood them.

COPYRIGHT—THE POSITION OF THE U.S. DELEGATION

The position of our delegation on the international copyright problem and the publishing issues involved between the U.S.S.R. and the United States can be summarized as follows:

1. In the absence of a copyright agreement between our nations, no U.S. publisher can now gain an exclusive right to publish an English-language translation of any U.S.S.R. book. Without the protection of an exclusive right, producing translations is risky, because two or more U.S. publishers might decide at the same time to translate a popular Soviet book. This risk factor greatly restricts the number of U.S.S.R. books being published in translation, and as a result contemporary Russian literature and many important scientific and technical works are almost unknown in the English-speaking world. If this situation could be corrected the number of translations published outside the Soviet Union would quickly increase by severalfold.

2. A bilateral copyright treaty between the U.S.S.R. and the United States would not be an effective solution to the present problem. While this might provide exclusive translation rights to U.S. publishers, it would not bind English-language publishers in Great Britain, Canada, Australia, and elsewhere. Hence, world English-language markets would still be harmfully divided, and especially those for scientific books where such markets are usually small to begin with. Since a bilateral agreement would not answer the problem of exclusive English-language translation rights, the adherence of the U.S.S.R. to the UCC seems to be the only real solution.

3. On the economic side, it is wrong to think in terms of past and present experience when considering the question of the future balance or imbalance of royalty payments. It must be admitted that under present conditions the balance of such payments might be against the U.S.S.R. However, under a binding international copyright agreement this situation would probably change im-

mediately to a monetary balance in favor of the U.S.S.R. for the following reasons:

(*a*) Royalties would be payable only under contracts for new translations negotiated after the agreement had been signed. No royalty payments could be required on translations published prior to the agreement.

(*b*) Under an agreement that allowed exclusive rights, the number of U.S.S.R. titles translated and published in English-language editions would be immediately and greatly increased in the United States, Great Britain, and elsewhere. This would probably also be the case for other major Western languages.

(*c*) With royalties based on list prices, and with list prices in the United States and Great Britain three to four times higher than in the U.S.S.R. in terms of the 90-kopek-equals-1-dollar exchange rate, royalties earned by the U.S.S.R. at the same percentage rates would also be three to four times greater on each Soviet title.

(*d*) Royalties earned by the U.S.S.R. on copyrighted musical works, and particularly from recording and performance rights, would be heavily in favor of the Soviet Union.

4. Since English has become the second language of most of the large and important areas of the world where Russian is little known, the translation of significant Russian books into English is the only way in which such books can come to be widely known and appreciated in these regions. Exports to these markets would represent about 50 percent of the total sales of English-language editions of Soviet scientific and technical books produced in the United States.

5. Under present conditions translated editions are published in each country without the permission of, and usually even without the knowledge of, the original authors. Further, the original authors usually receive no payment whatever for the use of their works. In exceptional cases where some payment is made, there is no systematic nor rational pattern for such payment. This situation is unfair, both morally and financially, to the authors of both countries.

6. The U.S.S.R. is the only major publishing nation of the world that is not a member of either the Berne or the Universal Copyright Convention, and this abstention causes an unfortunate state of anarchy in the book publishing world. The Soviet Union's insular position is not understood in the other major publishing countries, and it is a hindrance to the establishment of good cultural and trading relations in the international world of books.

COPYRIGHT—THE SOVIET POSITION

Counterarguments from the U.S.S.R. side, as we understood them, and our rebuttals, can be stated briefly as follows:

1. Since we in the U.S.S.R. publish many more books than you do in translations, and since our editions run much larger than yours, the balance-of-royalty payments would be very unfavorable to us, and this we cannot afford. The situation would be specially unbearable if we had to pay royalties retroactively on past publications as some Americans visiting the Soviet Union such as Adlai Stevenson and Harold Berman have demanded of us.

Rebuttal: With publishing conditions changed under a copyright agreement, the balance of payment would immediately change in your favor for the reasons stated above. No retroactive payments of royalties on translations already in print would be or could be required if you adhere to the UCC.

2. We are prepared to grant through M.K. exclusive rights for translation of any of our Soviet books to any publishing firm in the U.S.A. It is up to your publishing organizations or your government to provide regulations which will prevent other publishers from infringing an exclusive right so granted.

Rebuttal: Under the U.S. antitrust and restraint-of-trade laws, we American publishers cannot legally act in combination on a matter such as this. Even if enforcement could be obtained in the U.S., publishers in Great Britain and Canada, or any other country, would still be free to publish other English-language translations and thus fractionate world markets for any given title. Further, we have concrete evidence that M.K. often tries to place English-language translation rights with British and U.S. firms simultaneously and this practice could not be controlled by any action of the United States.

3. We should not give a U.S. publisher exclusive world rights to an English-language translation because this would mean that a book could be translated and sold in the U.S. alone and denied to readers in other English-speaking countries. Each English-speaking country should have the right to produce its own edition. (Obviously this argument was in contradiction to the immediately foregoing argument, and it was not advanced by the same person.)

Rebuttal: No publisher would be foolish enough to restrict sales to his own country. Even the remote possibility of such foolish behavior could be prevented by having each translation contract require that the translated edition must be made available for sale in all the major English-speaking countries simultaneously.

4. Payment of royalties on translations would greatly increase the prices of books for our students and readers. As a nation dedicated to the production of low-priced books for everyone, we cannot pay the high royalties on translations which are customary in the capitalist countries.

Rebuttal: There are no "customary" royalty rates among UCC member countries. Royalties are negotiable on each separate publication, and the rates would be low for your large-size, sure-sales editions. Further, the rates customarily are based on the price of the translated edition, which would be low in your case. Thus you would usually pay lower rates on a low list price, and this would add little to the prices of your books.

5. We want our books translated free of cost by our "sister socialist republics" and by the poorer, underdeveloped nations of the world which cannot afford to pay royalties to anyone. If we joined the UCC, we would have to abandon this policy and charge the high royalty rates set by the capitalist nations.

Rebuttal: Not so. Adherence to the UCC does not require payments of royalties at any rate or in any case. You would still be able to license translations free of charge to any country and in any language of your choice. As to your relations with your "sister socialist republics," it should be noted that Czechoslovakia is a member of the UCC and Poland, Czechoslovakia, Hungary, Rumania, and Bulgaria are members of the Berne Convention. These memberships seem not to have hurt their publishing relationships within the Communist bloc or with outside nations, both developed and underdeveloped.

6. If we were to join the UCC, we should have to make drastic changes in our domestic copyright laws in order to conform to the practices of the capitalist nations. For example, we would not want to change our term of copyright from the life of the author plus 15 years to life and 50 years as usually allowed in the Western European countries.

Rebuttal: Actually UCC makes few rigid requirements of its member nations. Its underlying principle is that each member nation shall give foreign authors the same protection and treatment as are given its own national authors. There are very few minimum requirements, but the term of copyright is one of them. The UCC requires a minimum term of 25 years from date of publication. Thus only in the small number of cases where Soviet authors fail to live 10 years after the publication of their work, would there need to be any change in your present legislation and practice on the copyright term.

7. Your own Nation, the United States, for many years was not a member of any international copyright agreement. You took what you wanted when you needed it for your national development. How can you now say that we should not do the same?

Rebuttal: Yes, in our formative years we were guilty of pirating the property of European authors and publishers. But when we had developed a literature of our own and had reached maturity as a nation in the international scene, we reformed our ways in this and several similar matters. Since 1891 foreign authors have been able to copyright their works in the United States, and we were the first of the present 46 members of the UCC. Surely, the U.S.S.R. has reached the point in its national development and its international interests where you would profit by taking a similar course. Many of the new and developing countries of the world such as India, Ghana, and Nigeria have joined the UCC already and have a better record in this respect than either the U.S.A. or the U.S.S.R.

NATIONAL COTTON COUNCIL OF AMERICA,
Washington, D.C., February 12, 1965.

Hon. J. W. FULBRIGHT,
Chairman, Committee on Foreign Relations,
U.S. Senate, Washington, D.C.

DEAR SENATOR: Thank you very much for your letter of February 6, 1965, advising us that your committee is continuing the study of the subject of trade with Communist countries. We agree with you that this is an important matter which has many political and economic implications, and that it would be desirable to get as broad a segment of the public as possible to consider these implications.

As you probably know, the Council has for some years urged the restoration of East-West trade to the extent consistent with the over-all foreign policy of the United States. We consider that a high level of international trade on a multilateral basis is contributory to pace and vital to the prosperity of the United States and of the free world. Of course, we are not in a position to comment on the foreign policy aspects involved in increasing trade with Communist countries. However, basically, we feel that trade is a healthy thing and that it should be encouraged with any and all countries as long as it is in the best long-term interests of the United States.

As you know, in the past some Communist countries have been significant importers of American cotton. If trade with these countries could be reestablished on a sound and realistic basis and if it is decided that expanding such trade would be consistent with the overall foreign policy of the United States, we believe that the United States probably could resume exporting significant quantities of cotton to certain Communist countries. In case this could be done, it would help in the overall solution of our basic cotton problem of balancing supply and demand.

We hope that our comments are helpful to your committee in its consideration of this vital policy issue.

Sincerely yours,

WM. RHEA BLAKE, *Executive Vice President.*

CONTINENTAL ILLINOIS NATIONAL BANK &
TRUST CO. OF CHICAGO,
Chicago, Ill., February 19, 1965.

COMMITTEE ON FOREIGN RELATIONS,
U.S. Senate, New Senate Office Building,
Washington, D.C.

(Attention of Hon. J. W. Fulbright, chairman.)

GENTLEMEN: I regret that I was unable to accept your invitation to testify before your committee on February 25, 1965. However, I hope that the following statement may be of interest to you in your hearings on East-West trade.

Our bank has had limited experience in financing East-West trade, but, as some of our customers have expressed an interest in trading with the Soviet Union and other Eastern European Communist countries, we have followed developments in this field rather closely. We are pleased to submit the following observations for your consideration.

(1) In any discussion of East-West trade, we feel that it is necessary to distinguish among the various Communist countries. In view of the increasing antagonism and hostility evidenced by Communist China and other countries under its control or influence—notably Albania, North Korea, North Vietnam, and, to an extent, Cuba—we are opposed to any form of trading with these countries. Yugoslavia, on the other hand, has been very successful in its dealings with the free world and in many ways is treated almost as a free world nation. We feel that the present lenient policy toward trade with Yugoslavia is appropriate and should be continued. The rest of our remarks will, therefore, relate only to the Soviet bloc; i.e., the U.S.S.R., Bulgaria, Czechoslovakia, Hungary, Poland, and Rumania.

(2) We feel that increased trade in peaceful goods with selected Communist countries may help to develop greater understanding between East and West and, perhaps, lead to a reduction in political tensions. By integrating the economies of these countries into free world trade patterns, we may be able to convince them of the desirability of pursuing peaceful relations with the West. Our experience with Yugoslavia has proved quite successful, and it does not appear unreasonable to assume that Poland and Rumania and, perhaps, other members of the Soviet bloc may some day reach the degree of political and economic independence which Yugoslavia has already attained. Even the Soviet Union has adopted some policies which could tend to improve their relations with the free world, and it is not inconceivable that we may one day hope to deal with the U.S.S.R. on a more normal basis.

(3) It appears that the policy of discouraging exports to the U.S.S.R. and other Eastern European countries in the hope that we can retard their economic growth has not been too effective, since many of our Western allies have a much less stringent attitude toward trade with the Soviet bloc. Goods which are denied

bloc countries in the United States are purchased in other countries, with a consequent loss of business and exchange to the United States. Previous efforts to persuade our allies to adhere to stricter trade policies have not proved very successful, and there is little reason to believe that their attitude will change in the future.

(4) Although balance-of-payment figures and information regarding gold and foreign currency reserves are not available for these countries, it is generally believed that the bloc countries must rely to a great extent on exports to pay for their imports. It is doubtful that these countries will be able to find a sizable market for their goods in the United States until prospective buyers are satisfied with the quality of bloc products and, in the case of machinery and equipment, are assured of obtaining parts and service whenever necessary. Additionally, there is a great deal of consumer resistance in the United States to Communist-produced goods, which would presently seem to preclude any significant increase in the importation of consumer goods from these countries.

(5) Most of the bloc countries appear to be interested in acquiring U.S. plant, equipment, and technology rather than consumer goods. This emphasis on plant and equipment leads one to speculate whether, instead of being interested in establishing a lasting trade relationship with the United States, these countries are only desirous of acquiring sufficient plant and equipment to enable them to end their dependence on other countries for imports and perhaps, to compete with the United States in third markets. If, as it is commonly believed, the bloc countries have a limited supply of gold and foreign currency reserves, the purchase of plant and equipment would probably necessitate longer terms of credit. We believe that most U.S. banks which are active in international financing would be willing to extend limited credit to certain countries for up to 6 months; however, it is doubtful that any bank would consider extending credit for a longer term unless it was guaranteed by the Export-Import Bank or some other agency of the U.S. Government. Even if the provisions of the Johnson Act did not apply, the political considerations involved in any extension of credit to a Communist country would tend to restrain banks from extending longer term credit without some form of Government guarantee. At any rate, we feel that extensions of credit should be limited to 3 to 5 years at the most, despite the fact that some of our allies have seen fit to extend credit for much longer periods of time.

(6) If the Government feels that trade with selected Communist countries would be in the national interest, we believe that controls on the exports of nonstrategic goods to these countries should be eliminated or, alternatively, that these controls should be administered on a country-by-country basis with the possibility of easing or tightening the controls for a particular country as the situation would indicate. Also, if extensive trade with these countries seems advisable, the Government should consider easing the credit restrictions on trade with these countries so that U.S. businessmen can trade on more competitive terms.

As is apparent from the above observations, we believe that the real responsibility for formulating an effective policy for trading with the U.S.S.R. and other Communist countries in Eastern Europe rests solely with the U.S. Government, since it alone has the information and knowledge which are required for the proper evaluation of the various factors involved in trading with these countries. While trade with the Soviet bloc has important economic implications, it is, after all, essentially a political matter, and, although many U.S. businessmen may be willing to trade with Eastern Europe if such trade would be in the national interest, the U.S. business community has neither the knowledge nor the resources to evaluate the political considerations inherent in East-West trade, and they must look to the Government for guidance. Similarly, since foreign trade in these countries is under Government control, any extension of credit to finance such trade would involve more than the normal amount of political risk, and, if trade is to be increased as part of our foreign policy, private commercial and financial institutions should not be expected to finance this trade without U.S. Government assistance.

We hope that these comments will prove of some value to you in your current deliberations. As you requested, we are pleased to enclose 50 copies of this statement.

Sincerely,

NEDEN CUMMINGS.

THE FIRST NATIONAL BANK OF BOSTON,
Boston, Mass., February 16, 1965.

HON. J. WILLIAM FULBRIGHT,
Chairman, Committee on Foreign Relations,
U.S. Senate, Washington, D.C.

DEAR SENATOR FULBRIGHT: In your telegram of February 10 you requested me to testify on February 25 regarding the economic and financial aspects of East-West trade. I am glad to respond to this request by this letter. While this bank has extensive international financing operations, we have not made any study of the technical aspects of East-West trade and, consequently, my comments in this letter will be more general in nature than specific.

Of course, I recognize that the subject of East-West trade involves strategic and nonstrategic materials and the difficult task of determining what materials will fall within either of these classes. Further, the increase and development of East-West trade automatically involve numerous legislative, legal, and technical problems, many of which are complex and difficult of solution. Among these could be listed how to enforce credit obligations; what nationality of ship should carry goods to Soviet-bloc countries; how may American patents and copyrights be protected; and how may import-export licensing and control laws be adapted to trade with Soviet-bloc countries. Other problems include the form in which payment for exports and imports should be made and whether increased East-West trade should be limited to goods or be accompanied with technological expertise. If East-West trade is increased, problems of this type will have to be resolved by changes in Federal legislation and regulations and by varying degrees of trial and error and experimentation on the part of Western private business and financial organizations.

I am prepared to express the view of myself and this bank that we favor enlightened increase in East-West trade. We presume that this trade will be limited to nonstrategic materials and that the East-West trade envisioned does not include trade with Communist China, North Korea or North Vietnam. Our reasons for favoring this policy are several.

Despite continued efforts to improve our balance of payments, this continues to be a serious problem. Increased export income will naturally help maintain an improved balance, especially if payment for our goods is made in gold or in dollars or in dollar credits. However, we recognize such a requirement may not always be feasible and we would not insist that this requirement be made mandatory in all cases.

The United States has been favored (perhaps plagued) with agricultural overproduction while Soviet-bloc countries appear to be suffering from serious agricultural shortages. The conclusion seems to be inescapable that our surplus commodity problem will be materially aided by increased trade with Soviet-bloc countries.

Other countries in the Western block freely trade with the East and probably consider the United States either excessively moralistic or naive for not doing the same. Perhaps it can be said that a policy is incongruous which both champions the free and open society and yet is reluctant to trade with as large a portion of the world as is presently included in the Soviet-bloc countries. A policy of greater East-West trade may decrease friction with friendly countries.

Our economy operates on a profitmaking basis. It is consistent with this basic policy to seek profits from increased East-West trade and if this is obtained, our economic growth should be enhanced.

Total or partial embargo of trade with the East tends to stimulate Soviet self-reliance and increase interdependence of the U.S.S.R. and its satellite countries. Conversely, a lowering of trade barriers can link Russia's economy and that of its satellites more closely with our own and reduce the interdependence of Soviet-bloc nations. There is at least some possibility that this general policy would tend to increase Soviet production of consumer goods in relation to production of war materials and products pointed toward this ultimate objective.

Finally, and of most importance, we believe the increase of trade and commercial relations between the East and West should tend to decrease the risk of East-West atomic war and ameliorate the existing cold war. Following some of the underlying policy concepts of the European Common Market, the greater the links of economic contact and trade between nations or groups of nations, the more difficult becomes the complete breaking of these relations involved in total war. Existing trends in relations between the East and West indicate

this process is already under way. Current reports also indicate a partial return in Russia to quasi-capitalistic concepts. The existing strained relations between Russia and China suggest opportunities to enhance trade with Russia and, thereby, possibly increase the Russo-Chinese division. To a lesser extent, the apparent existing tendency of satellite countries to show independence from Russia itself indicates similar opportunities. We believe the time is ripe to attempt to accelerate these processes.

In our view, the heavy balance of factors favors increase in East-West trade and commercial relations.

Sincerely yours,

ROGER C. DAMON, *President.*

MANUFACTURING CHEMISTS' ASSOCIATION, INC.,
Washington, D.C., March 3, 1965.

Hon. J. W. FULBRIGHT,
Chairman, Committee on Foreign Relations,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: Thank you very much for your letter of February 6, 1965, in which you invited the Manufacturing Chemists' Association to provide the Foreign Relations Committee a statement on any aspects of East-West trade of particular concern to our members. Your request has been considered by the association's board of directors and the result is a reaffirmation of an earlier position taken by the association.

In 1958 the then Secretary of Commerce, the Honorable Sinclair Weeks, requested the Manufacturing Chemists' Association, among others, to express the views of the chemical industry in the United States with reference to proposals emanating from Soviet Russia seeking assistance from the United States in building up the Soviet industrial complex, particularly the chemical industry. On August 14, 1958, the then president wrote on behalf of the association to Secretary Weeks expressing the views of the industry. A copy of that letter is attached. The position taken then has been reexamined and reaffirmed on several occasions including that described in a letter to you dated February 6, 1959, a copy of which is also attached.

The board of directors of the MCA, having again reexamined the 1958 policy position, has directed me to reiterate that position and to emphasize that world events in the interim period have served only to strengthen its conviction that the position is right. In brief, the chemical industry believes that trading with the Communist bloc in nonstrategic goods is one beneficial way in which to promote better relations with the Soviet world. Even though recent changes in the Soviet leadership may point seemingly to a strengthening of the more amicable phases of East-West relationships, nevertheless the fundamental objectives of the Communist movement have not changed. Accordingly, we continue to feel that the trading away of one of the United States' great technical advantages over the Communist world through the shipment of technologically advanced know-how or plants to the Soviet group would poorly serve the best interest of the United States.

Not only could the wholesale transfer of technical know-how have a significant effect on our own economy but it would also afford the Communist governments opportunity to shorten the leadtime required to develop an effective industry. The diversion of technical personnel from chemical research activities to activities more fully related to strengthening the Red military position would probably result. Thus, we oppose arrangements which would permit any such technology transfer.

The association feels that the United States should seek, through every means at its command, to obtain the cooperation of other non-Communist nations in implementing whatever policy we decide to adopt. Otherwise, much technical know-how developed in the United States may, by indirect routes, end up in Communist hands.

We of the chemical industry appreciate the opportunity to express these views and we stand ready to cooperate in any way we can in the development of a workable national policy.

Sincerely,

G. H. DECKER, *President.*

MANUFACTURING CHEMISTS' ASSOCIATION, INC.,
Washington, D.C., August 14, 1958.

HON. SINCLAIR WEEKS,
Secretary of Commerce,
Washington, D.C.

DEAR MR. SECRETARY: In accordance with a request made at a conference with members of your staff on August 1, 1958, at which were present representatives from the State and Defense Departments, I am writing you this letter as president of the Manufacturing Chemists' Association, Inc., to express the views of the chemical industry in the United States with reference to the proposals made by Premier Khrushchev of the U.S.S.R. in seeking assistance from the United States in building up the Soviet industrial complex, particularly the chemical industry. The Manufacturing Chemists' Association, Inc., comprises 170 members, large and small, of the chemical corporations and companies in this country which together produce in excess of 90 percent of the chemical products manufactured in the United States.

I would like to set forth as briefly as possible certain aspects of Mr. Khrushchev's proposal which cause concern to the member chemical companies of this association. These points are discussed at considerable length in the enclosure, and I will only highlight them in this letter.

Among the very great advantages the United States has over Soviet Russia and the Communist bloc nations are our technological advances and the know-how which exists in the chemical industry in this country. This is evidenced by the fact that Mr. Khrushchev is seeking assistance from the United States in this very field. In the economic war which Mr. Khrushchev himself has declared, these are major factors in international economic competition. Soviet Russia has seen fit to devote the energies of her scientists to the development of the sinews of war. She now asks us to sell her the technical knowledge which would bring her abreast of this country in the field of industrial chemistry.

Chemical know-how cannot be isolated to a particular product but covers many other fields of production. Ofttimes, the same products in the very fields referred to by Mr. Khrushchev as a primary area of chemical development in Russia, that is synthetic materials such as fibers, plastics, and synthetic rubber, have military uses as well as peaceful uses. Even though the end products may have different specifications for military use as against civilian use, the very processes and know-how employed to make both are substantially the same.

Soviet Russia has offered to purchase chemical plants complete. It should be understood that a chemical manufacturing plant differs somewhat from many other manufacturing plants. Built into the chemical plant designed to produce a particular product is necessarily the technical knowledge and know-how necessary to produce that product. In other words, chemical plants cannot be sold to the Russians and the Russian personnel trained to operate them without giving them the benefit of our advances in this field. Admittedly, Soviet Russia could in time attain the technological advances we have made should she devote the necessary effort to this end instead of to her military program. However, this is the time factor which we now hold over the Russians and which we should not barter away lightly. In addition, to the extent that we take the initial pressure off of Russia for the production of consumer goods, we enable her to continue to devote all of her energies to a military program aimed at this country.

The wholesale transfer of technical know-how might have a disastrous effect on our own economy in the years ahead. It would afford the Russian Government a very effective way of undermining our profit economy, in breaking the price and bargaining structure with regard to industrial products in this country and in other countries outside the Iron Curtain. The sale of know-how to Russia carries with it the possibility that serious economic problems could result from a Russian national policy of exporting the products produced. No American corporation or company or group of companies could possibly compete with Russia in such a situation, for Russian prices would be set at whatever level the Soviet Union might feel would best serve its own interests at any given moment.

We of the chemical industry stand ready to cooperate with you and your associates in exploring this complex problem in the hope that the reaction of the United States by both Government and private industry can be pursuant

to a wise and considered national policy, thereby avoiding the dangers that are implicit in individual reaction of industry based purely on the profit motive, or Government policy that is not adequately grounded on an understanding of the technical matters involved.

Sincerely,

J. E. HULL, *President.*

TRADE WITH SOVIET RUSSIA

On June 2 there was released a message from Premier Khrushchev of the U.S.S.R. to President Eisenhower containing proposals for Soviet Union procurement in the United States on an extensive scale of industrial equipment and technical data and know-how for the production of a variety of chemical products. This message should be appraised in the light of Mr. Khrushchev's previous report in early May to the Central Committee of the Communist Party of the plans of the Soviet Government for embarking on a program of tremendous scope to accelerate chemical industrial development and the manufacture of synthetic materials in the U.S.S.R. Both before and since these official announcements, Soviet representatives have been in touch with various individual chemical companies in the United States, inquiring as to the possibility of acquiring technical know-how and data with regard to various chemical products and their production. President Eisenhower's reply of July 14 to the Khrushchev letter did not deal specifically with the Russian proposals regarding the transfer of technical data and know-how in the chemical field.

The developments referred to seem to presage a determined effort by the U.S.S.R. to obtain, either through Government-to-Government negotiations or by contract with private companies, large quantities of highly valuable technical data and know-how for chemical manufacturing.

The Department of Commerce is vitally interested in this matter not only because of its importance to the national security, foreign policy, and domestic economy of our country, but also because that Department exercises important responsibilities delegated to it by the President and Congress in this area. Reference is made particularly to the export-control functions, pertaining both to products and technical data administered under the Export Control Act of 1949 and mutual defense assistance control program and other more general responsibilities.

The administration of the Export Control Act, particularly with relation to the exportation of technical data, is based upon an assumption, certainly true of the chemical industry, that there is much advanced and unique technology in the possession of U.S. industrial companies and engineers that would contribute appreciably to the Soviet potential for making war. It would also enable the U.S.S.R. to extend its current economic offensive, described so explicitly in the recent staff memorandum of the House Committee on Foreign Affairs on March 4, 1958. As understood, it is a purpose of the Act and its administration to prevent exports of U.S. technology from contributing to the Soviet war potential that might be of significance to our national security. It is also assumed that the stated congressional purpose of using export controls to further the foreign policy of the United States encompasses a concern with the export of technical data that might better enable the U.S.S.R. and the other countries in the Soviet bloc to carry forward the economic war proclaimed by Mr. Khrushchev.

After some considerable consultation among leaders of the chemical industry, it is the view of the Manufacturing Chemists' Association that the present restrictions and controls should not be relaxed, either by Government-to-Government negotiations, or administration of the present controls over private exportation of technical data by individual companies, except after a most careful consultation between Government and industry. In fact, the existing controls on export of technical data and know-how may need to be strengthened.

There are many aspects of the present situation which cause serious misgivings. Putting it simply, we are fearful of the consequences to national security and our foreign policy, as well as the domestic industry in the years to come of any acts, public or private, that would result in licensing and delivering to the U.S.S.R. know-how which is not made generally available throughout the world by the individual company possessing it. We are fearful of any acts, by the Government or by private concerns, which would license to the Soviets information which is not made generally available to all comers. The latter category would consist primarily of manufacturing know-how.

The principal reasons for this apprehension go to very fundamental considerations of protecting our national security and forwarding our foreign policy, particularly as it has to do with the Soviet present economic offensive and potential military aggression, as well as the basic character and nature of the organization to which the technical data and manufacturing know-how would be transferred, i.e., the Soviet Government.

Chemical know-how cannot be isolated to a particular product but covers many other fields of production. Accordingly, the sale of chemical know-how for production of a particular product to the Russians would, in essence, be a sale of that know-how for use in many other areas of chemical manufacture, wherever the know-how could be applied. Therefore, the suggestion of Mr. Khrushchev that this great expansion of the Soviet chemical industry involving greater Soviet-American trade, "does not mean armaments or equipment for the defense industry" but signifies that, "the Soviet Union has embarked on a new, large program for the further development of consumer-goods output" cannot be accepted if a realistic and well-rounded technical understanding of chemical processes and know-how is to be taken into account. Ofttimes the same products in the very fields referred to by the Russian leader as a primary area of chemical development, i.e., synthetic materials (fiber, plastics, and synthetic rubber) have military uses and peaceful civilian uses. Furthermore, as indicated, even though the end products may have different specifications for military uses as against civilian uses, the very processes and know-how employed to make both are substantially the same.

A second consideration is the fact that any know-how sold to the Soviets would become available to the entire industry of a country (even without taking into account the mainland of China) much larger in population and geographical size than this country or Western Europe—and one completely organized by the state to produce and sell according to the interests of the state rather than the ordinary principles of economics as exemplified in a competitive economy. Accordingly, the Russians, in starting with this know-how would have an overpowering advantage over any single company or companies outside Russia in further improving the process of the product manufactured under the know-how. Obviously, no one company or group of companies could hope to compete with the entire Soviet Union in research with regard to any product or process or in sales or disposal in third countries on a price basis. These aspects, weighed against the backdrop of the current Soviet economic offensive in the underdeveloped countries of Asia, Africa, and South America, raise serious considerations.

Are we to add to the categories of products and processes presently being utilized by the U.S.S.R. in its economic offensive the ability to entice the uncommitted countries into its web by its prowess in the all-important area of chemical production and products? Are we to give the U.S.S.R. an advantage in this regard over our Western allies whose privately owned chemical companies must compete against those controlled and operated by the Soviet Government?

The foregoing comments will indicate why the Manufacturing Chemists' Association, Inc., considers that the problem raised by the new Soviet reach for American privately owned know-how in the field of chemical production transcends purely private industrial and commercial interests.

In addition, the prospect of opening up commercial relationships in the field of licensing manufacturing know-how between an individual company and the government of a great and powerful nation, such as the U.S.S.R., which operates its economy in the fashion it does, is a serious one for the individual company. None of the normal safeguards and recourses that attach to private commercial transactions exists for a venture of this sort in state trading.

To cite a few of the aspects of the problem which make it difficult for the company and the industry—first, from the standpoint of the individual company there is no means of enforcing secrecy restrictions in an agreement with the Russians, such as normally attach to the licensing of know-how between one private chemical company and another. There is no way of preventing the Russians from reexporting the know-how outside of Russia. In essence, the sale of any know-how to Russia could well become a sale of it to the entire world to the extent that Russia wished to make it available. Thus, the know-how might be made available by Russia to China, Poland, Czechoslovakia, or other Iron Curtain countries, or other countries not presently allied with or under the domination of Russia. If it were made available by Russia to a now friendly or neutral country we would have lost a useful advantage in the present economic competition and the individual company would have lost the com-

mercial benefits of licensing its processes and know-how in parts of the world other than Russia.

Another aspect of this situation that cannot be passed over lightly is the impact this wholesale transfer of technical know-how might have on our own economy. A most effective way of undermining our profit economy would be for the U.S.S.R. to break the price and bargaining structure with regard to industrial products in this country and in other countries outside the Iron Curtain. The sale of know-how to Russia carries with it the possibility that this might happen through Russia's exportation of the products produced. This might be particularly true in the light of considerations referred to above, where Russia, starting at the same level as the company supplying the know-how, should be able to move faster in further development of the processes and products involved than a single company or a few companies outside of Russia could do.

Another consideration that makes it difficult for a private company to inaugurate the kind of relationships contemplated by the Russian Government, without the most complete guidance, control, and backing of the U.S. Government, is the political or public relations aspect. The sale to the U.S.S.R. of know-how not generally available throughout the world could be extremely embarrassing to the company making the sale. This would be particularly true in case of a worsening of political relations between Russia and this country or this country's allies. It would also follow in event the products produced by the know-how should be used by the U.S.S.R. for dumping purposes or otherwise undermining the economic position of countries outside the Iron Curtain, or attaching now neutral or independent countries as economic satellites through chemical bait.

Moreover, if individual American chemical companies are going to sell valuable know-how to the U.S.S.R., this would doubtless accelerate such sale by companies outside this country. This would give a powerful impetus to the breakdown of the present mutual defense assistance program and build up industrial development of Russia at the expense of the free world.

It will be said in answer to many of these considerations that the U.S.S.R. might acquire the knowledge anyway. Although a well-known item of technical information may be the key to a successful process, the fact that this information is the key to the process in question may take years to discover and exploit. Timing in development is of great importance, and the maintenance by one company of a margin of several years of advance over another often proves to be the difference in successful competition. What is true between companies may be equally true between countries. The bringing together with various elements needed for a successful process is the essence of a research and development program and of commercial manufacture, and receiving knowledge as to how these elements should be brought together (technical know-how) is one of the most valuable tools the U.S.S.R. could acquire from the United States for military or economic aggression. This is one of the great advantages the United States has at present over Soviet Russia in the field of industrial chemistry. It should not be bartered away lightly.

The foregoing are only some of the less technical considerations that are raised by the recent proposals of Premier Khrushchev and the activity of Russian trade representatives in this country and the West. What has been said before concerning this problem as it pertains to the United States and the U.S. chemical industry may apply, more or less, to U.S.S.R. efforts to obtain possession of the technical know-how of the West German and British and French chemical complexes. We should strongly urge these friendly nations not to turn over to Soviet Russia the technological advantages they now possess. Even though we are unable to convince them in this, it would be no reason for this Government to follow suit.

We of the chemical industry are gravely concerned both with any changes in U.S. policy that these diplomatic approaches may lead to and with the development of adequate policies and programs within our own Government and in association with friendly countries to deal properly and adequately with the new situation the Soviet announcements disclose. President Eisenhower's letter of July 14, while it disposes of certain aspects of the Russian proposal for loans and credits, left wholly undetermined the proper policy of the Government or the private company in dealing with the U.S.S.R. efforts to obtain the technical know-how the Russians are seeking. We believe it of great importance that Government policy, once reached on this complex subject, be disseminated to American industry.

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MANUFACTURING CHEMISTS' ASSOCIATION, INC.,
Washington, D.C., February 6, 1959.

Hon. J. W. FULBRIGHT,
Chairman, Committee on Foreign Relations,
U.S. Senate, Washington, D.C.

DEAR SENATOR FULBRIGHT: In view of statements by Deputy Premier Mikoyan of the Soviet Union that American industry is more favorable than is the U.S. Government to the easing of trade barriers with Russia, the Manufacturing Chemists' Association, in behalf of the chemical industry of the United States, recently reaffirmed its opposition to the sale of chemical know-how and facilities to the Soviet Union. I believe that you, as chairman of the Senate Foreign Relations Committee, will be particularly interested in this statement of the chemical industry's policy. In my opinion, the policy is important to the safety and well-being of every U.S. citizen.

You will recall that last June, Premier Khrushchev asked President Eisenhower for assistance in building up the Soviet industrial complex, with special emphasis on the chemical industry. Mr. Khrushchev expressed particular interest in the procurement of know-how and plant facilities with respect to synthetic fibers, plastics, and synthetic rubber, in which fields the Soviet Union is substantially behind this country, both in technological developments and in actual production techniques.

The Manufacturing Chemists' Association consulted with representatives of the State and Commerce Departments, and the association, after very careful consideration by its members, expressed its opposition to the selling of chemical know-how or plants to Russia. The association urged our Government not to relax its policies with respect to this kind of trade and recommended that it endeavor to have other Western nations follow a similar policy.

Two weeks ago the Manufacturing Chemists' Association, noting Mr. Mikoyan's suggestion before the Economic Club in New York that industry leaders urge the U.S. Government to relax trade restrictions, publicly reaffirmed its strong opposition to selling American chemical know-how and plants to the Soviets.

Subject to existing export controls, there is nothing to preclude the sale of chemical end products to the Soviet Union, if the Soviet Union wishes to buy such chemical end products from the individual companies that makes them, under our competitive free enterprise system. The association supports present U.S. Government policy regarding sale of such products.

But the sale of this country's chemical know-how to the Soviet Union is quite a different proposition. Every man-hour of chemical research and development which the Soviet Union would save by acquiring our chemical know-how would mean a man-hour that the Soviet Union could apply to other aspects of its scientific progress—to our danger and our detriment. Chemical know-how cannot be isolated to a particular product. This know-how is vitally important to many kinds of production, and some elements of this know-how are of direct military applicability.

Russia has devoted most of its technical talents to preparing for military purposes and therefore has lagged behind the United States in developing commercial and consumer production. She probably has the ability to catch up in time in these lines if she so wishes, but we see no advantage in giving away—or in selling—America's technical time lead.

As Mr. Khrushchev has said, purchases of plant and know-how from capitalist countries would save Soviet time in the "creation of plans and mastering the production of new types of equipment." The importance of this proposed shortcut is emphasized when one recalls the frequent reports that more scientists, engineers and technicians are being trained in the Soviet Union than in the United States. We should not contribute to an even more dangerous concentration of Soviet skills which are already available for direct military applications, by relieving them of the need to develop the chemical know-how which the West has acquired with such effort and at such cost.

Many illustrations can be given of the value of this American enterprise but I shall cite here only a few. One U.S. producer of nylon, polyethylene, polyurethane and hydrogen peroxide expended more than 2,100 man-years of scientific and technical effort in the development of these products. Another U.S. producer estimates that the bringing into commercial production of butyl rubber required 1,100 man-years of similar work and know-how. Still another U.S. producer estimates that it has taken that company 1,200 man-years of effort and know-how to bring into commercial production certain polyethylene products and an additional 1,000 man-years of plant engineering and know-how to create the capacity

to produce 15,000 tons a year of vinyl chloride resin and plastics. All these achievements of American brains and American enterprise, the Russians now want to buy from us under the guise of easing trade barriers while they continue to concentrate their scientific and technical manpower on devices and schemes by which they could destroy the free world.

In addition to adding to their military strength, all the elements of chemical know-how which the Russians would acquire by these proposed purchases could be used by them in the economic warfare which they have openly proclaimed against the West, and especially the United States. Quite aside from the economic damage which would be done to this country and the free world through the exploitation of such know-how, the Soviets could also use this capability to acquire and extend political influence among the so-called uncommitted nations. Possession of such know-how would eventually enable the Soviet Union to offer at less than world prices the export of the chemical products which the know-how would make possible. Moreover, as a practical matter, nothing could prevent the retransfer of the know-how by the Soviet Union to other nations as part of the Soviet drive to supplant the free world as the source of foreign capital and technology. This danger is emphasized by the attitude toward foreign trade freely expressed by Mr. Khrushchev in 1955, when he said, "We value trade less for economic reasons and most for political purposes."

The Manufacturing Chemists' Association believes that the United States, in addition to declining to permit the transfer of such chemical plant and know-how to the Soviet Union for the reasons I have given, should, for the same reasons, also seek through every means at its command to have the other countries of the free world adhere to the same policy.

I should be glad to discuss this subject with you or make available to you an elaboration of these facts, either orally or in writing, if you or your colleagues believe it would prove helpful.

Sincerely,

J. E. HULL.

(Identical letter to: Hon. Thomas E. Morgan, Chairman, Committee on Foreign Affairs, House of Representatives, Washington, D.C.)

INTERNATIONAL BROTHERHOOD OF ELECTRICAL WORKERS,
Washington, D.C., February 12, 1965.

Hon. J. W. FULBRIGHT,
Chairman, Senate Foreign Relations Committee,
Senate Office Building, Washington, D.C.

DEAR SENATOR FULBRIGHT: Thank you for inviting the IBEW to express its views on the subject of East-West trade.

The IBEW supports, without reservation, the position of the AFL–CIO on trade with Communist countries. This position was well stated by AFL–CIO President George Meany in his statement to the Republican Party platform committee last year. He said in part:

"We must, it seems to me, keep in mind the way totalitarian states use trade—strictly as a political weapon for the benefit of the regime in power.

"Oh, we are willing enough to trade—but in another sense.

"How about demanding, as a quid pro quo, the removal of Soviet troops from Hungary and a guarantee of that nation's right of self-determination; how about demanding free elections in the Baltic States, which even Stalin promised nearly 20 years ago; how about demanding the destruction of the Berlin wall?

"You see, we are perfectly ready to trade American goods, in return for steps toward human freedom."

This is a very critical subject, and we welcome the careful study your committee is giving it.

Very truly yours,

GORDON M. FREEMAN, *International President.*

STATEMENT BY J. P. GAINES, EXECUTIVE VICE PRESIDENT, THE RICE MILLERS' ASSOCIATION

Senator Fulbright, and members of the Senate Foreign Relations Committee, the Rice Millers' Association is the trade organization of the Nation's rice milling industry. The association is composed of 36 milling firms which process 98 percent of all rice produced in the Southern United States and 80 percent of all

rice grown in this country. The associations' membership includes both independent rice mills and farmer cooperative organizations.

Rice is grown in 13 States in the United States, with most production in the five States of Arkansas, Louisiana, Mississippi, Texas, and California. Since 1900, rice production in the United States has expanded by sixteenfold, while during that period, production of wheat, corn, and other cereal grains has less than doubled. Rice is one of the most rapidly growing industries in the United States.

Export markets are important to the welfare of the rice industry. Sixty percent of U.S. rice production is exported.

The United States is the largest rice exporting country in the world in terms of value of export.

This association is interested in the subject of East-West trade, in that the countries of Eastern Europe are large importers of rice, and therefore, U.S. policy decisions in respect to that trade could have considerable significance to the rice industry.

We do not feel qualified to discuss the broader political implications of such trade, and will confine our comments to discussing its economic implications.

The countries of Eastern Europe comprise an annual import market for rice of 800,000 tons, which is 20 percent of the total world import market for rice, and is equivalent to 60 percent of total U.S. exports. Half of the rice imports are made by the Soviet Union. Average annual imports of the Eastern European countries are as follows:

Country:	*Average metric tons*
Albania	275
Bulgaria	8,975
Czechoslovakia	146,650
East Germany	86,800
Hungary	21,100
Poland	72,550
Rumania	4,100
Yugoslavia	30,350
U.S.S.R.	427,650
Total	798,560

These import purchases are made from suppliers all over the world, including Brazil, Burma, Communist China, Egypt, North Korea, and Thailand.

Under the liberalized agricultural trading policy announced in 1963 by the United States, the Soviet Union purchased 55,000 tons of our rice. The purchase was announced in January 1964, with shipment made in the spring of 1964. Rice was the first commodity actually shipped from the United States to the Soviet Union under the revised policy of our Government.

This substantial unexpected addition to our rice market proved very rewarding to the whole rice industry. It resulted in an immediate boost in the rice market of 25 cents per 100 pounds; it is estimated that it was worth $5 million to the industry in price advances alone, over and above the direct return of over $7.5 million which the Soviet Union paid for the rice. Thus, total value to the industry is estimated at over $12.5 million.

It had benefits to the U.S. Government over and above the dollar credits that were earned, in that the rice purchased by the Soviet Union was destined to be surplus, to be disposed of under Government concessional programs.

Since that one sale, there have been further negotiations with the Soviets, but further efforts have been snagged on the U.S. requirement that 50 percent of sales be shipped on American-flag vessels. This was not required on the sale made in January 1964.

If the U.S. Government has any serious desire to promote trading in agricultural commodities with the Soviet Union and other countries of Eastern Europe, the 50-percent American shipping provision will have to be removed. It is unrealistic to expect these countries to subsidize the American merchant marine.

Our rice will have to be competitive in price on a landed basis in order to attract purchase by the Eastern European countries and it can't do so if any fixed proportion must be carried by U.S.-flag vessels.

We are convinced, however, that if there are no restrictions on rice trading, that a steady and substantial trade in rice can be developed with Eastern Europe, and such trade would be enormously beneficial to the rice industry. It would also benefit the U.S. balance-of-payments position, since it is cash dollar business.

We hope our statement is of value to the committee. If further elaboration is desired, we shall be happy to provide it.

STATEMENT OF THE NATIONAL GRANGE, BY HARRY L. GRAHAM, LEGISLATIVE REPRESENTATIVE

THE INTERNATIONAL SITUATION

During no period of history has the conduct of international affairs been more crucial. Relationships with other nations of the world have become a matter of increasing concern to the Government of the United States and to all American citizens. The world is in the midst of an era of political, social, and economic revolution of unprecedented magnitude. The unsettled and revolutionary character of international affairs lends to the tenuity of world peace, and adds to the perplexity of achieving a stable world order.

In an age marked by unparalleled advances in science and technology and by remarkable economic progress, the salient features of the international scene continue to be turmoil, widespread anxiety, and global unrest. The crux of the prevailing, international situation is an ideological division of the most powerful nations of the world. At issue are the diametrically opposed social, economic, and political philosophies of the free world and the international Communist movement. The basic conflict is that of freedom against totalitarianism.

Continued conflict and hostility between the free world and the countries of the Communist bloc inherently pose a grave threat to the United States and to fundamental values long cherished by the American people and by free peoples throughout the world. The United States is engaged in an unceasing struggle to insure the preservation of the American ideals of freedom and liberty, and to safeguard the survival of its democratic form of government. Communist aggression and subversion present a constant and unrelenting threat to the United States and to the other nations of the free world. International Communism is unmistakably committed to the goal of world conquest and domination. To counter successfully the aims of the Communist movement, the United States and the free world must resolutely and vigorously defend freedom throughout the world.

The sudden and dramatic change of leadership in the Soviet Union and the explosion of a nuclear device by Communist China have precipitated a critical reappraisal of the world situation. It is too soon to evaluate accurately all of the implications of these events, but fragmentary evidence suggest these tentative conclusions. First, the United States cannot rely upon the development of a permanent, political cleavage between Moscow and Peiping. A closer alliance between the Soviet Union and Communist China is likely in the future. Second, Communist China will have a military force of nuclear weapons much sooner than had been previously anticipated.

THE OBJECTIVES OF U.S. FOREIGN POLICY

The fundamental goal of U.S. foreign policy must be to advance the security and well-being of the United States and of all American citizens. Basic to the national interest of the United States are the preservation of the American way of life; the furtherance of the American ideals of freedom, individual liberty, and human dignity; and the promotion of economic progress and security for all Americans.

It has become increasingly apparent with the development of nuclear, military capabilities which endanger the survival of all mankind that the attainment of international peace and world order is essential for the well-being of the United States. Moreover, it is clear that the progress of the United States, in achieving the ultimate goal of a peaceful world and in advancing its national interests, is inextricably associated with the preservation of freedom, and advancement of law and order, throughout the world. Therefore, the United States must maintain and improve its alliances with other free nations of the world in order to provide an effective, common defense aganst Communist expansion.

The United States has become a leader of the free nations of the world because of its immense military strength and economic capacity. In its position of leadership in the free world, and in order to pursue successfully its basic aims, the United States must make it abundantly clear to all nations that the United States unyieldingly seeks to safeguard its traditional goals and values.

The United States is unalterably opposed to Communist expansion and to the aggressive and subversive techniques by which the Communist movement operates to increase its sphere of influence.

The foreign policy of the United States must be continually reappraised as changes occur in the international situation. However, three underlying, major requirements of U.S. foreign policy remain unchanged. First, the United States should work constantly to lessen international tensions, promote world peace and understanding, and advance international political stability. Second, while its ultimate goal is a peaceful world, the United States must maintain a deterrent, military capability of such strength as to effectively discourage military aggression by Communist powers. Finally, the United States should strive diligently to effect a stable world economy and to promote the economic well-being of its citizens.

INTERNATIONAL TRADE AND ECONOMIC PROGRESS

A stable and prosperous world economy is vital both to economic progress in the United States and to the attainment of a lasting world peace. The primary goals of the U.S. foreign, economic policies must be to promote the growth and stability of the U.S. economy, and to advance the economic principles of the other nations of the free world on the basis of sound, economic principles.

The traditional aim of foreign, economic policies is to bolster the domestic economy and to expand international commerce on a basis that will be of mutual benefit to all trading nations. The achievement of a beneficial expansion of U.S. foreign trade will depend largely on the success of efforts to reduce unwarranted trade barriers and excessive tariffs against U.S. exports, to encourage vigorous public and private programs to develop and expand foreign markets, and to obtain the economic adjustments necessary to correct the imbalance in U.S. international payments.

Adhering to the principles of the General Agreement on Tariffs and Trade, the United States has taken the lead in working toward a reduction of barriers to international trade. Encouraging progress has been made under the provisions of the Reciprocal Trade Agreements Act in promoting less restricted trade between the United States and other countries. The United States should continue its broad policy of striving to bring about still further reductions in trade barriers so that U.S. agricultural products will be given fair and equitable access to the markets of other nations. To help stabilize currencies, the United States should continue its support of the International Monetary Fund.

The development of the European Economic Community and other regional trading groups presents a special problem for the United States. Such groups are frequently desirable, from a political standpoint, in that they may contribute to international economic stability. Nevertheless, regional trading groups are often intended to maintain uniform, market discrimination against nonmember nations. Hence, the establishment of such groups may hamper efforts to achieve broad liberalization of international trade. The United States must work diligently, and pursue policies, to secure a reduction of trade restrictions against the United States and other nonmember countries, particularly in the field of agriculture where new, unjustified barriers are sought to be established.

Effective bargaining to securing reductions in tariffs and other restrictions on international trade necessitates a willingness to reduce reciprocally U.S. restrictions against the importation of the products of other trading nations. The basic objective of the United States, in its attempts to negotiate multilateral agreements, should be to reduce international barriers to free trade between nations, but the United States also must prevent the economic disruption of its domestic markets. Therefore, while it is recognized that a reduction of U.S. tariffs and trade restrictions may work to the temporary disadvantage of some American industries, the United States must insure that no one industry or economic group is forced unjustly to bear the full impact of the economic adjustments required by a reduction of U.S. restrictions against foreign imports. Furthermore, the interests of all exporting industries in the United States should be fairly represented in multilateral negotiations aimed at securing expanded, foreign markets for U.S. exports.

At the time of enactment of the Trade Expansion Act of 1962, it was firmly declared that there would be no negotiations on nonagricultural items unless there were simultaneous negotiations aimed at securing reductions in tariff and nontariff barriers against the U.S. agricultural products. This policy had not been followed in the past, and agricultural interests have suffered. The National

Grange supported this view, and believes that this is a pledge which must be maintained, and strictly adhered to, if American agricultural interests are to be properly protected in the negotiations. We are, therefore, deeply concerned by the announcement made on November 3, 1964, by the office of the Special Representative on Trade Negotiations, which, to some extent, deviates from this policy decision, and grants a negotiating concession, in that it permits negotiations on industrial items to go forward without any similar agreement on agriculture. We strongly urge that effective steps be taken by our Government to reaffirm and restate the basic policy position that, notwithstanding the announcement of November 3, the United States will hereafter go no further in negotiations on nonagricultural items without similar and simultaneous negotiations on agricultural items.

We reaffirm the basic position in the field of foreign, economic trade policy which is designed to achieve an expansion of international trade, on a reciprocal and mutually-benefiting basis, adopted at the 96th annual session which is set forth on page 140 of 1962 Journal of Proceedings. This policy recognizes the need for fair measures to protect against excessive, or unfair, agricultural imports through the use of section 22 of the Agricultural Adjustment Act of 1933, and similar measures. It also recognizes the need for the utilization of section 32 of Public Law 320 of the 74th Congress, and title IV of Public Law 480, and similar measures to maximize our exports of agricultural products for dollars, through the private trade, to all the free nations of the world.

EAST-WEST TRADE

Difficult problems are posed with respect to the establishment of the U.S. foreign, economic policies toward trade with Communist countries. The Communist bloc has used foreign trade and economic aid as effective tools in furthering its political goals. It is unrealistic to expect in the near future the development of normal trading relationships, based solely on the principles of economic advantage, between the United States and the Soviet Union. Nevertheless, the United States should be in a position to trade with the Soviet Union and other Communist countries, whenever the economic gain of expanded trade clearly outweighs any potential, political sacrifice. It is obviously not in the best interest of the United States to subsidize exports to Communist countries, nor; to provide the Communist bloc with long-term trade credits; but, if we intend to trade with them, we must be willing to price our products competitively.

Much of the criticism directed toward the sale of U.S. wheat to Russia and its satellites in 1963–64 was prompted by an uninformed, emotional reaction to the prospect of trading with an adversary in the cold war. This is not an adequate basis for policy decisions. A more useful approach involves a calculated judgment of whether the United States or the Soviet bloc benefits more from such trade. If the answer favors the Soviet bloc, trade should be avoided. On the other hand, if it favors the United States, we should seek additional opportunities, and not permit them to be jeopardized by insistence on unrelated economic and political penalties for the privilege of buying our wheat, or other agricultural products.

The present state of the U.S. agricultural economy is an important factor in assessing the value of East-West trade. The wheat situation is an appropriate example. While U.S. wheat yields have doubled in the past 20 years, domestic consumption has expanded only slightly. World wheat consumption is increasing, but most U.S. wheat exports move under title I of Public Law 480, a concessional sales program of obvious importance, but which returns to the United States in dollars, or their equivalent, only a fraction of the purchase price. The Common Market countries, collectively our most important dollar market for wheat, are pursuing policies which are designed to limit imports of U.S. grain. In the face of these developments burgeoning productivity and shrinking dollar markets—expanded East-West trade in grain can increase total dollar income from exports.

In judging such sales, it is important to determine whether the United States has the power to deny the Soviet bloc free world supplies, if the United States itself chooses not to sell. If the Soviet bloc can obtain the supplies they require from others, it is difficult to see how the United States benefits from a decision not to supply their requirements. To date, other major world exporters of wheat have shown no reluctance to sell wheat to the Soviet bloc or, for that matter, to Red China and Cuba.

An impediment of questionable validity to East-West trade in wheat is the provision which expresses the sense of the House of Representatives that subsidized agricultural commodities should not be sold to the Soviet Union. This resolution misconceives the function of the export subsidy. Export subsidies are necessary in order to adjust domestic prices, supported above the world market price to the level of world competition, if supplies from other countries are available at world prices. The export subsidy does not benefit the foreign buyer in any sense, and therefore provides no basis for determining whether they should or should not, be sold in East-West trade.

A second impediment is the requirement that half of any wheat sold to the Soviet bloc, even though sold for dollars, be shipped in U.S. vessels. This attempt to support indirectly U.S. maritime interests seriously jeopardizes future East-West trade in agricultural products. While this requirement is applied to sales for which our Government agrees to convert foreign currencies, this condition was not involved in the recent sale to the Soviet bloc. Even where U.S.-flag vessels are required, the U.S. Government, not the foreign buyer, pays the additional cost. We recognize the competitive disadvantages under which the U.S. maritime industry operates. However, these problems cannot be solved by attempting to impose U.S. vessels on foreign buyers who will not accept them. If a subsidy to our maritime fleet is necessary, it ought to be provided, as other subsidies are provided, from Government funds, and not imposed as a burden on needed export outlets for farm commodities.

We, therefore, recommend that the policies of our Government with respect to East-West trade be constantly reviewed, and that dollar trade be permitted on a competitive basis in the absence of overriding, foreign-policy considerations to the contrary.

WESTERN ELECTRONIC MANUFACTURES ASSOCIATION,
Palo Alto, Calif., March 2, 1965.

Hon. J. W. FULBRIGHT,
Chairman, Committee on Foreign Relations,
U.S. Senate, Washington, D.C.

DEAR SENATOR FULBRIGHT: Thank you for the opportunity to comment to the committee on the policy of East-West trade. As manufacturers of sophisticated devices and systems, many electronic companies in the West feel that a world-wide substantial market exists for our products.

We believe that we understand the policy in most of its major aspects as presented by Secretary of State Rusk in his testimony before the committee. We agree that our policy with respect to the Communist nations must be sufficiently flexible to deal with each nation on its own merits. We agree, further, that this policy should remain flexible and should not become doctrinaire. We also believe that this policy should be frequently reviewed, and most particularly as the attitudes of our friends and allies indicate it.

It is our opinion that changes in our trade policy with a Communist country should be made slowly, and only after positive proof that the Communist country is interested in a long-term improvement in all of our cultural and trade relations with that country. This is not to say that we should not pioneer in an improvement in these relations; rather, we should move cautiously.

Recognizing our country's policy as flexible and dynamic, the Western Electronic Manufacturers Association would like to see our policy move in the following direction: Toward freer trade with all countries, with fewer restrictions, lower tariffs, and embargoes only against those nations which continue to consider us enemies.

We believe that our trade policy should be more consistent with those of our free allies. Where trade policy differences exist, these differences should be defined and the reasons carefully explored with our allies.

We would appreciate clear statements of our trade policy that would outline our position in unmistakable terms for the benefit of our friends and enemies alike.

In such a short time for reply—and in a letter this brief—it obviously is impossible for our board of directors to adequately express all the various views and opinions of each of the 310 member companies in our association. We are, therefore, sending a copy of this letter to the chief executives of these companies, suggesting that they write your committee if they have specific suggestions or further comments on trade with Communist countries.

Very truly yours,

WILLIAM H. HEFLIN, *President.*

FARM & INDUSTRIAL EQUIPMENT INSTITUTE,
Chicago, Ill., March 8, 1965.

Hon. J. W. FULBRIGHT,
Chairman, Committee on Foreign Relations,
U.S. Senate, Senate Office Building, Washington, D.C.

MY DEAR SENATOR FULBRIGHT: Thank you for your good letter of February 6 soliciting our views concerning the political and economic implications involved in East-West trade of farm equipment.

As you undoubtedly know, the farm equipment industry is probably of all the industries in the United States, the most heavily committed to worldwide trade. Our American-owned corporations manufacture, assemble, distribute, and sell our products in nearly all the regions of the globe.

In general, however, our experience in selling behind the Iron Curtain has been unhappy and unprofitable. Communist countries have been more concerned in purchasing prototype machines which they could reproduce without license in their own countries, than in taking advantage of the price and quality characteristics of American machines by buying them as whole units and as sophisticated components for local assembly and distribution.

Looking, however, to the future rather than to the past, we desire a maximum of freedom, consistent with a well-defined national policy, to compete in all the markets of the world. When every detail of trade must be examined and approved by a Government agency before its consumation, the ethical competitive and aggressive spirit is undermined and instead, a premium is placed upon bureaucratic compliance and sharp practice and maneuver.

We would hope, therefore, that the deliberations of your committee will result in defining as clearly as possible those areas of trade which, while economically significant, are of small military value and within which it would be permissible for our industry to do business at our own risk and discretion.

This is not to be misunderstood as an endorsement of any plan to extend long-term Government credits. We are well aware that the Russian bloc will spend its earned foreign exchange credits with caution, but will spend its politically obtained credits quite recklessly, especially in a period immediately prior to an anticipated military adventure. Like all the rest of American industry, we look forward to the time when East-West tensions will be truly ameliorated.

We are deeply interested in the work of your committee and desire to cooperate with you in every possible way.

Sincerely yours,

DOUGLAS HEWITT, *Executive Secretary.*

NATIONAL ASSOCIATION OF WHEAT GROWERS,
Washington, D.C., March 1, 1965.

Hon. J. W. FULBRIGHT,
Chairman, Committee on Foreign Relations,
U.S. Senate, Washington, D.C.

DEAR SENATOR FULBRIGHT: In response to your letter of February 9, The National Association of Wheat Growers appreciates an opportunity to present our views with regard to East-West trade.

The National Association of Wheat Growers, recognizing the value of our wheat reserves and the productive capacity of our wheat farms as a powerful instrument for foreign trade and world peace, urges the full use of wheat and its products whenever possible in obtaining the foreign trade and foreign policy objectives of the United States.

During recent years, the largest commercial sales of wheat in the world have been made by Canada and Australia to Russia, other Soviet bloc countries and mainland China. Last year, over 50 percent of wheat and flour from both Austrialia and Canada were to these countries, and neither country has any appreciable surplus of wheat. The economy of both countries has benefited significantly from these sales. Meanwhile, U.S. wheat growers have been subject to additional reductions in their wheat allotments, hence our growers are becoming increasingly concerned with the expanding acreage and production in other exporting countries which do not participate in holding world wheat surplus supplies to stabilize world wheat prices. Therefore, we recommend that a complete review of policy be implemented toward expanding East-West trade for U.S. wheat and flour.

The export of wheat is dependent upon the removal of many trade barriers. The export of wheat will also depend upon how we meet international competition. Countries such as Canada, Australia, Argentina, and France are all tough competition in world markets due to the quality of the wheat they raise and the fact that they are able to negotiate price and terms quickly. This facilitates fast movement. Such selling policies often take a long time in the United States. For example, the Canadians decide very quickly if they are to sell to Soviet bloc countries and are able to specify the price levels and terms in a number of days.

It now appears that the only remaining potential markets for expanding commercial wheat exports is to develop trade with the Soviet bloc. Because the United States has elected to lock itself out of these markets a rapid expansion of relatively uneconomic wheat production is occurring in countries which compete with us for exports. Consider the following figures:

WHEAT EXPORTS BY COUNTRY OF DESTINATION

Percent of total exports that went to Soviet bloc countries

	Argentina	Australia	Canada	France	United States
1962-63	5.4	45.0	24.2	48.8	8.6
1963-64	38.5	51.1	51.0	28.5	14.4

Clearly, our friendly competitors would not have been so successful in expanding their trade and production had they not had access to business with Soviet bloc nations. If traditional patterns are followed future market opportunities for the United States will depend upon legendary shares which are currently being established. Thus, our competitors are gaining advantages.

The rigidity built into U.S. policies on dealing with East-West trade need to be relaxed. There now appears to be no possible way to engage in effective trade with Soviet bloc nations even when it has been determined to be in the nations best interest to do so. The politico-emotional block that now impedes effective trade with Soviet bloc needs to be promptly hewn out so that intelligent decisions can be made on each case according to its merits.

It is a well-known undisputed fact that the technological achievement of the American farmer has not even closely been matched in any Soviet bloc nation. If we are to fully exploit this wonderful asset we can help not only our balance of payment but also improve our stature among the many nations who are currently looking on and deciding for themselves which kind of government to assume for themselves.

Specific policies that need immediate adoption pertaining to East-West wheat trade include:

1. A general export license of an open end nature of continuing duration without restriction.
2. The extension of normal commercial credit of an appropriate duration not to exceed 5 years.
3. A subsidy arrangement supporting the U.S. nonliner merchant fleet making them fully competitive with foreign shipping and eliminating the U.S.-flag shipping requirements on shipments to the Soviet bloc market.
4. An aggressive sales policy that enables our private grain export trade to actively seek and exploit the Soviet bloc market.

In conclusion, the National Association of Wheat Growers commends the Committee on Foreign Relations for the contribution you are making toward expansion of world trade. We stand willing and ready to offer any further assistance in this important matter.

Cordially yours,

ANSON HORNING, *President.*

AMERICAN FUR MERCHANTS' ASSOCIATION, INC.,
New York, N.Y., March 9, 1965.

Hon. J. W. FULBRIGHT,
Chairman, Senate Foreign Relations Committee,
Senate Office Building, Washington, D.C.

MY DEAR SENATOR FULBRIGHT: This is to acknowledge your letter of February 6 pertaining to the hearings of the Senate Foreign Relations Committee on East-West trade relations.

The American Fur Merchants' Association, Inc., is extremely interested in the subject of East-West trade, since many of our members purchase fur skins from the Soviet Union and other satellite countries.

Fur skins, as I am sure the committee is aware, are a major Soviet export. However, section 11 of the Trade Agreements Extension Act of 1951 prohibits the importation into the United States of ermine, fox, kolinsky, marten, mink, muskrat, and weasel furs and skins, dressed or undressed, which are the product of the U.S.S.R. To the best of our knowledge, this is the only statutory prohibition of imports from the Soviet Union.

The U.S. restrictions on the importation of these seven Soviet furs has been a severe handicap to the American fur industry and has benefited nobody. The decline of New York City as a world fur market and the increasing importance of London as a world distribution center, can be in part directly ascribed to section 11 of the Trade Agreements Extension Act of 1951.

The American Fur Merchants' Association has prepared a detailed analysis of the economic impact of section 11 on the American fur industry. I am pleased to enclose a copy of "A Study of 'The American Embargo on Seven Soviet Furs,'" which I hope will be published in the proceedings of the committee.

The American Fur Merchants' Association favors the repeal of section 11 of the Trade Agreements Extension Act of 1951. I certainly hope the Senate Committee on Foreign Relations will study this aspect to East-West trade relations and take positive steps to remove this unfair handicap which has been placed on the American fur industry.

Very truly yours,

WILLIAM KOLODNEY, *Executive Director.*

A STUDY OF "THE AMERICAN EMBARGO ON SEVEN SOVIET FURS"

INTRODUCTION

On June 16, 1951, President Truman signed the "Trade Agreements Extension Act of 1951" [1] which act extended the Tariff Act of 1930, as amended and extended, for a period of 2 years. Section 11 of the Extension Act reads as follows:

"The President shall, as soon as practicable, take such measures as may be necessary to prevent the importation of ermine, fox, kolinsky, marten, mink, muskrat, and weasel furs and skins, dressed or undressed, which are the product of the Union of Soviet Socialist Republics or of Communist China." [2]

BACKGROUND OF THE LEGISLATION

In 1951, a bill, H.R. 1612, was introduced into the House of Representatives to extend and amend the trade agreements program. The House Committee on Ways and Means held hearings on the bill and then the House of Representatives passed the measure. In this original version there was no mention of any restrictions on the importation of furs.

The bill was then sent to the Senate. The Senate held hearings, made various changes, but again there was no mention of any ban on furs right up to the day of the final vote. Then, on May 23, 1951, immediately preceding the vote on the entire measure, Senator Joseph R. McCarthy, Representative, of Wisconsin, offered an amendment from the floor. The amendment required that imports during 1951–52 of mink, silver fox, and muskrat be limited to a quantity not to exceed 25 percent of domestic production during the preceding year.

Senator Walter F. George, Democrat, of Georgia, chairman of the Senate Finance Committee, warned Senator McCarthy that the House of Representatives probably would not accept this rider. He said, "I am willing to take it to conference, but I cannot guarantee to hold it in conference. I am quite sure the House would not consent to accept the amendment." [3]

The amendment was adopted by voice vote and then the entire measure was approved and sent to a House-Senate conference committee. It should be noted that the statement submitted by Senator McCarthy in support of his amendment was misleading in several respects. For example, he said, "Figures reveal our domestic production of mink has remained relatively static since 1947 at about 2⅓ million pelts." This was to support his contention that the mink farmers were not able to make any money. As a matter of fact, U.S. production of ranch

[1] Public Law 50, 82d Cong., ch. 141, 1st sess., H.R. 1612.
[2] This study is concerned with the embargo only as applied to the U.S.S.R.
[3] Congressional Record, vol. 97, pt. 4, May 23, 1951, p. 5720.

mink increased from 1,525,763 pelts in 1947 to 2,219,553 pelts in 1951, a gain of almost 50 percent.[4] Since that time, the domestic production of ranch mink has grown to over 7 million skins annually but still cannot satisfy the domestic demand and export requirements.[5]

The conference committee met to reconcile the different versions of the extension act which had been passed in the Senate and the House. On May 28, 1951, the conferees reached final agreement on a mutually acceptable version. The McCarthy amendment had been eliminated, but in its place was substituted section 11 with its total ban of seven U.S.S.R. furs.

The next day, May 29, 1951, the Senate adopted the compromise version, voting on the measure as a single unit. On June 5, 1951, the House passed the compromise measure on a voice vote without discussion, and on June 6, 1951, President Truman signed the measure into law.

At no time was an opportunity extended to the fur industry, its allied industries, consumers, or any other groups of citizens, to testify in favor or against the proposed legislation. The form in which the amendment was introduced and pushed through precluded such testimony.

On August 1, 1951, President Truman signed a proclamation giving effect to section 11 and on November 20, 1951, sent a letter to Secretary Snyder applying the embargo effective January 5, 1952. The Trade Agreements Act was extended again in 1953, 1954, 1955, and 1958.

In 1962 the administration's Trade Extension Act of H.R. 9900 in its original form provided for the elimination of section 11, but after the bill emerged from committee and in its final form, as H.R. 11970, the embargo was reinstated and is still in force today.

Why was section 11 made part of our trade policy?

We must assume that the prohibition against the fur imports was apparently intended as a measure of protection for domestic fur producers. If it was intended as a general step of economic warfare against the U.S.S.R., would it not have prohibited all imports fom the U.S.S.R. rather than an arbitrary few fur items?

SUMMARY OF PERTINENT FACTS AND STATISTICS

How important were the embargoed furs? What part did they play in our total trade with the U.S.S.R.? What share of our total fur imports do the seven furs from the U.S.S.R. represent? This section provides in summary form the answer to these and similar questions. A complete set of statistical tables appears in the appendix of this study.

Our annual imports of the seven embargoed furs from the U.S.S.R. averaged $7.1 million for the 5 years 1947–51. They reached a peak of $9.1 million in 1948 and a low of $5.7 million in 1949. Total fur imports from the U.S.S.R. during the same period averaged $30.5 million per year with a high of $43.3 million and a low of $21.1 million. Total imports of all commodities from the U.S.S.R. varied from $86.8 million to $27.5 million, and averaged $53.8 million during the same period. These figures, with the exception of 1951, were all available to Congress when the law was passed. We see in table 1 that imports of the embargoed furs represented only a minor part of total fur imports from the U.S.S.R. and of our total imports of all commodities from that country.

TABLE 1.—*U.S. imports of 7 U.S.S.R. furs, all U.S.S.R. furs and all U.S.S.R. commodities, annual averages 1947–51*

	Dollar value (millions)	Percent of total
All imports from the U.S.S.R.	$53.8	100.0
All fur imports from the U.S.S.R.	30.5	57.0
Imports of 7 furs from the U.S.S.R.	7.1	13.2

Source: U.S. Department of Commerce, Bureau of the Census.

While the banned furs represented only a part of fur imports from the U.S.S.R., they represented even a smaller part of total fur imports from all sources. During the 5 years 1947–51, total imports of fur from all sources

[4] National Board of Fur Farm Organizations.
[5] Tariff Commission releases escape clause, "Report on Mink Skins," Sept. 17, 1959.

averaged $124.8 million per year. We thus see that the U.S.S.R. supplied 43.1 percent of the total fur imports and that the seven U.S.S.R. furs accounted for only 5.7 percent of the total fur imports.

TABLE 2.—*U.S. imports of 7 furs from the U.S.S.R. and total fur imports, annual averages 1947–51*

	Dollar value (millions)	Percent of total
Imports of all furs from all sources	$124.8	100.0
Imports of 7 furs from the U.S.S.R.	7.1	5.7

Source: U.S. Department of Commerce, Bureau of the Census.

Apart from the fact that the importation of the seven articles amounted to only 5.7 percent of our total imports of furs, the prohibited articles were in fact hardly ever in competition with their domestic counterparts, and their exclusion from the domestic market never had a logical economic basis. This may be seen if we analyze each of the seven furs in relation to the U.S. production.

1. Kolinsky: United States produces none.
2. Weasels: United States produces none. (U.S.S.R. also produces none.)
3. Martens: At the time of prohibition and up to the present time, U.S. production was and is negligible.
4. Ermine: American ermine in the trade are called "weasels." At the time of prohibition and up to the present time, U.S. production was and is negligible.
5. Foxes:

A. Red foxes, gray foxes, and cross foxes were at the time of prohibition and up to the present time, not in great demand and trapping of these furs in the United States for commercial purposes was and is up to the present time negligible.

B. White foxes and blue foxes are not produced in the United States except a few thousand in Alaska.

C. Silver foxes (which are subject to a special duty of 37 percent) have been out of fashion and very few are raised in the United States or in any other country.

It is clear that neither an embargo against the U.S.S.R. nor a general protective tariff against all other countries has helped the domestic silver fox industry, which was once very large. In the fur industry, fashion is the primary determining factor.

6. Muskrats: Of the seven embargoed articles, muskrat is the only one where there appeared to be any area of competition. At the time of prohibition in 1951, the United States was producing 7,919,969[6] pelts per year for an estimated value of $12 million. The U.S.S.R. produced about 2,500,000 pelts, of which there was imported into the United States in 1951, 1,522,458[7] skins for a value of $2,350,000. The average annual import of the U.S.S.R. muskrats into the United States in 1947–51 amounted to $2,430,000. In other words, the U.S.S.R. import of muskrats into the United States amounted to about 20 percent of the domestic production.

It is interesting to note that the United States, during the same period, exported an average of 3,946,704 muskrat skins for the dollar equivalent of $6,436,151.[8] In other words, we exported more than 50 percent of our domestic production.

After the imposition of the embargo, domestic production and price of muskrats steadily declined and by 1960 it reached a low of 5,077,501 muskrats produced in the United States for an estimated value of $4,250,000. The latest figures supplied by the Fish and Wildlife Service of the Department of the Interior show that the catch in 1961 amounted to 4,421,338 skins and in 1962 to 4,121,861 skins, or a decline of almost 50 percent. According to the figures supplied by the dressing factories, there were dressed and consumed in the United States in 1961 only 976,447 skins and in 1962 866,896 skins, and the consumer demand of muskrats in the United States has almost disappeared.

[6] Department of the Interior, Fish and Wildlife Service.
[7] Department of the Interior, Fish and Wildlife Service.
[8] U.S. Department of Commerce, Bureau of the Census.

There is no doubt that the fashion for muskrats in the American market declined considerably and American trappers, collectors, and exporters became vitally interested in the European consumer market where the fashion demand for this article continued strong.

Due to the fact that the U.S.S.R. muskrats could not be imported into the United States, the normal balance in price structure was disturbed and our exporters had to lower their prices to meet the U.S.S.R. competition in Europe.

7. Mink: The United States is the largest producer of wild and ranch mink in the world, and the U.S.S.R. is one of the smaller producers. At the time of the imposition of the embargo in 1951, U.S. production of ranch mink was 2,219,553 pelts for an equivalent dollar value of $38,519,000 [9]. The U.S.S.R. production at that time was estimated at about 100,000 pelts (including wild and ranch raised), of which 11,564 [10] skins were imported into the United States with a dollar value of $220,096. For the period of 1947–51, an average of $296,000 of the U.S.S.R. mink was imported each year against an American production of over $38 million, and it is difficult for us to see how this minute importation of the U.S.S.R. minks constituted a threat to the American mink ranchers. It is interesting to note that in 1951 the U.S. imports of mink from all sources amounted to $17,220,000.

TABLE 3

U.S. mink production in 1951 [1]	$38,519,000
General mink imports in 1951 [2]	17,220,000
U.S.S.R. mink imports in 1951 [2]	220,096

[1] Auction Co. sales reports.
[2] U.S. Department of Commerce, Bureau of the Census.

In other words, imports of U.S.S.R. mink at the time of imposition of the embargo amounted to about 0.57 percent of domestic production and about 1.3 percent of the overall mink imports.

SUMMARY

Of the seven prohibited articles, five—ermine, kolinsky, marten, weasel, and foxes—under present economic conditions are either not produced in this country at all, or produced in very small, insignificant quantities.

The lifting of the embargo cannot possibly do harm to something that does not exist.

Muskrats: The only article where some form of competition existed, despite the so-called protection of the present law, has suffered badly.

There has been a decline in the catch of U.S. muskrats of almost 50 percent and U.S. consumption of this article has declined to an insignificant quantity (below 1 million skins per year). The embargo makes even less sense now than it did when originally imposed.

Mink: Imports of this article at the time of imposition of the embargo amounted to little over one-half of 1 percent of the domestic production, and by no flight of the imagination could have been considered as a competition for our domestic producers.

U.S. production of mink in 1962 reached 7,251,495 [11] skins and production in the rest of the world of 7.5 million [12] skins (excluding the U.S.S.R.). In other words, we have a free world production of about 15 million mink which can be and are freely imported and exported into and out of the United States and all other free trading countries. U.S.S.R. mink export was about 1.3 to 1.4 million [13] in 1962. This means that the U.S.S.R.'s export today is below or about 10 percent of the world's mink. Because of the embargo all U.S.S.R. minks are sold and consumed in Europe and Canada. If the embargo is lifted, only part of the U.S.S.R. mink can come to this country because there is no reason why Europe and Canada should suddenly stop using U.S.S.R. mink, and therefore lifting of the embargo at worst can have only a marginal effect.

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[9] National Board of Fur Farm Organizations and Auction Co. sales reports.
[10] U.S. Department of Commerce, Bureau of the Census.
[11] There were 6,951,000 ranch raised and 300,495 wild catch. (Fish and Wildlife Service, Department of the Interior, leaflet No. 452 and National Board of Fur Farm Organizations.)
[12] Compiled by Women's Wear Daily from official reports.
[13] Estimated from auction companies and free sales.

American mink producers who were the prime instigators of the embargo are perfectly willing to sell, and have sold, to the U.S.S.R. breeding stock of American mink, but are strongly opposed to the importation of the offsprings. This is inconsistent and improper from a fair business point.

ECONOMIC EFFECTS OF THE EMBARGO

The immediate result of the embargo has been, of course, to eliminate the import of the embargoed furs from the U.S.S.R., but the longrun economic effects on our trade have been far greater than that of simply cutting off the importation of the seven articles.

Although the embargo covered only a small part of the overall fur imports, their unavailability in the New York market generally contributed to the decline in the overall fur imports and exports, and New York started losing its importance as an international distribution center of world furs.

This has resulted in a shrinkage of total business in the New York market which adversely affects most segments of the industry.

The imposed embargo of the seven articles, although small in dollars and cents, had a great psychological effect on international producers and traders and contributed to the shift of the world fur market from New York City to London. The fur trade is basically an international trade and any restrictions on free exchange of goods works economically against the country which imposes such restrictions. One of the characteristics of a world market is that there should always be a wide and full selection of the world's furs available. Buyers from Canada, South America, and Europe prefer to buy in such a market and therefore have now largely shifted their patronage to London. This means a loss of income and commissions to dealers, brokers, and all workers in New York City who had made, in the past, this city the leading raw fur center of the world. It also means a loss of business to shipping, insurance, and financial firms which provide the necessary services for the international fur trade.

Total U.S. import and export trade in furs averaged annually in 1952–62 $130 million against $157 million annually in 1947–51, or a decline of 17 percent. This decline took place during the period when the general economy of the United States was sharply expanding.

At the same time, the London market successfully absorbed our loss of international turnover and attracted all expansion in the world's fur trade.

Total London imports and exports in furs averaged annually in 1952–62 $141 million against $76 million annually for 1947–51, or an increase of 85 percent.

TABLE 4.—*Combined import-export figures in dollars showing relative development of the New York and London market*

[Dollars in millions]

	1947–51	1952–62	Percent increase (+) or decrease (−)
New York [1]	157	130	−17
London [2]	76	140	+85

[1] U.S. Department of Commerce, Bureau of the Census.
[2] Compiled by the International Fur Federation from England's Trade and Navigation Statistics.

It should be emphasized that the narrowing of the variety of furs that can be offered is felt right through the domestic industry all over the United States from the trapper up to the retail level. Restrictions on the supply of raw furs eventually means restrictions on the amount of business the industry can do. Production employment and retail sales of the fur industry have all fallen considerably, in recent years.

In support of the above, we submit the following tables of statistics:

(A) Statistics on dressing and dyeing firms in 1951 and present time: 1951, 50 firms; 1962, 17 firms.[14]

[14] Fur Dressers Guild, Inc.

(B) Same with respect to manufacturing firms: 1951, 2,112 firms; 1962, 1,507 firms.[15]

(C) Labor statistics—employees engaged in the manufacture of fur goods in New York City: 1951, 13,600; 1962, 8,949.[16]

American observers outside the fur industry have commented on the narrow purpose of section 11 and the manner of passage. Harry S. Radcliffe, executive vice president of the National Council of American Importers declared, "It was particularly disturbing to have a pressure group using the device of anticommunism to obtain tariff [sic] protection for producers of special types of furs".[17] The question of fairness also cannot be ignored. The fur industry, the group most vitally affected by the ban, was never given an opportunity to testify against the proposed legislation. It is primarily an industry of small firms unable to defend itself adequately.

Finally, there is the effect of the embargo on the consumer. If the American public does not wish to purchase the U.S.S.R. furs, the embargo is superfluous. As a matter of law, all furs must be labeled to show the country of origin. But, as a special House Committee on Small Business pointed out in opposing a ban on fur imports in January 1951, the present type of legislation deprives the consumer of a free choice.[18]

CONCLUSION

The preceding analysis of the background of the legislation, the summary of the statistical evidence, the economic effects of the embargo and other implications lead to the following conclusions:

1. The measure calling for the embargo was contrived and hastily pushed through at the last minute in a manner inconsistent with good democratic procedures.
2. The fur industry, the group most directly affected, did not have an opportunity to testify concerning it.
3. The banned furs represented only a small part of total imports and in practice did not and do not compete to any appreciable extent with any domestically produced fur.
4. The embargo has hurt various sectors of the fur industry, including labor, importers, brokers, skin processors, manufacturers, retailers, and trappers.
5. The embargo has been a major factor in the shifting of the world's fur market from New York to London. This means loss of business to shipping, insurance and banking firms in the United States.
6. The embargo deprives the American consumer of free choice of products.
7. The embargo is inconsistent with our present policy of encouraging free international trade in peaceful goods.

On the basis of the foregoing, it seems fairly clear that removal of the embargo would be in the best interest of the United States as a whole and provide the stimulus for greater activity and full employment in a trade which has declined in a period of general economic expansion.

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[15] Compiled by Fur Age Weekly, July 22, 1963.
[16] New York State Department of Labor.
[17] The New York Times, Dec. 27, 1951, p. 29.
[18] The New York Times, Jan. 4, 1951, p. 40.

Statistical appendix

[In thousands of dollars]

	1947	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962
Imports of all furs from U.S.S.R.	43,308	40,522	25,213	21,061	22,515	12,304	7,068	8,177	7,958	7,319	5,656	6,294	6,577	6,143	6,955	7,541
Total imports from U.S.S.R.	77,101	86,824	39,140	38,242	27,516	16,742	10,800	11,800	16,828	24,561	16,517	17,318	27,071	22,764	22,785	16,360
Total imports of furs from all sources	127,039	164,479	108,960	109,309	113,995	78,656	73,026	72,004	87,354	86,067	86,465	87,981	107,797	109,196	101,236	116,697
Imports of 7 furs from U.S.S.R.:																
Ermine	753	741	405	674	871											
Fox	2,330	1,621	361	437	12											
Kolinsky	1,092	1,771	784	1,456	1,612											
Marten	1,557	1,319	994	1,142	1,624											
Mink	310	200	269	504	200											
Muskrat	1,624	3,353	2,882	1,941	2,351											
Weasel	43	57	10	70	10											
Total	7,709	9,062	5,705	6,224	6,680											
Total U.S. exports of furs	48,805	30,486	29,172	24,457	32,375	29,832	30,432	31,227	32,228	37,243	46,693	36,203	39,577	46,934	46,500	48,112

Source: U.S. Department of Commerce, Bureau of the Census.

English imports and exports

[In thousands of dollars]

	1947	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962
Total imports	26,259	28,907	24,104	44,941	72,448	60,387	60,505	53,325	67,956	69,175	76,487	68,880	79,552	93,515	87,627	94,530
Total exports	19,851	29,773	26,776	45,632	61,108	67,074	54,172	53,641	69,244	69,772	67,419	65,858	75,846	79,659	79,546	98,073

Source: Compiled by the International Fur Federation from England's trade and navigation statistics.

STATEMENT OF ROBERT C. LIEBENOW, PRESIDENT, BOARD OF TRADE OF THE CITY OF CHICAGO

As the Nation's foremost exchange for marketing agricultural commodities, the Chicago Board of Trade is keenly aware of the many economic and possibly political advantages to be gained by the United States from normal commercial cash sales of American farm products to the Soviet bloc countries. We feel that it will promote the interests of the United States.

The farmer is perhaps the most important American internationally. Efficiency and technological advancement have made it possible for our farmer not only to satisfy constantly increasing domestic agricultural demands, but also to produce a quantity of commodities sufficient to make him a vital supplier of foreign markets. The urban citizen probably has little conception of the extent and importance of international trade in agricultural commodities. One out of every four acres tilled on U.S. farms is cultivated for export trade. The products of some 75 million acres of cropland moved to foreign consumers last year.

The livelihood of American agriculture rests on foreign trade to a greater extent relatively than American industry. Exports account for some 16 percent of farm marketing income, while exports have equaled only about 8 percent of output in the nonagricultural sector of our economy.

We are the world's largest exporter of farm products. With only a small fraction of the world's farmers, we are supplying over 20 percent of all the farm products moving in international trade. The Chicago Board of Trade has figured out that last year's agricultural exports moving from the United States would have filled over 1 million freight cars. It is to be noted that on an average day 13 ships left our ports carrying agricultural cargo.

The export of $6 billion in agricultural products is big business, not only for American farmers but also for the wage earners and business people associated in the marketing of agricultural products. The bounty of American farms undergirds a tremendous part of our entire gross national product. It is, therefore, obvious that the public has a tremendous interest in continued farm abundance and expanding international trade. Sales to the Soviet bloc nations help in this endeavor.

We earlier made reference to the $6 billion exports of farm products. It should be noted that of this amount, $4 billion was sales for dollars, and that these sales made an important contribution to meeting our balance-of-payment problems. Sales to the Soviet bloc nations would help meet this problem.

The present program of export licensing of agricultural commodities, except those determined to be in short supply, to the Soviet bloc is of doubtful validity.

Under the Export Control Act of 1949, section 1, we find the following:

"Findings

"Section 1. (a) Certain materials *continue in short supply* at home and abroad so that the quantity of United States exports and their distribution among importing countries affect the welfare of the domestic economy and have an important bearing upon fulfillment of the foreign policy of the United States.

"(b) The unrestricted export of materials without regard to their *potential military significance* may affect the national security."

Section 3(c) of the same law severely limits the authority to utilize export controls with respect to any agricultural commodity. Section 3(c) reads as follows:

"(c) The authority conferred by this section shall *not* be exercised with respect to any agricultural commodity, including fats and oils, during any period for which *the supply* of such commodity is determined by the Secretary of Agriculture *to be in excess of the requirements of the domestic economy, except* to the extent required to effectuate the policies set forth in clause (b) or clause (c) of section 2 hereof."

This section categorically states that the export control authority shall not be exercised unless the agricultural commodity is determined to be in short supply with two exceptions provided for under clause (b) or clause (c) of section 2.

Section 2 reads as follows:

"The Congress hereby declares that it is the policy of the United States to use export controls to the extent necessary (a) to protect the domestic economy from the excessive drain of scarce materials and to reduce the inflationary impact of abnormal foreign demand; (b) to further the foreign policy of the United States and to aid in fulfilling its international responsibilities; and (c) to exercise the necessary vigilance over exports from the standpoint of their significance to the national security."

The only justification with respect to the specific commodities for which export licenses are required would be to further the foreign policy of the United States, and to aid in fulfilling its international responsibilities, and to exercise the necessary vigilance over exports from the standpoint of their significance to the national security.

It is extremely difficult to understand why certain agricultural commodities, such as tallow, lard, meat, eggs, honey, molasses, and many others can be shipped to the Soviet bloc under general license, whereas feed and food grains require a validated license. Practically all of the food and feed grains are in surplus supply.

The fact that many agricultural commodities can move under general license eliminates the question with respect to "furthering the foreign policy of the United States and to aid in fulfilling its international obligations." Also, there does not seem to be any question with respect to "exercising the necessary vigilance over exports from the standpoint of their significance to the national security," since the national security is not involved in such exports.

In May of 1962, the Select Committee on Export Control of the House of Representatives issued a report. On page 13 of this report we find the following:

"The Department of Agriculture, under the Export Control Act of 1949, is responsible for determining whether the supply of any agricultural commodity is in excess of domestic requirements. Controls cannot be exercised by the Department of Commerce over commodities declared by the Department of Agriculture to be in excess of domestic requirements unless for foreign policy or national security reasons.

"As a matter of policy agricultural commodities outside of price supports (those commodities which are not under the export payment system) could be sent to Russia and the bloc under the authority of a general license."

In view of these basic facts, a review of the entire question of the legal validity of the utilization of validated licenses to the Soviet bloc countries should be initiated.

It should be noted that the U.S. Department of Commerce has established the following country groupings with respect to Communist countries:

Country group W:
- Poland (including Danzig).
- Rumania.

Country group Y:
- Albania.
- Bulgaria.
- Czechoslovakia.
- East Germany (Soviet zone of Germany and the Soviet sector of Berlin).
- Estonia.
- Hungary.
- Latvia.
- Lithuania.
- Outer Mongolia.
- Union of Soviet Socialist Republics (excluding Pacific region, see country group Z).

Country group Z:
- China, including Manchuria and excluding Taiwan, Formosa (includes Inner Mongolia; the provinces of Tsinghai and Sikang, Sinkiang, Tibet, the former Kwantung Leased Territory, the present Port Arthur Naval Base area, and Liaoning Province).
- North Korea.
- Communist-controlled area of Vietnam.
- Cuba.
- Pacific region of U.S.S.R. which comprises the Maritime Provinces of Primorskiy Kray, Khabarovskij Kray, Sakhalin Island, and the Kurile Islands under U.S.S.R. administration.

It should be noted that validated export license for agricultural commodities is not required for country group W countries. We are recommending similar treatment for country group Y countries, not country group Z countries.

We would recommend that the exports of any agricultural commodity, except those in short supply, to the Soviet bloc countries be handled under general license. A general license is a license established by the Office of Export Control of the Department of Commerce for which no application is required, and for which no export document is granted or issued. Naturally, any exportation under this general license would be in accordance with the export regulations.

There are many advantages to such a procedure. The present method of operation results in undue disadvantages to American exporters and to our farmers.

It should be noted that the filling out of the license application forms FC–842 and FC–419 is a major deterrent in and of itself. There are several types of certifications both from the buyer and the seller, all of which must be carefully worked out. These very substantial technical requirements upon applicants for licenses are truly embarrassing in attempts to do business. All of the contracts signed must be made on the basis that they are subject to the obtaining of the license. A license application is subject to complete and detailed screening process. Questions are asked to which the applicant must respond to the satisfaction of the Department of Commerce. This means that any effort to do business with the Communist countries involve considerable hazards and are extremely costly, especially against the risk that the application may be denied.

Fundmental in this consideration is the basic fact that our competitors do not experience any such delays. As a matter of fact, they are helped by their government agencies and facilities. In other free world countries licensing procedures are routine, and actions on application are usually prompt. We are not in a competitive position in negotiating on sales to the Soviet bloc because of these delays and risks.

Trade flourishes best where there is a minimum of restrictions. Export requirements which took 315 three-columned pages in the Federal Register contribute to an incalculable loss of business. There are several ways in which these regulations, many of which are unnecessary, retard and even prevent a great deal of trade. These are:

1. The direct and definitive way, because export licenses may be refused.
2. Indirectly, because of fear of refusal the buyer may not even approach an American seller.
3. Uncertainty, because the buyer may approach the American seller but since in any business deal the delivery period is important, he may not be able to go through with his purchase because the American seller cannot give assurances and specify delivery until the license has been issued.
4. The buyer may approach the American seller. Business, subject to license, may be closed but the license is delayed and the contract will eventually be canceled by the buyer because he cannot afford to wait longer and face further uncertainty.

Thus, it must be clearly understood that broad, cumbersome export controls and licensing place a much more severe handicap on business than is generally realized.

Also, there is a great inconsistency in the way we handle various commodities. Exports of wheat and flour to all Soviet-bloc destinations must be exported to the extent of at least 50 percent in U.S.-flag vessels. Exports of feed grains to the Soviet Union must be similarly transported. However, sales of other food and feed grains to Eastern-bloc countries other than the Soviet Union do not have this limitation. It would appear to us that if sales to the Soviet bloc are determined to be in the national interest, we practice economic warfare against ourselves by the U.S.-flag vessel requirement. Certainly, no nation which is a commercial buyer will purchase a commodity for which they must pay a very high premium if they can buy that same commodity elsewhere in the world at world market prices.

As a matter of pride, this would be unacceptable to any nation. It is difficult for us to understand, nor for the policymakers to explain (*a*) the need for such a cargo preference, or (*b*) why there are many differentials in its application.

Fundamentally, we believe that—

1. Sales of agricultural commodities under normal commercial terms are of major benefit to U.S. farmers, labor, and the business community. In his recent agricultural message, President Johnson indicates that we have a surplus grain producing capacity to the extent of some 50 million acres. Export sales for hard currencies enable farmers to use additional acreage profitably. They also reduce the burden on the U.S. Treasury and the taxpayer required to pay to divert cropland from production.
2. Export sales benefit the U.S. economy by making a direct contribution toward the improvement of our balance of payments.

3. The production, transportation, and export of the agricultural commodities increase job opportunities and profits.

4. Exports of our agricultural commodities demonstrate to the Soviet-bloc countries the superiority of the U.S. agricultural productivity.

5. We do not prevent the Soviet-bloc countries from buying the agricultural commodities when we impose these strict licensing procedures. We simply shift the business over to other producing nations, such as Canada, Argentina, France, Australia, and other Western countries. The buyer is in a position to choose.

6. It is essential that if we are to be competitive that we treat all buyers (except those countries in the Z classification) alike. We must offer the same competitive conditions and terms as other nations. This will enable our export firms to be in the position to offer commodities every hour of every day.

7. We should eliminate the Cargo Preference Act provisions with respect to cash sales. This is essential if we are to stay competitive. If it is essential to subsidize U.S.-flag vessels, let us do it directly, not as a burden to East-West trade.

The American farmer can make an even greater contribution to our society if these bureaucratic shackles were removed. This we recommend forthwith, by placing all agricultural commodities, except those in short supply, under general license.

However, we do not believe that credit concessions should be accorded to the country Y group. This would be a form of economic aid.

The West can use the agricultural production weaknesses of the Soviet bloc as a basis for showing the great advantages of the free enterprise system. Our ability to feed and clothe ourself, plus the tremendous export capabilities should be of major value in the battle for the minds and hearts of the emerging nations. The Communist peoples and those of the emerging nations should be informed through every medium available of the great advantages of the free enterprise family farm over the regimented collective.

It should be noted that this proposal, fundamentally, is not a change of U.S. policy. We are already permitting the export of agricultural commodities—either under general license or by a validated license. What we are recommending is to eliminate most of the expense and paperwork inherent in a system of requiring validated licenses for some agricultural commodities.

BUSINESS INTERNATIONAL,
Washington, D.C., February 26, 1965.

Hon. J. W. FULBRIGHT,
U.S. Senate, Washington, D.C.

DEAR SENATOR FULBRIGHT: In answer to several questions raised during the Foreign Relations Committee hearings on East-West trade last Wednesday, February 24, Mr. Elliott Haynes, executive vice president of Business International Corporation, who testified at these hearings, has asked me to send you the enclosed articles published in Business Europe.

These articles review in some detail joint-venture agreements recently concluded between Communist state enterprises and private European firms, in which you expressed an interest. They concern:

The Polish proposal to Krupp regarding production of semifinished iron and steel products in Poland;

A marketing agreement between the British firm of A. E. Callaghan & Sons, and a Czech textile enterprise;

A Swiss company jointly owned by Italy's Officine Meccaniche Gaetano Zocca, and the Bulgarian state monopoly for the export of industrial machinery.

Although Mr. Haynes did not have these articles with him at the time he testified, it would be useful if they could be appended to his testimony.

Business Europe is a publication affiliated with Business International.

Respectfully,

JANINE T. LIEN,
North American Editor.

[From Business Europe, Jan. 27, 1965]

POLISH PROPOSAL TO KRUPP SPOTLIGHTS POSSIBILITIES OF EAST-WEST JOINT PRODUCTION

Eastern European countries' efforts to expand their economic relations with the West are beginning to open up novel and interesting channels for business cooperation with private Western European firms. Examples include assembly of Czech and Soviet cars in Antwerp by a Belgian company (Business Europe, Aug. 1, 1962, p. 6), joint marketing of complementary textile machinery lines by a U.K and a Czech firm (Business Europe, Dec. 9, 1964, p. 3), and establishment of a 50–50 Swiss trading company to sell equipment produced jointly by a Bulgarian and an Italian manufacturer (Busines Europe, Nov. 18, 1964, p. 2). So far the new experimentalism among Soviet-bloc authorities has stopped short of overthrowing basic Communist dogma by permitting ownership of factories in their countries by private foreign investors. But the Polish Government is now exploring with West Germany's Fried. Krupp and arrangement that comes startlingly close to direct investment.

BENDING THE DOGMA

Though the company will not discuss the details at this stage, the Polish proposal reportedly is that Krupp shift part of its production of semifinished iron and steel products to Poland, with the Poles building several factories and providing the labor force, and the German company furnishing the machinery—ownership of which would be retained by Krupp—as well as specialists who would be granted a special juridical status in Poland. Krupp would be compensated by receiving part of the plant's production.

The proposal is being discussed further by a Krupp delegation that left for Warsaw this week. While Krupp is taking a pioneering role in this new form of East-West cooperation (presumably because of General Manager Berthold Beitz" excellent personal relations with top Polish officials), Poland reportedly made similar aproaches to Belgian, Italian, and British firms during the latest Poznan trade fair. And other German companies are currently talking along similar lines with Rumania and Hungary as well as Poland.

Mutual interest in this type of arrangement—and in more conventional subcontracting deals with Eastern firms—springs from several sources. From the viewpoint of Western (and particularly German) manufacturers, the principal attraction is the availability of relatively low-cost labor reserves in Eastern Europe; with their domestic expansion hindered by the labor shortage, German firms are already setting up production bases in Italy, Greece, and elsewhere, whose output goes largely to Germany (Business Europe, Apr. 1 and Aug. 26, 1964).

A second consideration is that imports of Eastern European industrial products are bound to increase in future with these countries' sales of farm products expected to be negatively affected by EEC farm regulations. Germany and other EEC countries will have to admit more industrial goods if they expect to maintain and expand their own exports to Eastern Europe. With this in mind, German industries that would be affected by this development would prefer to incorporate the unavoidable imports into their own production and marketing programs through arrangements with Eastern producers for joint production, processing, subdeliveries, or licensing.

To the Polish and other Eastern governments, closer cooperation with Western firms offers a stimulus to their foreign trade, a help with industrial modernization and technological progress, and a means of relieving actual or potential unemployment problems. This last factor is said to be particularly important in the Polish initiative; Poland already is facing a labor surplus and must create an additional 1.5 million jobs by 1970.

The Krupp formula is only one of the vehicles for closer East-West collaboration being considered. Eastern firms would like to obtain Western machinery on lease or installment terms, paying for it through subdeliveries of goods or by processing semifinished products imported temporarily from the West. The arrangement could even be formalized through a joint venture incorporated in a Western country.

Whatever the formula, however, joint production raises a number of unresolved questions—adjustment of bilateral trade agreements, Western tariff treatment of reimported products and their eligibility for tariff and quota-free circulation within EEC, availability of guarantees for Western firms' credits

(in cash or kind) to their Eastern partners, etc. (While the German Government in principle favors joint projects, the state-controlled export credit insurance company Hermes may not be prepared to cover this type of risk.) Thus the attitude of Western governments—and the shape of the EEC's still unborn common policy on trade with the East—will strongly influence the development of joint production programs.

[From Business Europe, Dec. 9, 1964]

UNITED KINGDOM AND CZECHOSLOVAKIA

The United Kingdom's A. E. Callaghan & Son, Ltd., Sussex (a member of the Birfield group), and Czechoslovakia's Kdynske Strojirny, Kdyne, both textile manufacturers, have concluded an ingenious marketing agreement whereby the Callaghan fiber-amalgamating machine and Kdynske's Elitex-Arachne stitch-bonding machine will be marketed in Eastern Europe and the Commonwealth (except India) as a single package-deal unit for continuous-process production of nonwoven textiles. Marketing and joint servicing in the CMEA countries will be handled by the Czech foreign trade corporation KOVO, acting on behalf of Kdynske. Callaghan will be responsible for distribution in its area. Should the arrangement prove satisfactory, further agreements covering other parts of the world may follow.

[From Business Europe, Nov. 18, 1964]

BULGARIAN, ITALIAN FIRMS' ROAD TO PROFITS PAVED WITH SWISS JOINT VENTURE, SALES PACT

While the world's Kremlinologists are eagerly waiting to see how the U.S.S.R.'s new rules will shape the country's economic and foreign policy, there is concrete evidence that those Eastern European countries that enjoyed a certain degree of economic freedom under Khrushchev's regime will continue to do so in future. Thus, sales managers of international firms interested in expanding their sales in the satellite countries, should not alter their marketing plans. Rather, they may do well to submit time-honored practices and inhibitions to a critical reappraisal, and take a closer look at the possibilities offered by a combination of (*a*) new sales techniques being experimented with by other Western companies, and (*b*) the more flexible thinking of some Communist trade organizations.

A fascinating case in point is the recent decision of Bulgaria's Machinoexport (MEX)—a state monopoly for the export of industrial machinery—to join Italy's Officine Meccaniche Gaetano Zocca, of Como, in the establishment of a 50-50 trading company in Switzerland's low-tax canton of Ticino.

With an initial capital of $20,000, the limited-liability Società Italo-Bulgara (SIB) will sell—in both Western and Eastern markets—grinding machines jointly manufactured by Zocca and Sofia's producing company 3MM. Most machines, coming still unfinished from Bulgaria, will be brought into Italy under the temporary duty-free import system. Zocca, under a subcontract agreement with SIB, will add electronic parts, finishing, and assembling for at least 40 percent of the equipment's final value, and will service SIB's sales in all Western markets.

3MM—Zocca's oldest Communist customer and well familiar with the Italian firm's products—will service in all Eastern countries, including Russia, not only the Swiss company's sales, but also all equipment entirely manufactured and directly sold by Zocca.

Benefiting from Zocca's highly sophisticated production methods and reputation, MEX expects to (1) diversify its exports to the West, thus earning—with the help also of favorable Swiss tax treatment of foreign trading income—additional hard Western currency, and (2) expand its sales within the Soviet bloc, improving Bulgaria's position in the bloc's compensatory trade system.

As for Zocca, prospects look even better. Through the new operation, the Italian company hopes to bypass the quota limitations set by Italy's trade agreements with Communist countries, and thus step up its already substantial sales to these markets. Last year, nearly 44 percent of Zocca's $2.3 million sales turnover was in exports, and the Soviet bloc accounted for more than 56 percent of total foreign sales. This year, sales to the bloc should reach alltime records,

helped by the risky—though eventually remunerative—participation in trade fairs in Communist countries (Zocca exhibited at Plovdiv, Zagreb, Brno, Poznan, and Leipzig, selling all its machines for some $345,000). In the first 4 months of 1964, Zocca's sales to the bloc jumped to $533,000—192 percent over the same 1963 period.

Moreover, the new agreement will enable Zocca to solve a major problem: after-sales servicing of its equipment in Eastern countries. In the past, owing to the frequent Eastern mistrust of westerners, Zocca's technical personnel sent for repairs or routine checkups often experienced long delays before completing the job. At times, refused authorization to work directly on the machines, they had to proceed with the help of blueprints, endless sessions with local engineers, and inadequate local technical interpreters.

AMERICAN FEDERATION OF LABOR AND
CONGRESS OF INDUSTRIAL ORGANIZATIONS,
Washington, D.C., March 8, 1965.

Hon. J. W. FULBRIGHT,
Chairman, Foreign Relations Committee,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: At the recent meeting of the executive council of the AFL–CIO at Bal Harbor, Fla., the council adopted a resolution on East-West trade. This resolution was adopted unanimously after full discussion.

I respectfully request that it be included in the printed record of the hearings which your committee recently held on the subject.

Sincerely yours,

GEORGE MEANY, *President.*

STATEMENT OF THE AFL–CIO EXECUTIVE COUNCIL

The economy of all Communist countries has been beset for some time by grave economic difficulties. Their much-vaunted system of totalitarian economic planning is plagued with serious imbalance, shoddy production, costly dislocation of manpower, and waste. Communist collectivized and state agriculture have been in continuous crisis. The dearth of consumers' goods continues unabated in the U.S.S.R. and in all other Communist countries. These economic difficulties have been profoundly aggravated, especially in the Soviet Union and Communist China, by their relentless drive to build a huge arsenal of nuclear and other modern weapons for aggression. The huge sums they have been spending on economic and military projects for subversive purposes in some developing countries have further strained their economies and placed additional heavy burdens on the Soviet and Chinese people.

The Communist governments are seeking expanded trade with and long-term credits from the Western democracies in order to overcome their economic plight. Some free world businessmen have been showing real interest in expanding trade with and credits to Moscow, its satellites and even Peiping. In facing this problem, these businessmen must realize that, in all Communist countries, all economic matters are totally dominated by the state. In these totalitarian societies, all economic relations are, first of all, political in character and aim. Khrushchev made this clear several years ago when he told a delegation of U.S. Senators that "We value trade least for economic reasons and most for political reasons."

Consequently, it would be utterly unrealistic for American industrialists and traders to think that they can do "business as usual" when they deal with Communist governments. It is not true that in such deals "the only thing that matters is profit and competitive advantage." This practice of doing "business as usual" with the Nazi and Fascist dictators proved disastrous before World War II. "Business as usual" with Communist dictators will certainly be no less disastrous. The decisive consideration in commercial transactions with these dictatorships is that such details must serve the national interest of our country and its free society and not merely help bail the Communist regimes out of their economic difficulties.

The record shows that, in seeking expanded economic relations with the West, Communist governments have been motivated primarily by a desire to

strengthen their economic system and totalitarian rule rather than by serious concern for speeding the improvement of the living conditions of the people. The substantial Western aid extended to date to these countries, including Yugoslavia, has not resulted in a comparable improvement of the living standards of the people.

The executive council maintains that under no circumstances should any strategic goods be sold today to any Communist government. We further propose that no American businessmen should enter into any commercial transaction with Moscow or its European satellites which would enable them to provide Castro or Mao Tse-tung with any material they need for bolstering their faltering economy.

There is no reason for American businessmen to join in a mad scramble for trade with Communist countries. Such a scramble only puts the Communist rulers in a position to exploit, for their own benefit, such competition among Western economic interests and to divide and weaken the democracies.

There is no foundation to the myth that the expansion of Western trade will promote the liberalization of any Communist government or encourage the separation of the satellites from the U.S.S.R. These regimes are tied to Moscow by strong ideological, political, military and economic bonds. Their rulers share with Moscow the basic aim of Communist world domination. The revolutionary upheavals of 1953 and 1956 have demonstrated forcefully that these satellite regimes could not survive without Moscow's military support.

Their armies are part of the Warsaw Pact Organization. Their economies have, in large measure, been integrated into the Comecon, the Communist counterpart of the Common Market. In spite of $700 million in U.S. aid, Communist Poland has set the pace in championing the Comecon and Soviet foreign policies. Its domestic policies are increasingly retrogressive. Tito's Yugoslavia which has received over a billion dollars of Western aid has lately strengthened its economic ties with Moscow by associating itself with the Comecon. Rumania, which is supposed to be turning away from Moscow, has more political prisoners than any other satellite and lends aid and comfort to Peiping.

Increased economic relations with the Communist satellites will not improve the general East-West relations. The satellite regimes continue to support Soviet foreign policies in Vietnam, the Congo, in the U.N., and Cyprus. The American Legations in Bulgaria and Hungary were recently subjected to the same mob attack as was our Embassy in Moscow.

American businessmen would be guilty of terrible short-sightedness if they were to provide the Kremlin, on a "business as usual" basis, the goods and technical know-how it needs so badly. American businessmen are not starved for foreign markets. They do not have to chase for such low grade outlets as the Iron Curtain countries. The U.S. foreign trade balance has, for years, continued to be highly favorable. There is no reason why American businessmen should compete with others in doing the wrong thing. Let none forget that agreements with the Soviets, whether they be in the realm of science, politics, diplomacy, or economics are worthless. The Kremlin rulers never enter into any agreements on the basis of a mutuality of interests. Despite much effort and generous scientific help by the United States in the realm of space science, Moscow persists in refusing to contribute any weather information obtained through space satellites.

All Moscow wants to get from expanded commercial and financial relations with our country and the other democracies is help for overcoming its serious economic difficulties, help to enable it to give its people some badly needed consumers' goods while it continues to build up its nuclear weapons arsenal, help to continue its program of economic and political subversion of the developing countries. Such help by American and other business interests can only finance and facilitate further Soviet aggression against the democracies.

We urge our Government to make utmost effort to have the Western democracies develop a concerted policy towards trade with the Communist countries. No trade or credits concessions should be accorded to Moscow, Peiping, or any Communist government without an adequate political quid pro quo like ceasing subversion and invasion of Vietnam, dismantling the "Wall of Shame" in Berlin, and calling off their military infiltration of the Congo. Only under such conditions, can trade and credits be a valuable weapon in the hands of the Western democracies in their dealings with the Soviet Union and other Communist regimes, and in further human freedom and world peace.

STATEMENT OF DR. HANS J. MORGENTHAU, ALBERT A. MICHELSON DISTINGUISHED SERVICE PROFESSOR OF POLITICAL SCIENCE AND MODERN HISTORY, THE UNIVERSITY OF CHICAGO

We tend to think of foreign trade as being carried on by private enterprise with the purpose of private gain and, as a kind of noneconomic dividend, strengthening peaceful relations among nations.

To speak of this latter point first, the expectation that free trade would of necessity lead to international peace originated a hundred years ago among the the Manchester liberals. No historic evidence whatsoever exists to support this point of view. It is an old myth, masking the aspirations of businessmen for private gain and revealing their political naivete. Great Britain and Germany had flourishing trade relations in 1914. Did this prevent Germany from violating the neutrality of Belgium, and Great Britain from defending it? In the thirties, the United States and Japan engaged in substantial trade with each other. Did this restrain Japansese imperialism and prevent Pearl Harbor? In the thirties, large numbers of foreign technicians worked in the Soviet Union. Had this any influence upon the Stalin regime? Can anybody believe that China will give up its aim to gain control of Taiwan because it has expanded its trade with Western nations? One only needs to raise these and similar questions in order to see the utterly fictitious character of the idea that foreign trade and international peace go hand in hand.

It is also erroneous to assume that foreign trade must always be carried on by private enterprise for private gain. Governments have time and again endeavored to use foreign trade as an instrument of national policy. So-called dollar diplomacy is a case in point. It is not true, even though it is widely believed, that private enterprise used the Government to further private foreign commercial ventures. Quite to the contrary, the Government used private enterprise abroad for the purposes of U.S. foreign policy. Today, the need for such use has become overwhelming in view of the Communist challenge and of the problems posed by the underdeveloped third of the world. Yet our Government, shackled by ancient shibboleths and private economic interests, has not dared to develop a policy which would make foreign trade a potent instrument of American foreign policy. Thus, the public interest in the security and survival of the United States, yields to the private interest in private gain.

In order to understand the folly of this commercial approach to issues of high policy, it is first necessary to point to the obsolescence of the traditional distinction between strategic and nonstrategic trade. The total war communism has been waging against the West since Lenin accounts for that obsolescence. The leaders of the Soviet Union have consistently laid the greatest stress upon the expansion of foreign trade. They have evoked memories of Cobden and Bright, the leaders of the Manchester liberals of a century ago, as well as of our own former Secretary of State, Cordell Hull, with their emphasis on what foreign trade can do for private profits and international peace. They have consistently shown a particular interest in whole industrial plants rather than manufactured goods. But the Russian leaders are not Manchester liberals. They have wanted foreign trade not for the commercial purposes our businessmen want it for, but in order to gain the political strength necessary to achieve the universal triumph of communism. As Lenin put it: "We welcomed Genoa (the International Economic Conference at Genoa in April 1922), we understood perfectly well, and did not conceal it that we were going there as merchants because trade with capitalistic countries is absolutely essential for us (so long as they have not yet collapsed)." Khrushchev was even more explicit when he said in 1957: "We declare war upon you * * * in the peaceful field of peaceful production. We are relentless in this, and it will prove the superiority of our system." And in 1952, Stalin also voiced his confidence in the profit motive of Western businessmen as an instrument through which the Soviet Union would be made strong enough for its final triumph.

I am not arguing here against Western trade with Communist nations per se. I am only arguing in favor of the proposition that foreign trade has a different meaning for Communist nations than it has for us. Trade with Communist nations is a political act which has political consequences. It is folly to trade, or for that matter to refuse to trade, with Communist nations without concern for these political consequences. There is no reason to object to our selling a Communist country goods it needs in exchange for goods we need. There is no reason to object to trading with Communist countries like Yugoslavia, if such trade promises political results favorable to our interests. But it is a folly,

comparable to that of selling scrap iron to Japan in the thirties, to stabilize the Castro regime by trading with a Cuba that is today the most important training center for Communist subversion throughout the world, and to equip the Soviet Union and China with industrial plants and transportation systems which will then be used as weapons in the political, military, and economic offensives of communism against the West.

That folly is compounded in the case of trade with China. The Soviet Union terminated its economic relations with China at the beginning of the sixties because it did not find it in its interest to supply the economic foundations for the power of a hostile China. An industrially developed China, whose population might then approach a billion, would be the most powerful nation on earth, more powerful than either the Soviet Union or the United States. It is extremely doubtful that China, in view of the numbers and poverty of its population, could find within her own borders the resources for such industrial development if she is not supplied with capital and goods from abroad. She would then remain for the foreseeable future a weak and fragile giant, a threat to her immediate neighbors but not to the two superpowers.

The Soviet Union has understood this prospect and has left China to her own economic devices. Yet Western governments and businessmen are rushing into the gap left by the Russian withdrawal, replacing the Soviet Union as a source of capital and goods for China. But is China less hostile, and will she be less dangerous, to the West if and when she has become an advanced industrial nation, than she is, and will be, to the Soviet Union? Obviously, the West has at least as good reason as the Soviet Union to fear a powerful China. If it is in the interest of the Soviet Union not to help China become a modern industrial nation, it is by the very same token in the interest of the West.

Yet while the Soviet Union knows its interest and acts upon it, the West does not know it and, insofar as it does, is unable to act upon it. Marx said that the capitalists would be their own gravediggers. Western businessmen, so staunchly anti-Communist when it costs nothing, except perhaps freedom of speech for others, seem bent upon proving that Marx was right.

It is, of course, obvious that a politically oriented, rational foreign trade policy can be pursued by the United States only in close cooperation with its allies. For if the United States were to follow such a policy while its allies were to trade indiscriminately with the Soviet Union and China, it would simply eliminate itself from commercial competition without achieving its political aim. If, on the other hand, the United States were to compete freely with its allies for Communist markets, it would sacrifice the public interest at the altar of private economic gain.

Hence, the United States finds itself today in a real dilemma. It can, and appears to try to, mitigate this dilemma by competing with its allies, maintaining as far as possible the distinction between politically innocuous and politically damaging foreign trade. Yet while the dilemma can thus be mitigated, it can be resolved only through the creation of a common front among the Western nations which would put their common political interests ahead of their individual commercial gain.

Thus the problem of East-West trade is at bottom a problem of the relations between the United States and its allies. In the absence of a common front between them, it is impossible to develop a rational American policy of East-West trade. Yet even in the absence of such a common front, the United States cannot afford to lose sight of the political nature of East-West trade and of the vital distinction between East-West trade that is politically innocuous, and that which politically strengthens one or the other of the major Communist powers.

SOCONY MOBIL OIL CO., INC.,
New York, N.Y., February 26, 1965.

Hon. J. WILLIAM FULBRIGHT,
U.S. Senate,
Washington, D.C.

DEAR SENATOR FULBRIGHT: Thank you so much for your courteous and gracious reception during my testimony before your committee on Soviet bloc exports and their implication for East-West trade policy.

Following the formal presentation, you asked me whether production of oil in the free world is keeping pace with consumption and whether, looking ahead, new supplies are being discovered at a sufficient rate to meet projected free

world demand. I replied that I felt the answer to both questions was in the affirmative, but would prefer to send you the specific information you asked for.

As you can see from the figures in the attached tables, it is our estimate that total free world production of crude oil increased by 6.5 percent annually in the years from 1950 through 1964. This production, together with certain refinery economies and the increased use of natural gas liquids, was sufficient to meet the annual growth in total free world demand of 7.0 percent during those same years. The tables also indicate that reserves increased during the last decade at an annual rate of 9.6 percent in the free world as a whole. In the next 10 years, we expect a smaller increase in free world reserves, but you will note that because of the very high reserves-to-production ratios that currently prevail and are expected to continue through 1974, there should be no problem in meeting anticipated demand.

I have also taken the liberty of enclosing a copy of a table from the National Petroleum Council report, indicating the percentage of demand in various Western European countries supplied by the Soviet bloc.

If there is any other way in which we can be of assistance, I will be pleased to hear from you.

Sincerely yours,

A. L. NICKERSON.

Growth in crude oil reserves and production

Reserves	End of year			Average percent, 1950–64	Annual change, 1964–74 (estimate)
	1950	1964	1974		
	Billions of barrels	*Billions of barrels*	*Billions of barrels*		
United States	25.3	30.9	28.6	1.4	(0.8)
Middle East	43.0	212.0	280.0	12.1	2.8
Other free foreign	17.7	67.1	66.4	10.0	(.1)
Total, free world	86.0	310.0	375.0	9.6	1.9
Reserve/production ratio:					
United States	13.1	11.1	8.1		
Middle East	65.1	75.1	51.1		
Other free foreign	20.1	23.1	15.1		
Total, free world	25.1	36.1	28.1		

Growth in oil demand and production

	Thousands of barrels daily			Average percent 1950–64	Annual change 1964–74
	1950	1964	1974		
United States	6,507	10,875	14,070	3.7	2.6
Other Western Hemisphere	741	3,000	4,300	10.5	3.7
Europe	1,230	6,545	12,500	12.7	6.7
Other Eastern Hemisphere	1,022	3,940	7,630	10.1	6.8
Total, free world	9,500	24,360	38,500	7.0	4.7

Production	Thousands of barrels daily			Average percent, 1950–64	Annual change, 1964–74 (estimate)
	1950	1964	1974		
United States	5,407	7,667	9,450	2.5	2.1
Middle East	1,800	7,700	15,000	10.9	6.9
Other free foreign	2,393	7,733	12,550	8.9	4.7
Total, free world	9,600	23,300	37,000	6.5	4.7

Total Soviet bloc petroleum exports to free world by country of destination

Western Hemisphere	1962		1963 (estimated)	
	Thousand barrels per day	Percent of local demand	Thousand barrels per day	Percent of local demand
Brazil	6	2	25	8
Cuba	88	100	95	100
Total, Western Hemisphere	94		120	
Free Europe:				
Austria	22	29	26	31
Belgium	9	4	10	4
Denmark	5	4	7	4
Finland	58	87	60	80
France	25	3	27	3
West Germany	89	9	100	8
Greece	20	35	20	33
Iceland	7	88	7	82
Italy	142	20	150	19
Norway	5	6	8	9
Portugal	1	2	2	4
Spain			1	1
Sweden	55	19	60	20
Switzerland	3	3	3	2
United Kingdom	5		4	
Yugoslavia	6	18	5	13
Total, Europe	452	8	490	8
Other Eastern Hemisphere:				
Ceylon	3	15	7	33
India	8	3	10	5
Japan	59	6	70	6
Egypt	32	30	25	23
Morocco	2	9	5	22
Others	20		13	
Total, Eastern Hemisphere	124		130	
Total, free world (excluding United States)	670	6	740	6

NATIONAL FOREIGN TRADE COUNCIL, INC.,
New York, N.Y., February 24, 1965.

Hon. J. W. FULBRIGHT,
Chairman, Committee on Foreign Relations,
U.S. Senate, Washington, D.C.

MY DEAR SENATOR: I wish to acknowledge your letter of February 6 in which you invite a statement from the National Foreign Trade Council on any aspects of East-West trade of particular interest or concern to our members. We appreciate the opportunity you have thus afforded to place our views on record with your committee.

The position of the National Foreign Trade Council with respect to East-West trade is that adopted by the 51st National Foreign Trade Convention, which convened here in New York from November 16 through November 18, 1964. This position was arrived at only after several months of active discussion and solicitation of views from within the National Foreign Trade Council membership and after careful consideration by the declaration committee of the convention. The latter committee was composed of some 60 individuals drawn from all sections of the country and from the many different branches of the U.S. international business community. Accordingly, we believe that the resultant resolution represents a broad informed consensus.

The text of the resolution reads as follows:

"*East-West trade relations.*—The convention notes the increasing interest being shown in the development of trade with the Soviet Union and certain other Communist-controlled countries of Eastern Europe. Such interest is both natural and inevitable. The recent major political shifts within the Soviet

Union and the new uncertainties that have thus been introduced into the structure of international relationships underline the extreme importance of maintaining a watchful and cautious but not unfriendly or inflexible approach to this issue.

"The convention believes that the U.S. Government should continue to work unceasingly for the reduction of international tensions and the narrowing of areas of possible conflict, seizing the while every opportunity to broaden the base for mutual understanding and accord. To the degree that an enlargement of trade contacts with the Soviet Union and Eastern Europe can and will contribute toward fulfillment of these objectives and can be accomplished without endangering our national security—military and economic—or that of other friendly nations, the convention urges that further modifications be made in the positive list to permit a greater range of products to be sold or offered for sale to these countries.

"The fact that several of our NATO allies have chosen to pursue less stringent licensing policies than the United States does not of itself provide justification for any relaxation in the imposition of the restrictions we deem essential to our security interests. However, this divergence in the application of controls is a constant source of misunderstanding and of difficulty. While welcoming the measures currently under consideration, by the Department of Commerce to simplify procedures, the convention recommends that the United States continue to work closely with our allies to harmonize and standardize export control policies and procedures with respect to the Soviet Union and the Communist-controlled countries of Eastern Europe, and to prevent the diversion of U.S. exports to Cuba, Communist China, or other countries against which the United States enforces an embargo.

"The convention notes the various steps which recently have been taken by the United States to improve relations and to open up opportunities for trade with those Eastern European countries which have evidenced a more friendly and cooperative attitude toward the United States. We believe that such differentiation in the application of basic policies to Communist-controlled countries should be continued. As a further step toward the establishment of better trading relations, the convention urges the elimination of local laws and ordinances directed at discouraging sale by retailers in the United States of imports from Eastern Europe.

"The convention once more cautions against the extension of direct loans or another similar financial assistance by the U.S. Government to the Soviet Union. The convention fully supports the efforts of the U.S. Government to obtain the cooperation of other governments in limiting the extension of credits on purchases by the Soviet Union to customary commercial terms. The provision of long-term credits is tantamount to subsidizing Soviet economic growth, and directly or indirectly to increasing its economic and military power.

"Finally, while the convention shares the hopes of many for a new era of mutually profitable commercial exchanges with the Soviet Union, no substantial increase may be expected until such time as the Soviet Union and certain other Communist-controlled countries effectively demonstrate by setting up appropriate procedures that they will honor the property and contractual rights of companies doing business with them. It is particularly important that international patent, copyright, and other technical agreements be respected. In short, there must be adequate assurance that the standards of commercial conduct that have long prevailed in the international business community will be fully observed. Trade, after all, tends to flourish only where there is mutual trust and confidence between those involved."

I am also pleased to enclose a copy of the declaration of the 51st National Foreign Trade Convention, of which the foregoing resolution constitutes one part. While the introductory statement and the other individual recommendations do not specifically relate to the question of East-West trade, I believe that in numerous instances the attitudes and views expressed therein have a material and vital bearing on this issue.

I have delayed responding to your letter in order to be able to submit this reply to our board of directors for the endorsement which it has now been given.

Very truly yours,

ROBERT M. NORRIS, *President.*

NATIONAL MACHINE TOOL BUILDERS' ASSOCIATION,
Washington, D.C., March 5, 1965.

Hon. J. W. FULBRIGHT,
Chairman, Senate Foreign Relations Committee,
Washington, D.C.

DEAR SENATOR FULBRIGHT: This letter is in reply to your letter of February 8, 1965, in which you requested the views of the National Machine Tool Builders' Association on the policies which should govern our trade with the European Communist countries.

As you know, our association represents the builders of more than 80 percent of the machine tools manufactured in the United States. Our member companies have been engaged in foreign trade for many years, and normally between 20 and 30 percent of our total manufacture is sold to customers located abroad. In 1964, our exports totaled $182,400,000, which represented approximately 18 percent of our total machine tool shipments.

Our industry is composed of relatively small companies, each with its own specialized products, and each with its own individual views on East-West trade. Some of our member companies build highly specialized products, which as a matter of company and national policy they believe should not be sold to any Communist country. Other company managements, simply as a matter of company policy (stemming in some instances from the attitudes of their local communities and particularly their labor forces) would not seek such orders. The majority of NMTBA member companies favor increased trade subject to certain limitations as set out in the policy of NMTBA as approved by its board of directors.

Our association has consistently taken the position (1) that we should not ship highly sophisticated machine tools of military value to Communist-bloc countries, and (2) that the appropriate agencies of our Government, consulting with the machine tool industry, should make the determination as to what machine tools should not be shipped because of the particular military value they would have to the Soviet bloc. We stand ready to give our Government any technical assistance that may be needed in reaching determinations as to the military value of the machines we manufacture.

We believe, however, and we have so advised the Congress and the executive branch, that when the Eastern-bloc customer can obtain a comparable machine tool from a machine tool builder in Great Britain, Germany, France, or one of the other free world countries allied with the United States, the United States builder or its foreign subsidiary should be allowed to sell and ship in competition with these other industrial nations.

The NMTBA policy can be summarized as follows:

1. Machine tool builders regard themselves as experts in machine tool technology but they recognize that they are not in a position to assess the significance of machine tool exports to the East in terms of U.S. security and foreign policy objectives. The decision on what items in the machine tool clasifications should be subject to trade restrictions must be made by the Government consulting with the industry for such technological information as may be necessary to an informed decision. The industry will, of course, stand behind whatever the Government decides.

2. Our industry believes that any trade restraints which are imposed should be more realistic than under present and past policies. They should not unnecessarily penalize U.S. concerns, including their overseas affiliates, by restricting East-West trade where to do so will not really advance U.S. interests. There are several phases of this aspect of the problem:

(i) U.S. controls which merely shift machine tool sales to U.S. competition abroad without really depriving Eastern Europe of sources of goods and technology should be re-examined. Except where U.S. products have military significance and are truly unique in design or availability—and this is the exception today—controls which shift sales to our overseas competitors only penalize American firms, not the Soviet industrial base.

(ii) U.S. controls which are outdated in terms of the latest available knowledge about machine tool technology and the latest production capacity both in the East and in the free world should be reconsidered. Our continued reliance upon the distinction between published and unpublished technical data is one example. So also is the continuance of controls over standard machine tools widely available to the East from non-U.S. sources and, in many cases, produced in the East in quantity.

(iii) U.S. controls which seek to slow down the general economic advance of the East as distinct from its military capacity should be re-examined. We should consider whether our concept of what is of military significance is meaningful in the light of the industrial and technical development of the East and the policies of our allies. We must consider carefully whether we really are in a position to control economic growth at all, particularly if our allies will not cooperate.

We would urge that the present export control provisions be revised so as to permit U.S. companies to compete freely with manufacturers in allied foreign countries for the sale of machine tools which are not of military significance to the Soviet bloc, although they may be of economic significance and foster economic growth.

Further, the provisions should be revised to clarify and simplify the restrictions placed on the re-exportation of technical data by foreign subsidiaries and licensees of American companies, perhaps by making the present restrictions applicable only to technical data which relates to goods of specific military significance as explained above.

We shall be glad to meet with the committee staff or other agencies at any time it may be helpful to discuss these matters further.

Respectfully,

JULIAN C. PEASE, *President.*

AMALGAMATED CLOTHING WORKERS OF AMERICA,
New York, N.Y., March 5, 1965.

Hon. J. W. FULBRIGHT,
Chairman, Senate Committee on Foreign Relations,
U.S. Senate, Washington, D.C.

DEAR SENATOR FULBRIGHT: Thank you for your invitation to make a statement in connection with the Senate Foreign Relations Committee's study of trade with Communist countries. Since a meeting of our general executive board was scheduled for March 1–3, I thought it best to get the views of our board members on this important issue. At these meetings I was authorized to communicate with you along the following lines.

For over 15 years our Government has, as a matter of national policy, severely restricted trade with Communist countries. That policy originated as a response to Soviet expansion following World War II. It was designed to curb the growth of Communist economic and military power during a period of increasing tension between the Soviet bloc and the Western allies, a period during which we had reason to believe we were confronting a united Communist world bent on world domination through conquest and subversion. Under these circumstances, the decision to restrict trade was part of our policy of containing Communist expansion. It had the full support of our allies. Certainly no change in policy would appear to be warranted wherever we continue to be confronted with such implacable hostility.

However, the many changes that have taken place in the past few years within and without the Communist world suggest the need for a reassessment of the extent to which the policy continues to be in the national interest. Today, world communism, while still powerful, confronts countervailing pressures on many fronts. Western Europe has recovered from its war-induced weakness, and is strong and prosperous. World communism is no longer monolithic; Sino-Soviet differences appear to be fundamental and serious. Within the Soviet Union and the countries of East Europe there are evidences of pressure from the new generations for higher living standards and more intellectual and artistic freedom. There has been a resurgence of nationalism among the neighbors of the Soviet Union which has been accompanied by an increasing interest in trade relations with the West, and in some cases by resistance to plans to integrate their economies and the economy of the Soviet Union.

A corollary development of even greater importance has been a growing awareness on the part of the responsible leaders of both the United States and the U.S.S.R. of the serious danger posed to humanity by any nuclear confrontation, and a willingness of the part of both Governments to take positive steps to reduce tension. The more notable of these steps was the test ban treaty of 1963 which has been ratified not only by the United States and the Soviet Union but by more than 100 other nations. These are significant and hopeful developments. They open the door to possibilities of genuine peaceful coexistence. They are in keeping with our long-range policy objectives. They deserve to be

encouraged. Certainly the perpetuation of a policy of strict limitations of trade with the Soviet bloc countries is not responsive to these changes.

U.S. insistence upon continuing its severe restrictions on trade with the Soviet bloc countries has failed to take realistic account of the economic importance of exports to the bloc of some of our closest allies, and has been a source of friction with them. While we have turned our backs on trade with the Soviet bloc, West Germany, Great Britain, France, Italy, and others have cultivated such trade, and have often turned down requests by the United States for more extensive restrictions. As a result, we have forfeited our leadership with regard to trade with the Soviet bloc and have, at the same time, deprived our economy of the advantages of participating in increased trade with Eastern Europe. I am not, of course, talking of trade in strategic goods. No problems arises about goods on the strategic list which are embargoed by all the NATO allies and Japan. A problem does arise because of the differences that have developed between this list and the more comprehensive list which the United States insists should be embargoed. The reluctance of the U.S. Government to provide the leadership for an increase in East-West trade, as well as the discrepancies between the lists, does little harm to the East European bloc; but it does result in a self-imposed economic isolation that deprives our producers of equal access to Soviet bloc markets.

It should be clear, however, that I am not suggesting a relaxation in trade restrictions with the Soviet bloc primarily because of the effects it may have on the volume of our trade with these countries. The issues involved are much more fundamental and far reaching. My suggestion is based on the possible effects of such a change in policy on developments within the individual countries of East Europe. It is based on the possibility that it may prove to be a step, however small, in reducing friction and tension and thereby fostering in some measure peace in the world.

Certainly the United States and other free nations have everything to gain from any loosening of ties between the Soviet Union and its satellites. An overly restrictive policy with regard to trade with the nations of Eastern Europe forecloses any hope they may have of escaping total subservience to Moscow and developing along independent national lines. Opportunities of trade with the West may provide them with the only realistic alternative to eventual integration into a Soviet-dominated East European Economic Community. Increased opportunities to trade with the West would serve to reduce the volume of trade which such countries would otherwise engage in with the Soviet Union. Loosening these economic ties might help to activate the stirrings of freedom in the East European countries and would be in the best interests of world peace.

Finally, liberalizing trade with Soviet bloc would be another constructive contribution to the relaxation of East-West tensions. It would once again dramatize to the world our peaceful intentions, and would create an economic basis for closer personal relationships and better understanding among the peoples of East and West. Nor would I entirely rule out the possibility that such a change in our policy might increase the caution with which Soviet policy operates in areas of the world in which we have a vital interest.

It need not and should not be blank check for a simple resumption of "business as usual." There is a wide area between our present policy of severe restriction and "business as usual." It is precisely this area that requires careful and, above all, openminded examination. Certainly strategic items would remain under embargo, and the executive branch of our Government should have the authority to deal with the special problems of trade between highly planned and market economies. But this is a far cry from the straitjacket imposed by adhering to a restrictive policy designed for other conditions and other times. Our age is too dynamic, our times too perilous, to risk drifting along with decisions and slogans of a bygone period.

Sincerely yours,

JACOB S. POTOFSKY, *General President.*

STATEMENT OF JAMES A. RAMSEY, OF EAST-WEST TRADE, PRESIDENT OF INTERNATIONAL AFFAIRS ASSOCIATES, WASHINGTON, D.C.

International Affairs Associates is a professional organization which provides consulting, research, and other services in the fields of foreign trade and foreign affairs. A major area of its activity at present is East-West trade.

The objective of IAA in this field is to promote commercial and business transactions between the United States and the countries of Eastern Europe within the limitations imposed by U.S. security interests.

It is the belief of the founders of IAA that American participation in the Eastern European market has been too long delayed. At one time there was good cause for our restraint in view of the extreme tension between this country and the Soviet Union. In recent years, however, there has been an evolution in the Communist world which has brought about various developments favorable to Western interests. The autarchic rigidity of the Stalinist system has given way to a desire for establishment of businesslike relations with the industrial and trading communities of the West. Simultaneously, there has been a lessening of the dangers of a military confrontation and a gradual improvement in the political atmosphere.

If the experience of the Western European countries over the past decade is any guide to the future, overall trade between the industrially developed countries of the West and the Communist states can be expected to continue expanding. The United States, for both political and economic reasons, should now overcome its hesitations and actively seek an appropriate share of such commerce.

Although trade cannot by itself solve the tangled international problems of our age, it nevertheless helps in buildings bridges between those with differing outlooks on society and in creating conditions for an improvement in the political atmosphere. Furthermore, the United States, with its chronic balance-of-payments problem and need for increasing its exports, cannot afford to overlook the hitherto neglected opportunities represented by a market of over 300 million people. This is especially true at a time when there is growing concern over direct American investments overseas, both on the part of our own Government and of the political and economic authorities in some European states.

Although U.S. business is handicapped by a multitude of restrictions on trading with Communist states, there have nevertheless been certain developments over the past few years which have laid a foundation for a program of further economic contacts with the U.S.S.R. and the countries of Eastern Europe should such a course of action now find general acceptance. These advances in communication with the Communist world have tended to be overlooked because they have been outstripped by the sprinting of Western Europe and Japan—competitors who are bent on taking advantage of American sluggishness in the race.

Movement in the U.S. position has been most evident in policy changes toward the states that first came under Soviet control at the end of World War II. Foremost among these is Yugoslavia, which, however, occupies such a special place among Communist nations, having divorced itself from the Stalinist system as early as 1948, that it is really outside the framework of this discussion. Next is Poland, with which the United States has developed since 1957 an economic relationship that has included assistance through AID development loans and agricultural surplus programs, Export-Import Bank credits, restoration of most-favored-nation treatment for Polish imports on the American market, and a more liberal policy on licensing of U.S. exports to that country.

Recently, an improvement in our economic relations with other Eastern European states has been gathering momentum. Understandings with the Rumanians were concluded in the summer of 1964 on a variety of matters, among them licensing procedures, protection of industrial property rights, and arbitration of commercial disputes. Czechoslovakia and Hungary have also indicated increasing interest in the elimination of existing obstructions in order to improve the climate for more fruitful political and economic interchanges. Alone among those Communist countries with which the U.S. maintains diplomatic ties, Bulgaria has so far remained for the most part aloof and disinterested.

In our commercial relationship with the Soviet Union, the largest and most important state of this area, there have likewise been certain changes over the past 4 years. The most spectacular development was of course the surplus wheat deal which sent in 1964 some 1.7 million tons of food grains to the U.S.S.R. in return for cash payments. Earlier, a U.S.-U.S.S.R. air agreement had been initialed in Moscow and the ban on importation of Soviet crabmeat, originally imposed because of a finding it had been produced by slave labor, was lifted by the American Government. Although this latter step had a relatively minor economic significance, it removed an annoying source of friction between ourselves and the government of Mr. Khrushchev which took the position that times

had changed and they should not be held responsible for the sins of the Stalin period.

While the volume of U.S. trade with the European Communist countries for the foreseeable future may be limited due to a variety of political and economic factors, there is good reason to believe it lies considerably above its present low level. The diversification of the economy in the U.S.S.R. and most of the Eastern European states is creating a greater variety of opportunities for interchanges with the West. If the scope of this exchange is circumscribed today by such factors as differing standards of quality and problems of payment, these conditions are subject to change as industrial development brings greater economic sophistication. In any event, the future level of East-West trade can hardly be estimated on the basis of its present status plus a projection of past trends. As the example of Rumania proves, we are dealing here with a new phenomenon which has arisen out of the headlong industrialization drive of the Stalin era, and whose final contours are still only vaguely discernible.

Among the greatest handicaps to the development of trade with the East are questions of payment. When Communist states are badly in need of goods from the West, they will pay for them in convertible currency, or, in the case of the Soviet Union, by drawing occasionally on its gold reserves. Normally, however, the status of their economies places limitations on straightforward cash transactions with hard currency areas. As a result, the commercial monopolies of these countries are under a rather constant compulsion to seek credits or to find goods somewhere in the production accumulations which can be used to balance their trade. Although our Western European associates have displayed considerable flexibility in granting long-term credits and in working out complicated triangular deals, the United States has so far shown little inclination to consider seriously either of these methods of doing business. In fact, there has been so far no systematic American effort to survey the Eastern market and assess its potentiality on a long-term basis.

In the matter of credits, there seems to be general agreement that this is a subject where the demands of our national interest require greater circumspection than has been shown so far by some of our Western partners. There are in fact very good political and economic reasons why we should be cautious in making long-term financial arrangements with any Communist state. This having been said, however, there still remains to be explored a large area in which credits may not only be profitable to American business but also useful in a foreign policy sense. No one has seriously estimated, for example, what politicoeconomic benefits might be derived from selective use of the credit mechanism nor what the volume of trade with the East might be under varying credit conditions. It may well be that, as is frequently asserted, financial advances beyond a certain time limit represent a form of economic aid, but the point where this occurs, along with many other variables of the situation, has yet to be determined.

The obverse of the credit picture, a willingness to accept goods in exchange, leads to great complications because of the differing quality of so much of the merchandise produced under the socialist economic systems of the East. Yet here too our knowledge of the situation is too superficial to enable us to make definitive judgments. There may be products we have not discovered which with some adaptation would be quite well suited either for our market or for less sophisticated ones. It is in the latter area that U.S. businessmen, with their worldwide connections and knowledge of trading opportunities, can function particularly effectively.

Furthermore, the growing refinement of the Communist industrial plant, combined with an enhanced interest of the political authorities in export possibilities, is making their managers more receptive to considerations of quality and presentation. Increased acquaintance with Western techniques and the mounting use of imported machinery are very helpful in this respect. Planners and executives have already become more amenable to suggestions for improved styling and workmanship which would assist in creating greater demand for their products. In this connection, there may be good possibilities for licensing of U.S. industrial processes to manufacturers in the East, a procedure which would have the advantage of not infringing on the jealously guarded sovereignty of these states while providing a return to the American firm for inventions and discoveries that might otherwise be subject to exploitation without its consent.

The experience gained through licensing arrangements may in fact provide a partial answer to the sticky problem of patents and copyrights. The U.S.S.R., as is known, is not a party to international conventions in either of these fields and

the states of Eastern Europe, while for the most part maintaining a formal adherence, have until now displayed a similar aloofness. In respect to patents, however, there has been considerable movement of late. Communist planners have become seriously interested in the advantages a world-wide system of protection can offer them in fields where their technology is sufficiently advanced. Similarly, in the interests of stimulating greater rationalization in the economy, foreigners are being encouraged to register their manual and mental achievements with the proper authorities in return for a grant of certain rights of exclusivity. The old days of relying on one's wits supplemented by occasional free helpings seem to be passing, if for no other reason than that it has become cheaper, in view of the costs of research and development, to acquire complicated modern technology by paying the owner an appropriate fee for it.

The case of patents illustrates one of the greatest difficulties American businessmen experience in their dealings with the East, namely, the lack of familiarity with the ground rules. State trading monopolies with all the resources at their command often seem to dishearten outsiders whose knowledge of the local scene is usually very limited to start with. Consequently, it is not surprising that many of our people feel the effort required to master the problem is not worth the energy they would be forced to expend. Yet it is well to keep in mind that some of those who have taken the trouble to do so have been rewarded rather handsomely.

The American business community also appears to feel some trepidation over the influence political events can have on commerce with Communist countries. While such occurrences are an indisputable fact of our contemporary life, the current situation is not an unfavorable one despite recurring crises between East and West. Foreign trade now has considerable priority in Communist states and the authorities have shown themselves to be scrupulous in meeting commercial obligations which are of their own making. In fact, it would not be too far-fetched to maintain that trading with the Communists is in some ways more reliable than doing business with certain of the world's non-Socialist countries.

As can be seen, the problems involved in East-West trade are such that there are no facile and clear-cut solutions. If American business is to undertake a serious penetration of this market, it must be done with full knowledge that success on any scale will probably require considerably more effort than has so far been expended elsewhere in the world. In addition, the American position is at present particularly disadvantageous because of the tremendous headstart gained by Western Europe and Japan during the past 8 years. There are nevertheless many opportunities open to us if we wish to take advantage of them. This is in fact an area where American business can be usefully assisted by the U.S. Government.

The United States cannot afford any longer to neglect the potentialities of trade with a region which comprises a large part of the earth's total land surface and a substantial segment of its population. It is now time for American business to begin a serious examination of the Eastern market, feeling its way by means of small initial financial outlays, and expanding as conditions are right. The sooner this is done the better, since events in their own compelling way have already begun to pass us by.

INTERNATIONAL UNION,
UNITED AUTOMOBILE, AEROSPACE &
AGRICULTURAL IMPLEMENT WORKERS OF AMERICA-UAW,
Detroit, Mich., March 30, 1965.

Senator J. W. FULBRIGHT,
Senate Office Building,
Washington, D.C.

DEAR SENATOR FULBRIGHT: I would like to thank you for your letter requesting a statement from the UAW on East-West trade. We appreciate and commend your initiative as chairman of the Senate Committee on Foreign Relations in conducting hearings on a subject which all too often is regarded through the distorting lens of politically and economically obsolete emotions.

In this inquiry, as in other public discussions, you have provided courageous leadership and are making a significant contribution in helping to raise the level

of public understanding of the complex international problems so essential to the formulation of sound public policy.

We delayed responding to your inquiry concerning our views on East-West trade until we had an opportunity to involve a broad cross section of our leadership in a full and frank discussion of this critical question.

I am now privileged to report to you that the international executive board of our union, meeting in Detroit on the 26th of March, after a full examination of the issues involved, has unanimously adopted the enclosed policy statement.

The resolution speaks for itself but I do wish to emphasize the fact that the leadership and official spokesmen of our union have adopted this view not because they see in an expansion of trade additional opportunities for jobs or economic advantages for our members, nor because they regard trade with the East as a panacea leading to relaxation of all our tensions and differences with the East. Rather, we take the view that the growth of trade offers the United States a useful means of relaxing tensions and of signalling the genuineness of our will to find an honorable basis for peaceful coexistence which is the only sane alternative to collision and catastrophic conflict.

Again may I say that we in the UAW are privileged to present our views to the Senate Committee on Foreign Relations.

With all good wishes, I am

Sincerely yours,

WALTER P. REUTHER, *President.*

STATEMENT OF POSITION—THE PEACEFUL USES OF EAST-WEST TRADE

Adopted unanimously by the International Executive Board of the International Union, UAW, in response to a letter from Senator William Fulbright, chairman of the Foreign Relations Committee, U.S. Senate

MARCH 26, 1965.

President Johnson, in his 1965 message on the state of the Union, invited the leaders of the Soviet Union to visit the United States and made the following reference to expanding trade with Russia and the nations of Eastern Europe:

* * * * * * *

"In Eastern Europe restless nations are slowly beginning to assert their identity. Your Government, assisted by leaders in labor and business, is exploring ways to increase peaceful trade with these countries and the Soviet Union * * *"

President Johnson's mandate from the American people represents, in world affairs, a call to continue the strategy of measured and flexible response in the interests of security and peace that was followed by the Kennedy administration. President Kennedy stated in his inaugural address:

"Let both sides explore what problems unite us instead of belaboring the problems that divide us."

* * * * * * *

"Let both sides join to invoke the wonders of science instead of its terrors. Together let us explore the stars, conquer the deserts, eradicate disease, tap the ocean depths and encourage the arts and commerce."

The urgency, in the thermonuclear age, for a continued search to reduce world tension and to find the practical bases for peace among nations of different ideologies and ways of life has been stressed again and again, not only by secular statesmen but by spiritual leaders of every faith. Pope John XXIII, in his encyclical, "Pacem in Terris," put it in these terms:

"In the highest and most authoritative assemblies, let men give serious thought to the problem of a peaceful adjustment of relations between political communities on a world level: an adjustment founded on mutual trust, on sincerity in negotiations, on faithful fulfillment of obligations assumed. Let them study the problem until they find that point of agreement from which it will be possible to commence to go forward toward accords that will be sincere, lasting, and fruitful."

It is within the context of these considerations and in this pragmatic spirit that the Johnson administration and the relevant committees of the Congress have been inquiring into the question of expanding the volume of American trade with the Soviet Union and the Communist countries of Eastern Europe.

The American people should understand that this question of East-West trade is not a question of being either "hard" or "soft" on communism. Senator J. W.

Fulbright, chairman of the Senate Committee on Foreign Relations, which has been conducting hearings on East-West trade, has wisely observed:

"* * * A wise and farsighted policy is one which is tough in response to provocation, as in the case of the Cuban missile crisis, conciliatory in response to demonstrations of cooperative intent, as in the case of the test ban treaty, and unerring in its dedication to the peace and security of the free world.

"The instruments of policy should not be confused with the goals of policy. The nuclear deterrent, the Western Alliance, and measures of East-West accommodation are not ends in themselves but instruments of policy. The task of statesmen is not to choose one or another for all purposes and for all time but to decide in each instance which instrument of policy or what combination of policies is most likely to contribute to the security of the United States and of the free world."

The facts on East-West trade, as they have emerged over the last several years and has been reflected in congressional hearings, point to the value of an expansion of American trade with the Soviet Union and other Communist countries in Europe, as one element in a flexible and selective American policy aimed not at commercial advantage but essentially at building channels of communication and bridges of mutual understanding. An expansion of economic relations with these countries offers the United States a useful means of relaxing tensions, and of signaling the genuineness of our will to find an honorable basis for peaceful coexistence, which is the only sane alternative to collision and catastrophic conflict.

The overriding question is whether we shall all be sensible and resourceful enough from day to day and year to year to seize what opportunities exist to head off an ultimate nuclear confrontation, whose survivors would "envy the dead."

East-West trade should be seen in that light, not as a panacea but as a process which seeks mutual advantage and accommodation despite deep-going differences.

There is no question of relaxing restrictions on strategic goods. Trade in such goods must continue to be banned by the United States and its allies in Europe and elsewhere. But a policy of expanding trade in nonstrategic goods with Communist nations in Europe would take realistic account of significant changes that have occurred in the Communist world since the end of the Second World War.

Communist countries in Eastern Europe in recent years have shown increasing economic and political independence of the Soviet Union.

The Soviet Union of 1965, moreover, is not the Soviet Union of Stalin, although Stalinist elements and some Stalinist attitudes persist within the society and government. At home, the U.S.S.R. is beginning to experiment with profit incentives and some diffusion of the centralized controls which formerly increased difficulties of trade. Abroad, the Soviets are building up trade with Western nations and are interested in overcoming the obstacles now standing in the way of expanded trade with the United States. The Soviet Union on March 16, 1965, moved toward closer economic relations with the free nations of the West by announcing its intent to become the 68th signatory of the Paris Convention on Industrial Patents and Trademarks. Announcing his government's intention to ratify the pact, Yevgeny Artemyev, Vice Chairman of the Soviet Union's State Committee on Inventions, stated (New York Times, Mar. 17, 1965) that the principle of peaceful coexistence "furnishes the basis for business cooperation between countries with differing social and economic structures."

The Communist monolith of the Stalin era, in short, is in the process of disintegration; the Moscow monopoly in setting Communist policy is breaking up into a polycentrism of regimes. The "thaw" within Russia, and the serious Chinese-Soviet ideological split, along with the pioneer "revisionism" of Tito, have combined to create varying patterns of Communist behavior. All Communist regimes continue to profess allegiance to the principles of Marxism-Leninism, and the ultimate dominance of communism in the world. However, the actual policies and practice of Communist states are increasingly derived not from theory but from a pragmatic effort to cope with current problems according to national needs and experience.

Such internationally recognized authorities as George Kennan have pointed out, and the actions of Communist regimes have testified, that, as a result of this evolution, the Communist countries now have a much greater latitude for shaping their own institutions and working out their own relationships with the nations of the free world.

Every major non-Communist industrial nation in the world, save ours, has seized the opportunity implicit in these changes and is strenuously developing a brisk trade with Russia and the other Communinst countries of Eastern Europe. The 17 European nations in the Organization for Economic Cooperation and Development (OECD), in just 4 years, between 1959 and 1963, increased their trade with the East European countries by more than 50 percent. Since total imports and exports of the East European countries increased by only about 30 percent in the same period, the OECD nations are clearly increasing the relative importance of their economic relations with the East European countries.

Only the United States remains mired in emotional attitudes provoked by the bitterest period of the cold war; only the United States remains shackled with an export control policy that was devised to meet the exigencies of the Korean war period, and whose main effect now is not to deny the Soviet-bloc countries equipment or technology which they cannot find elsewhere but rather to create ill will and dissension among our friends and allies when their less restrictive policies clash with ours, and to cut us off from contacts with Eastern European peoples which could help them to seek and win a larger measure of economic independence and thus tend to further weaken monolithic control by the Soviet Union.

There are undoubtedly economic advantages to be gained for the United States from expansion of trade with the Communist nations. However, America's concern in this matter should not be with expanding the markets and profits of American business, nor with increasing employment opportunities for American workers. America's policy with respect to trade with the Soviet Union and the Communist nations of Eastern Europe transcends the question of economic relationships and must be determined by the overriding question of how foreign trade policy can be used as an instrument for reducing world tension and for strengthening the prospects of peace. In the present world situation, the expansion of trade affords us an opportunity to influence the choices that Communist regimes in Europe are now in the process of making both in their internal evolution and in their relations with the nations of the free world.

It can safely be said that millions of people in the Soviet Union and the Communist nations of Eastern Europe are eager to enjoy the higher living standards and the more relaxed social and political atmosphere of a society based on a consumer economy. If we are truly concerned with the well being of these people of Eastern Europe, we should make it our policy to assist them in moving toward the benefits of closer economic ties with the West.

As the people of the Communist countries begin to assert themselves as consumers, their influence as citizens will grow. As contacts are multiplied and mutual understanding grows through expanding commercial and cultural relations, we will see the dawn of no millennium; but we shall create vested interests in peaceful coexistence and a climate of mutual accommodation that hopefully will serve to blunt the aggressive ambitions of Communist States.

An expansion of East-West trade will not usher in any utopia. Yet we advocate its expansion because it offers us one practical means of deemphasizing the tensions and conflicts of cold war, and of beginning to move toward forms of peaceful accommodation and competition.

A policy of expanding trade with the Eastern European Communist countries does not mean a policy of wide-open trade. It does mean a careful unprejudiced and realistic reexamination of present restrictions with the purpose of developing policies which will be in the ultimate interest of the United States and the free world as a whole. Only by this means can we hope to exercise the leadership we should be giving in the development of a unified free world policy for trade with the Communist countries—a leadership we cannot expect to have as long as we persist in isolating ourselves from the growing stream of East-West trade. Expansion of our East-West trade offers us a means of healing some of the strains in the free world alliance, strains partly attributable to our outmoded trade policies. At the same time, it can remove the temptation which our present restrictive policy constantly presents to worldwide U.S. corporations, to make use of their subsidiaries in other Western countries to circumvent the trade policies of the United States.

In adopting a policy of freer East-West trade, the United States will give practical effect to the principles laid down by President Kennedy and carried forward by President Johnson, and it will be supporting the efforts of other world leaders, such as the Pope, to bring about a relaxation of international tensions.

and the development of a climate more favorable to the preservation of world peace.

INTERNATIONAL UNION OF ELECTRICAL,
RADIO, & MACHINE WORKERS,
Washington, D.C., March 4, 1965.

Hon. J. W. FULBRIGHT,
Chairman, U.S. Senate Committee on Foreign Relations,
Senate Office Building, Washington, D.C.

DEAR SENATOR FULBRIGHT: In reply to your letter of February 6 to Mr. Carey, I am enclosing our statement spelling out our position on foreign trade. This statement was adopted at our convention held in September 1964.

To sum up our position on East-West trade "we are generally in favor of East-West trade as long as it is consistent with our national security needs." This position is consistent with our position on foreign policy. Especially germane is this statement:

"This situation further underscores the IUE's long-held belief that mere anticommunism is inadequate as a basis for foreign policy in today's changing world. While we maintain our defenses, we should be prepared to meet with the Communists and to participate in cultural exchange programs and other programs that will provide opportunities for meeting and talking with them."

Please let us know if you need any additional information.

Best wishes.

Sincerely yours,

BEN D. SEGAL,
Director, National and International Affairs Department.

FOREIGN TRADE

Our union has from its inception supported a liberal policy of reciprocal trade. This position has been grounded upon a belief in the basic principle of mutual benefit in foreign trade as well as a practical realization of the advantages accruing to our members. Current developments within our industry serve to underscore the validity of our position.

At the same time, voices are heard in our land calling for a withdrawal in foreign trade. They advocate the imposition of high protective tariffs, in the belief that this would solve many of the Nation's current economic ills. They allege that persistent mass unemployment, repeated layoffs, and lack of economic opportunity stem from a flood of foreign-made products into our markets. They argue that since American workers are not prepared to work for less or lower their living standards in order to compete in world markets, the only step that remains is to raise high tariff barriers to protect the vulnerable American market.

These arguments, plausible but specious, completely ignore the reality of international economics and the dominant role played by the United States in world trade. The importance of foreign trade to our economy is demonstrated by the upward surge of U.S. exports of merchandise in 1963 to $22.3 billion, and increase from the previous year. These exports represent 4 percent of the total goods and services produced in the United States during 1963. Interpreted in terms of jobs, these U.S. exports provide employment for approximately 4 million workers. When total U.S. exports are measured against imports—$17.1 billion in 1963—a positive balance of trade of $5.2 billion remains. Clearly the export trade of the United States provides tens of thousands more jobs than imports eliminate.

Unemployment, layoffs and job cutbacks are far more the products of automation, technological change, plant runaways, defense phaseout, and economic stagnation than the result of foreign trade.

The rumored inability of the United States to compete in world markets due to the lower hourly wage rates in other countries again completely ignores the facts. The highly competitive nature of U.S. industries in world trade is revealed by the record of the past 70 years, during which the United States consistently sold more to other countries than it bought from them. As a matter of fact, U.S. exports of finished manufactured goods since 1933 have been more than double American imports of comparable products.

Specifically the industries in which wages represent a relatively high portion of total costs, including those in which IUE members are employed, have main-

tained an extremely favorable balance of trade. During 1963, for example, exports of the electrical machinery and related industries amounted to $1.7 billion, while imports ran to $480 million—demonstrating that the industry employing IUE members exports nearly four times as much as is imported. It is evident that high wages by themselves do not interfere with U.S. foreign trade.

Recognizing the clear advantage to IUE members of an exporting economy, and fully understanding that in order to export we must import, the IUE in conjunction with American industrial unions has consistently endorsed the reciprocal trade policies of the United States, policies first adopted by the administration of Franklin D. Roosevelt and affirmed by each President since then.

It is a policy clearly in accord with the economic realities of the world today, and recognizes that it is the only way to insure this Nation an expanding role in world trade and at the same time promote a prosperous economy. Should the Nation adopt a general policy of restrictive tariffs or import quotas, retaliation would be inevitable. The loss of highly profitable export markets would cost the country hundreds of thousands of jobs, particularly in the electrical and electronics industry.

In addition, U.S. reciprocal trade policy is designed to promote closer economic cooperation among the free nations of the world, preserve our alliances around the globe, and assist the developing nations in their own growth.

To this end, representatives of our Government are currently engaged in tariff negotiations with other nations, referred to as the "Kennedy round." Our negotiators are attempting to seek a 50-percent cut in tariffs in order to spur international trade. By securing mutual reduction of tariffs, our Government hopes to prevent the European Common Market from erecting a wall around itself to the exclusion of American products.

The tariff cuts would apply to all products, except those ruled to be exempt from the negotiations. Hearings in which both industry and labor were represented indicated those products on which a slash in tariffs would cause irreparable harm, and these products would be considered as possible exclusions from negotiations.

The IUE supports these trade discussions and urges that U.S. negotiators proceed on the basis of achieving equality of opportunity for American products to compete with those of other nations in any part of the world. Where discrimination or inequities do exist the objective should be to reduce them. If this is impossible, then they should be taken into consideration in any discussion of tariff reductions. These same conditions should apply where American products are discriminated against in foreign markets. These factors should determine the amount of the tariff cut or whether or not any reduction should be applied at all.

We recognize that with European nations having fully recovered and prospering greatly, and with Japan in the midst of a boom partly created by the export of electronic products, the United States has the right to expect equitable treatment in world markets and the establishment of international fair labor standards.

The benefits to be derived from a cut in tariffs, while promoting trade expansion and obviously benefiting the Nation as a whole are bound to affect adversely some individual firms and workers. Recognizing the legitimate right of firms and workers so injured to obtain help in adjusting to the change, the Trade Expansion Act of 1962 contains provisions for just such adjustment assistance. Unfortunately, however, the Tariff Commission has refused to recommend the granting of adjustment assistance in any case presented by a union. The closing of the Philco plant in Sandusky, Ohio, illustrates the plight of workers faced by a plant shutdown. The rejection of local 701's plea for assistance in that situation was a serious blow.

Many problems arise in which increasing imports have caused unemployment among our members. All these situations should be investigated to determine the type of action that can reduce the harmful results and effectively protect the jobs of our membership.

The adjustment assistance program must be made to work effectively, and organized labor must work to bring the relief provisions of the act, and their administration, into line with the needs of working men and women around the country.

International trade promotes greater amity and interdependence among all the nations of the world. No longer can any nation isolate itself from the world

around it. America's future and economic well-being are inseparably dependent upon and responsive to world economic developments.

Therefore, be it resolved, that we support the reciprocal trade program of our Government both for the sake of our country's prosperity and for its security.

FRIENDS COMMITTEE ON NATIONAL LEGISLATION,
Washington, D.C., March 5, 1965.

Senator J. W. FULBRIGHT,
Chairman, Senate Committee on Foreign Relations,
Washington, D.C.

DEAR SENATOR FULBRIGHT: We wish to express our appreciation to you and your committee for raising up for general debate the subject of U.S. trade policy with the Communist world.

As a matter of general principle we favor removal of discriminary restrictions on trade in nonmilitary goods with Eastern Europe, the Soviet Union, Cuba, China, North Korea, and North Vietnam.

We are aware that removal of such restrictions will not necessarily help bring peace, since history records that wars have been fought between countries which have been major trading partners. Nevertheless, we are convinced that such trade barriers, which are a form of economic warfare, exacerbate political tensions and make military conflict more likely.

In our opinion, the United States cannot effectively challenge communism through economic boycotts and refusals to communicate. Disapproval of aggression can be registered more effectively through support for international peacekeeping machinery than through economic retaliation. We believe past experience shows that unilateral boycotts directed at a country which is free to trade with many other nations of the world will not cause that country to reverse a desirable policy. On the contrary, it tends to increase antagonism toward the boycotter. Furthermore, economic sanctions directed at a country like Cuba, which has always been heavily dependent on international trade, are offensive on humanitarian grounds, since they tend to bring distress to many individuals.

We would appreciate your including this letter in the printed record of the hearings on East-West trade.

Sincerely yours,

EDWARD F. SNYDER.

AMERICAN FARM BUREAU FEDERATION,
Chicago, Ill., February 26, 1965.

Hon. J. W. FULBRIGHT,
Chairman, Committee on Foreign Relations,
U.S. Senate, Washington, D.C.

DEAR SENATOR FULBRIGHT: We appreciate the opportunity to express our views with respect to national policy on East-West trade. In our opinion there is an urgent need both for a thorough reexamination of this subject and a clarification of U.S. policy.

Our comments will be directed primarily toward trade in agricultural commodities which presents some special problems because of the involvement of the U.S. Government in various price-support and surplus-disposal programs. We will, however, refer to some general principles, which seem to us to be applicable to nonagricultural as well as agricultural trade.

Our basic policy on this subject is as follows:

We should offer farm products in world markets whenever it will advance the best interest and security of the United States. In any proposed sale of agricultural commodities to Communist countries, the national interest and welfare of the United States should receive highest priority. We favor such sales only when they have been determined to be consistent with national security and when made by the private trade on strict commercial terms without credit guarantees by any agency of the U.S. Government.

The overriding consideration in national policy on trade with Communist countries should be in the best interest and security of the United States. As long as Communist countries persist in subversive and troublemaking activities which threaten our peace and security, we should recognize that their tightly controlled trade will be directed toward the advancement of cold war objectives. This does

not mean that all trade with Communist countries should be prohibited. It does, however, mean that the advantages and disadvantages of such trade should be carefully evaluated in terms of its effect on national security and our overall national objectives.

In approaching questions of East-West trade, a basic distinction should be made between countries legally designated "enemies of the United States" and those not so classified. It would be utterly inconsistent—and, in our opinion, unthinkable—for the U.S. Government to permit trade with countries the governments of which are designated as "enemies." It would be undesirable for the Government to encourage or permit private U.S. trade—even in nonstrategic items—with such countries, in part because this would seem to undercut the national policy and in part because of the risks inherent in a situation where the U.S. Government is not in a position to support the rights of its citizens.

The issues involved in national policy in the transshipment of U.S. goods by other countries present a somewhat more difficult problem. In our opinion the United States is fully justified in placing transshipment restrictions on (1) exports financed by Government programs and (2) commercial exports of goods whose transshipment could affect our national security. In the case of nonstrategic goods which are exported on a commercial basis and freely available from other countries, we doubt that it is practical or desirable to try to enforce transshipment restrictions except where the contemplated ultimate destination is to a country designated as an "enemy of the United States."

Trade with Communist countries which are not legally designated as "enemies of the United States" is a substantially different matter. We believe that it is in the national interest to permit private exports of farm products to such countries on a strictly commercial basis since we have both a surplus capacity to produce farm products and a need to improve our export earnings. Validated export licenses should be required on all such transactions since the danger of transshipment is apparent.

We believe it is unwise for the U.S. Government to participate in such trade through the direct sale of Government stocks, the acceptance of Communist currencies, or any type of credit arrangements—as such transactions tend to become forms of economic aid which could compromise our national interests. We should not help the Communists to cover up their failures in agriculture and strengthen their ability to wage the cold war without obtaining the compensating advantages that can be realized from commercial sales for gold or convertible currencies. In this connection, the present legislative restriction against sales of surplus commodities to such countries as Poland and Yugoslavia for local currencies should be continued and enforced.

If East-West trade is to occur under the conditions outlined above, a distinction must be made between Government programs that contain elements of foreign aid and those that do not. Where payments are normally made to exporters to compensate for the effect of support programs on domestic prices, it will be necessary to make such payments on shipments to all approved destinations if trade is to take place.

Finally, trade that is found to be consistent with the national interest should not be hampered by Government insistence that shippers use American ships. We recognize the need for a strong U.S. merchant marine; however, cargo preference regulations which impair the ability of U.S. exporters to compete for foreign markets are not the answer to the merchant marine problem. We believe that the solution to this problem will be found in the modernization of port facilities, ships and equipment, and the abolition of work practices which restrict efficiency.

Sincerely yours,

CHARLES B. SHUMAN, *President.*

STATEMENT OF HOWARD R. STEPHENSON, EXECUTIVE DIRECTOR, SAN FRANCISCO AREA WORLD TRADE ASSOCIATION OF THE SAN FRANCISCO CHAMBER OF COMMERCE

I. TRADE WITH THE SOVIET UNION AND EASTERN EUROPEAN NATIONS

On July 16, 1964, the board of directors of the Greater San Francisco Chamber of Commerce passed a policy statement regarding East-West trade. That policy statement is as follows:

1. We approve the efforts now being made by the administration to create normal relations with Eastern European nations. Increased trade and travel between the United States and these nations will make for better understanding, increased economic activity, and lessening of tensions.

2. Since trade must necessarily be two-way we favor:

(*a*) increased U.S. efforts to expand our exports into these markets, aided by governmental action to assure access to our exporters.

(*b*) extension of most-favored-nation treatment to the countries involved.

(*c*) elimination of local laws and ordinances aimed at discouraging sale by retailers in the United States of imports from Eastern Europe, such laws and ordinances being diametrically opposed to official U.S. policy.

3. Regarding our export trade with those nations, specifically the Soviet Union, Poland, Czechoslovakia, Hungary, Rumania, Bulgaria, and Yugoslavia, we favor continuation of export control only in order to prevent shipment of strategic materials.

4. We favor a series of meetings with our free world friends to unify our trade policies and particularly to bring a semblance of conformity into their list of prohibited items as compared to ours.

5. We believe that by adopting these and other liberalizing measures, a healthy and beneficial increase in trade between the United States and Eastern Europe can be effected. It is the policy of this association to favor and to support such an increase.

This policy statement applies only to trade with the countries named and not to trade with Communist China, North Korea, Cuba or other territories against which the U.S. Government at present enforces an embargo.

The chamber's board, in adopting this policy statement, acted upon the request of the San Francisco Area World Trade Association, an affiliate of the chamber, which serves as an advisory committee. The World Trade Association elects its own board of directors and engages upon its own projects and programs. Membership in the association is supplemental and additional to chamber membership. Close liaison between the chamber and the association is maintained, with the chamber's world trade department acting as the secretariat of the association.

Both the chamber, and its world trade association have been consistently identified with, and have taken leadership in, the free trade movement within the United States.

Beginning in the early 1930's, the San Francisco chamber, through its world trade sector, which at that time was headed by Dr. Henry F. Grady, pioneered and championed the reciprocal trade agreements program. This early alliance with programs and policies designed to lower trade barriers and to expand the flow of two-way international commerce set the tone and has permeated the thinking and the policies of the chamber for the past three decades.

The chamber's interest in East-West trade was sparked by its 4th annual export forecast poll, conducted in December 1963.

In response to the question, "There has been some talk about the relaxing of nonstrategic trade barriers between the United States and Communist Russia and its European satellites. Do you look on such attempts with (*a*) favor; (*b*) disfavor; (*c*) no opinion," 59 percent responded in favor of some relaxation; 28 percent expressed disfavor; and 13 percent held no opinion.

In April 1964 newspapers reported that the Chamber of Commerce of the United States, at its annual meeting, had come out strongly in favor of liberalization of East-West trade. This caused an erroneous impression. Although the U.S. Chamber's stand may be considered encouraging, that step was so hesitant that in truth it represents small, if any, progress.

If one reviews the pertinent provisions of the "Export Control Act of 1949," it can quickly be seen that the U.S. Chamber's equivocal stand hasn't really helped very much.

The clause in the U.S. Chamber declaration about preventing sales that increase the capacity of the Soviet bloc to disrupt free world "economic security" goes even further than the present law. Thus those responsible for granting export licenses get no encouragement from the stand of the U.S. Chamber.

We believe that the San Francisco Area World Trade Association should go on record as being truly in favor of liberalization of East-West trade. Since this means imports as well as exports, we must face reality and support most-favored-nation treatment for the Eastern European countries. (Currently only Poland and Yugoslavia are granted these privileges.) Without most-favored-nation treatment, any attempt to do more business with Eastern Europe would be completely one sided and would end in failure and bad feeling.

We should also go on record as being against local laws and ordinances which are aimed at discouraging sales by retailers of merchandise imported from

Eastern Europe. Some of these ordinances require a license (in at least one case as costly as $5,000); others require signs in stores stating that goods of Communist origin are being sold. The U.S. Department of State is strongly opposed to such measures because they encroach upon the rights of the Federal Government. Equally important, they work directly against the official U.S. policy, as recently restated by the President, to develop more independence among the Eastern European nations by expanding their trade with the West.

We should certainly refrain from calling these Eastern European nations "Russian satellites;" nor should we speak of the "Soviet bloc." Both expressions are as gratuitous as they are erroneous.

We would, of course, restate our support of any policy that prohibits the shipment of strategic or war material. The interpretation as to what constitutes strategic material and what effect such materials have on the national security must be left in the hands of the Federal Government agencies which are charged with looking after the national interest.

A policy statement on East-West trade was then drafted for the World Trade Association with precise wording to reflect the association's point of view. That statement was then submitted to the association's board of directors, which adopted it unanimously. The policy statement was submitted to the 400 members of the association for their approval or disapproval.

In requesting the membership vote, it was clearly underscored that the policy statement does not apply to trade with Communist China, North Korea, Cuba, or any other territories where the United States enforces an embargo.

The vote by the membership of the World Trade Association produced a 15-to-1 majority in favor of the statement.

The policy statement was then presented to the board of directors of the chamber of commerce where it was adopted, in the form shown above, on July 16, 1964.

This policy statement was then circularized to the California delegation in Congress, and to Government and business leaders throughout the State. It was also brought to the attention of the National Foreign Trade Convention in November 1964 and to the members of that organization's policy committee.

During the period when the chamber's policy statement was under preparation by its World Trade Association, news was received that both the Soviet Union and Rumania were signing new consular conventions with the United States. Telegrams to the Soviet Ambassador and the Rumanian Minister in Washington, D.C. were immediately sent by Jack Gomperts, president of the association, extending to them a most cordial invitation to open consulates in San Francisco.

Once the statement on East-West trade became official chamber policy, further steps were taken to implement it.

After consultation in Washington, D.C. with officials in the U.S. Department of Commerce by the manager of the chamber's world trade department, it was decided to go ahead with a recommendation for the chamber and World Trade Association to sponsor a do-it-yourself agricultural trade mission to Eastern Europe. The primary purpose of the mission is to explore new markets in Poland, Czechoslovakia, Hungary, Rumania, and Yugoslavia for California agricultural products, and food processing and packaging equipment. The mission has received the full approval of the U.S. Department of Commerce and will be in Eastern Europe during the month of June 1965.

Meanwhile, the chamber's world trade department has been quietly trying to verify the allegation of trade representatives in San Francisco of Polish and Yugoslav products. These representatives claim that there is an unofficial boycott of Eastern European goods by the purchasing agents and/or top management of the large department stores and the large food chain stores in the San Francisco area. It is their belief that the stores fear customer reprisals or demonstrations should they stock Eastern European goods.

Informal conversations have been held with management and buyers in a sampling of the leading department stores and food chain stores and to date there is no evidence that a formal or informal boycott against Eastern European goods is being carried out by these firms.

II. TRADE WITH PEOPLE'S REPUBLIC OF CHINA

In its discussions of East-West trade the San Francisco Chamber of Commerce and its World Trade Association have made a clear distinction between the Soviet Union and the Eastern European countries on the one hand, and China, North Korea, Cuba, etc., on the other hand.

Therefore, concurrently with its study and statement regarding trade with the Soviet Union and Eastern European countries, the World Trade Association took a separate look at our relations with China. In January 1964 the membership of the association was polled on the advisability of appointing a special committee to study the present policy of the United States toward mainland China, and to make recommendations for eventual submission to Washington. The results were a 10-to-1 majority favoring such a study.

A special study committee was appointed composed of 11 businessmen, an economic adviser, and the staff of the chamber's world trade department. Those members were:

B. T. Rocca, Sr.
A. D. Calhoun
George Fortune
Peter Knuepfel
Dr. Wayne MacKenzie Stevens
William F. McCann
H. Royce Greatwood
Dr. U. M. Tavella
John J. Judge
Nathan Most
Daniel Polak

Ex-officio member: Jack Gomperts.
Economic consultant: Hans Benhard.
Staff: Howard R. Stephenson, Calvin L. Moreland.

The committee met frequently. As stated in the letter of transmittal for the final report, "We found it rather easy to agree that something should be done about our China policy; we found it most difficult to fathom and enunciate just what should be done."

The committee report was released on December 3, 1964. It was stressed at that time that the committee report did not reflect a policy statement, nor did it have the implicit or explicit approval of the World Trade Association nor of the chamber of commerce.

The six conclusions and the recommendations are:

CONCLUSIONS

1. The Communist regime in mainland China is firmly entrenched with no prospects in sight that internal or external forces will alter the present power structure in mainland China.

2. Our policy of double isolation—of trying to isolate mainland China from the rest of the world, and of isolating ourselves from mainland China—is untenable. This fact has become more evident in the past 10 months than in the past 10 years.

3. Changes within mainland China, within the Communist world, and within our own free world are occurring with ever increasing speed and far-reaching import.

4. Communication and trade between mainland China and nations of the free world has been shown to be possible, it is practical, and it could be profitable.

5. Our present attitude enchains us in a stalemate and precludes us from availing ourselves of beckoning and rewarding initiatives.

6. Until we ourselves are in direct dialog with our major protagonist, we shall find ourselves on a dark and deserted stage from which there is no exit.

RECOMMENDATIONS

We recommend, therefore, that our fellow Americans, both in private and public life, join with us in an effort to become better informed about mainland China. We believe that American opinion and policy should be based on proper knowledge concerning mainland China, and that we should reopen communications with the Government and the people of the People's Republic of China. Newspapermen, businessmen, scientists, economists, political scientists, cultural leaders, and others should be enabled to engage in free intercourse between the United States and the People's Republic of China since increased communication leads to the creation of constructive attitudes and thus facilitates the formulation of appropriate policy.

Whether the Chinese will react in a like spirit should we seek to make contact and to trade with them is, of course, beyond our knowledge. However, we will never know this until we cease our current negative attitude and begin accenting the positive.

This committee report caused a good deal of comment in the press, locally, nationally, and internationally. The 1,000 copies of the report were sent to select

Members of the Congress in Washington, to key Government and business leaders, to individuals who so requested a copy. This initial printing of 1,000 copies was exhausted within 2 months, and a second printing of an additional 500 copies has been ordered.

There have been numerous requests by various organizations in the San Francisco area for talks to their membership on the subject of China and the committee report.

We were interested to learn from Prime Minister E. Sato of Japan, when he visited San Francisco on January 10, that he had already seen and read the report. The Japan Broadcasting Corp. taped a TV interview with the president and the executive director of the association on the subject of our China policy. There have been other TV interviews on the subject, as well as newspaper editorials.

In sum, the committee report sparked a good deal of interested reaction. Perhaps the attention given to the report is due in large measure to its being the first study of its kind undertaken and published by a group of private businessmen in the United States.

The recommendations and conclusions of the report are currently under consideration by the San Francisco Chamber of Commerce. The chamber's World Trade Association has proposed that the chamber adopt these conclusions and recommendations as chamber policy, but as of this writing final action by the San Francisco Chamber of Commerce on the China report has not been taken.

STATEMENT OF ROBERT STRAUSZ-HUPÉ, DIRECTOR, FOREIGN POLICY RESEARCH INSTITUTE, UNIVERSITY OF PENNSYLVANIA

Among all the myths which now threaten to befuddle the Western mind, the most dangerous one is that it was Soviet "good will" rather than the West's own power and solidarity which resolved the crises of Berlin and Cuba. A close second is the myth that Western good will, betokened by trade, can soften that undemocratic character which is the very cement of the Soviet bloc. Indeed, these could be fatal myths—were they allowed to sway Western policies. Even at the height of the cold war, Western private business supplied the Soviets with all kinds of complex tools and devices which, only by the loosest interpretation, could be designated as nonstrategic. If these commercial transactions have "mellowed" Communist rule or blunted Communist aggressiveness throughout the world, then these beneficial effects have not been visible to the naked eye.

One of the millienial problems of philosophy has been how to distinguish between appearance and reality. Thus far, a completely satisfactory solution has not come into sight. If the problem were of concern only to professional philosophers, most of us would not be worried unduly about its abiding stickiness. Unfortunately, it confronts us in all kinds of mundane contexts, including international politics. Throughout history, peoples who were thought by others (and often thought themselves) to have been powerful and vital were revealed, at some critical occasion, to be weak and decadent; others who were believed to have been feeble and inoffensive proved themselves, at some opportune moment, aggressive and dangerous. Soviet Russia is a case in point. Mr. Churchill called the Soviet Union a riddle wrapped in an enigma. At times, even the shrewdest men fall prey to their own preconceptions. The real enigma of the last 47 years has been the West's failure to grasp the amply documented facts about the Soviet system. Western statesmen and publics, instead of taking their cue from Communist performance, have imputed their own preconceptions to the Communist mind.

In 1960, the dread specter of Soviet might haunted the chancelleries of the West. Then, the reported growth rates of the Soviet economy exceeded considerably those published for Western Europe, not to speak of the allegedly "slack" economy of the United States. Premier Khrushchev boasted, as had Stalin before him, that within a few years the Communist system of the Soviet Union would catch up economically with the capitalist system and then "bury" it. Premier Khrushchev, far from seeking to relax world tensions or to avert an accidental war, kept on raising the pitch of his nuclear blackmail campaign.

In October 1962, less than 30 months ago at the time of this writing, Premier Khrushchev, at the apogee of his intransigence, moved his missiles into Cuba in order to blackmail the United States on a grandiose scale. And then, most

everything changed: A new, almost unrecognizable Khrushchev, presiding over a sadly altered Communist bloc, made his debut upon the world stage.

In January 1963, the Central Intelligence Agency reported a "sharp slowdown" in Soviet growth, putting the annual growth rate at 2.5 percent, "well under the rate of the United States." Tidings of a severe agricultural crisis in the Soviet Union filtered into the Western press. For good measure, Premier Khrushchev declared himself warmly in favor of relaxing world tensions, denounced the Red Chinese frivolous views on nuclear war, dwelt glowingly on the blessings of "peaceful coexistence," and commended the President of the United States for his enlightened views on world problems. In the wake of the Cuban crisis and the reported deterioration ("sharp slowdown") in Soviet growth, the West awoke to its superiority in nuclear warheads and missilery.

In the light of these amazing gyrations recorded in so short a time the question need be asked: What is the real Soviet Russia? The aggressive Soviet Russia, bristling with military/technological might and growing economically at a fabulous rate—the Soviet Russia which in October 1962 brazenly gambled on nuclear war? Or the Soviet Russia of a few months later, beset by domestic economic crises and intrabloc controversies, the Soviet Russia which now vows itself to "peaceful coexistence" and "goulash" communism?

At first glance, it would appear that only one of these two Soviet Russias can be a real country and that the other must be a dreamland of Western fantasy. On closer inspection, the two Soviet Russias are revealed as the two faces of one and the same reality; namely, the Communist state which Lenin built on the ruins of czarist power. Some of the strengths and weaknesses of Russian-based communism are those of Russia. Russia has furnished her Communist masters with the vitality and endurance, the imaginativeness and docility of the most populous among the Slavic peoples, vast space, and all the natural resources needed for economic development. Yet, nature has burdened Russia with a number of severe handicaps. Four-fifths of Russia's land surface is situated north of the northernmost limits of the territory of the United States with the exception of Alaska. Climatic and soil conditions hampered the expansion of Russia's arable area. Even allowing for Soviet mismanagement, the shortfall of Soviet agricultural production has been caused, at least in part, by environmental conditions which do not confront the United States and most of Europe.

For many years, Soviet agronomists who rank among the ablest the world over, and even the Soviet rulers have been aware of the ecological problems peculiar to Soviet agriculture. Various schemes for enlarging Russia's cultivable areas and shifting population to new land have been tried. No doubt, the methodical diversion of capital investment from agriculture to the military/industrial complex has aggravated the chronic crisis of Russian food production. But, in fairness to Premier Khrushchev, not all of the dietary woes of the Russian people should be ascribed to Soviet economic policy. Moreover, Premier Khrushchev's admission in his speech of December 9, 1963, that Russia had suffered a "hard winter and severe drought" and that Soviet planning would now have to concentrate upon setting up "a mighty chemical industry so that, in the next 7 years, it will be possible to increase sharply the output of mineral fertilizer," might have been intended as much to assure the West of the Communists' pacific preoccupations as to mollify the Russian consumer. Such a deep finesse would be in the best tradition of Soviet psychological warfare.

Another weakness of contemporary Russia is rooted in geography. The enormous size of Russia's territory is fraught with unique problems of transport by sea and land. Russia's defeat by Japan and Soviet military disasters in World Wars I and II can be ascribed, at least in part, to an inadequate railroad system and an even more sketchy net of highways. Premier Khrushchev, though he did not say so, knew full well that the shortages of urban food supply are as much due to an obsolete system of distribution; i.e., rail and highway transport and storage, as to poor harvests. Transportation was the Achilles heel of czarist Russia; the Communists, after nearly 50 years of rule, have not succeeded in curing that weakness which has stunted the economy and diminished the mobility of military power.

Czarism bequeathed to the Communists another inherent weakness of Russia. In the course of his history, the Great Russian has subjected to his rule many races. He has incurred the abiding hatred of nearly all of them. The Communists have not improved upon his performance. They, too, have thought to "russify" the subject peoples. They have tried to submerge such Asian peoples as the Kazakhs, the Kalmyks, and the Uzbecks in the massive settlement of

migrants from European Russia. Khrushchev, first as lieutenant of Stalin and then as Premier, tried his hand at pacifying the Ukrainian minority. It is estimated that, in the course of these proceedings, at least one-half million Ukrainians were liquidated. In Estonia, Latvia, and Lithuania, the recruitment of select natives into the Communist Party has not always furthered their assimilation to Soviet Russian culture. Moscow has found it necessary to purge repeatedly the local governments and to maintain sizable occupation forces in order to enforce its rule.

The Communists have added to the historical weaknesses of Russia the absurdities of their political system and the inefficiency of their economic management. From its birth, Marxist socialism has been afflicted by its founder's mistaken assumptions about the nature of man. In Western Europe, Marxist socialism sloughed off some of its more obsolete notions. In the Soviet Union, to the contrary, Marxist thought has hardened into the authoritarian doctrines of Lenin and his successors. In lieu of the dictatorship of the proletariat, Lenin established, under the slogan of "Democratic Centralism," the dictatorship of a priestly class of self-appointed party functionaries. Thus, he postponed indefinitely the advent of the classless society.

The rulers of the Soviet Union have chained their subject peoples with a bureaucratic system at the service of autocracy. Of course, an authoritarian government does not seek eagerly to create genuinely representative instiutions complete with a free press and opposition parties. It is not unreasonable, however, to expect it to develop some sort of procedure which will assure the smooth succession to highest office. After 47 years, Communist ingenuity has designed only two methods of succession: cooption and liquidation. Not every weakness turns spontaneously into a vulnerability. A weak system can be highly dangerous to another healthy one, especially if the latter does not know how to exploit the weakness of the former.

Again and again, the adversaries of the Soviet Union watched with uncomprehending amazement the paralysis and disorder that invariably follow upon the demise of one Soviet chief and precede the rise of his successor. Shocked by such uncivilized behavior, they did nothing. Yet, never are the Soviets more vulnerable to Western initiatives than during these intraparty struggles for supreme power. Stalin was a case in point. Certainly, the West could have taken safely the offensive in many contested places, such as, for example, Berlin, Eastern Europe, and southeast Asia, without fear of energetic Soviet counteraction. In any case, the West would have risked little by probing prudently the mettle of Soviet leadership enmeshed in internal conflict. The post-Stalin crisis took the West's propaganda strategists by complete surprise: they failed to expose methodically the great Kremlin scandal to the world's public opinion. It is doubtful that, were a similar opportunity to present itself, Western diplomacy and propaganda have a plan for making the most of it. Yet, the chances are fair that this opportunity will present itself in the not-too-far-distant future. The chances are even better that the Communists need not fear being discommoded by Western activities designed to exploit another struggle for the throne in the Kremlin.

Sir Alec Douglas-Home, former Prime Minister of England, said: " * * * the more comfortable a person is, the less likely he is to be a fanatical Communist."[1] Sir Alec might well have recalled that, in 1939, the Nazis were the most "comfortable" people in Europe, certainly more "comfortable" than are the Soviet people today and that the mode of living of the Communist bosses compares favorably with the luxuriousness of the Western executive suite. Yet, the rising trend of Western thought which he voiced ignores the lessons of Western history. Indeed, Marxist philosophy, the materialist approach to politics and ethics, has infiltrated the non-Marxist mind. A good many professed liberals and sturdy conservatives view communism as an economic system and judge the goodness or badness of communism by its economic performance. If this were the proper criterion, then all would be well with the Soviet Union as long as the living standards of the average Soviet citizen were rising as rapidly as in such capitalist countries as, for example, the United States or Britain or Germany. It is not surprising that those who hold this view—as does, for example, Sir Alec Douglas-Home—center their attention upon the growing trade and gross national product of the Soviet Union and seek to ascertain the strengths and weaknesses of the Soviet state from such economic indexes as per capita income, wage rates, and

[1] The Washington Post, Feb. 14, 1964, p. A8.

the purchasing power of the ruble. This kind of literal-minded and materialist analysis of Soviet realities has, at various times, encouraged conclusions about Soviet capabilities and intentions which, after a while, invariably have proved wrong.

In the 1920's, some of the most celebrated Western experts on Soviet affairs, noting the collapse of the Soviet transportation system, the demoralization on the collective farm and the misery of the Russian people in general, predicted the fall, within a few months, of the Communist system. The regime stood and fastened its hold on the Russian people. When, in the era of the 5-year plans, Soviet propaganda flooded the universe with tales of over-fulfilled quotas in industry and joyous harvests on the collective farm, the celebrated Western experts reversed themselves: Now, the Soviet Union was about to outdo depression-prone capitalism. Even the Stalinist purges were not allowed to dim the image of the Soviet Union's progress toward planned prosperity, free from exploitation and inequality. After World War II, Western sovietologists gloomily predicted that the Soviets would have to labor hard for many years to repair war damages and could not engage in expensive, power-political undertakings such as, for instance, modernizing the Red Army and producing nuclear explosives. Stalin starved, as he had always done, the average Soviet consumer. He ruthlessly drove, as he had always done, the average Soviet worker. He re-equipped the Red Army and tested atomic bombs.

During the 1950's, another set of sophisticated sovietologists, awed by the sputnik, estimated the growth rate of the Soviet gross national product at from 9 to 10 percent per annum and predicted that, in a matter of a few years, the productivity of the Soviet Union would pace, or even overtake, that of the United States. Some eminent experts in military affairs disclosed that the Soviets had taken the lead in the military-technological race. By 1960, they had, at least in their expert analysis, opened the "missile gap."[2] While the Soviet economy was inching up on the American economy, Soviet military power was "balancing" American military power, if not achieving downright superiority.

In 1963, the Soviet Union entered upon one of its periodic agricultural crises. The farseeing Soviet planners sharply increased the price of bread and butter. The Soviet budget for 1964 blandly announced a moderate decrease of military expenditures. Premier Khrushchev, inferentially acknowledging the sorry state of Soviet agriculture, proposed the diversion of a larger share of future socialist investment into a vast program of agricultural modernization. Again, the West's unabashed Soviet experts scanned enigmatic statistics and revised their previous estimates. The rate of increase of Soviet productivity, having dropped in 1 year by three-fourths, was now trailing the U.S. annual rate of growth. Only one logical conclusion could be drawn from this and related changes in the Soviet picture: Premier Khrushchev, confronted by the need for increased investment in the consumer goods sector of the national economy and his people's clamor for "comfort," now craved a genuine "relaxation of tensions" with the West. The Communist world was undergoing a great transformation. Premier Khrushchev, although he could be expected hopefully to stay on top of the collective leadership in the Kremlin and keep the hardliners at bay, had to yield to his people's desires for bourgeois ease and the demands of the satellite states, noticeably Poland, Hungary, and Rumania, for greater freedom from Soviet-centered controls. On the horizon loomed the vision of a "mellow, more liberal" Soviet society. Incidentally, the "missile gap" of 1960 had closed miraculously in 1963. The United States now fielded three solid-fueled ICBM's against one liquid-fueled Soviet ICBM—a startling achievement considering that the lead-time in missile production is about 7 years. In essence, it is upon these insights that the West's "relaxed" policies toward the Soviet Union are based. How valid are these insights, and to which of our two Soviet Russias do they apply?

The Communists, even if they wanted to transform Soviet society and confer upon the peoples under their rule a semblance of political freedom, could not do so—except at the price of collective self-immolation. Nowhere have they come to power by gaining a clear electoral majority. The chances are that free and secret elections and the introduction of parliamentary debate and legislation would unseat the Soviet rulers. Certainly, the Communist regimes in Eastern Europe

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[2] On Dec. 16, 1959, Secretary of Defense Thomas S. Gates asserted that the United States had "present nuclear superiority" over the Soviet Union—both in weapons and means of delivery. On Jan. 28, 1960, Senator Stuart Symington, replying to Mr. Gates, declared that the "missile gap was greater than 3 to 1 in favor of the Russians and was still growing." Senator Richard B. Russell, too, refused to be assured by Mr. Gates' statement. "I can't accept," he said, "that there is no missile gap. I think there is."

would be unseated instantly by free elections. Not even Yugoslavia, allegedly the most "liberal" member of Communist polycentrism, has embraced the freedoms of press and speech or abolished the secret police or granted offenders against party discipline the legal protection of habeas corpus and due process. In all Communist states, the state is the sole employer, and the state and party, identical in all but name, determine who shall work at what, where and for what wages.

In all Communist states, the Communist Party is composed of a small minority of the population and the great majority of the people exercises no political rights whatsoever—except that of participating in occasional securely rigged plebiscites. It is the absolute power of that small minority, or rather of a handful of men controlling it, over the very life of every man, woman, and child under its domination, which is the most abominable and forever incurable disease of the Communist system. Indeed, it is this disease which is the principal cause of the chronic malfunction of the Soviet economy and of all national economies under Communist control. No more grievous and ludicrous error can be made than to atttribute the aggressiveness of the Soviet Union to the economic "discomfort" of the Russian people, and to expect the Soviet political system to soften under the sun of rising economic prosperity. The iron controls of Communist political power stifle the fair distribution of the fruits of the people's labor and fetter orderly economic progress. To insure fair distribution and orderly progress, the Communists would have to introduce a true market economy, divest themselves of their absolute controls, drop out of the military-technological race—and thus violate every precept of Leninist teachings. As good Communists—there is no evidence to show that the Soviet rulers are not as "good" Communists as Western statesmen are "good" democrats—they will not betray the basic tenets of their faith. As ordinary men, they can be expected to be healthily interested in their own survival.

Neither ingenious planning nor extensive reorganization can cure the ills of the Soviet economy. Years ago, Leon Trotsky said: "Eonomic accounting is unthinkable without market relations." There is ample evidence showing that the Soviets have introduced "bourgeois" economics into cost calculations and are familiar with "capitalist" methods of planning and management.

Changes in economic organization (i.e., decentralization, "Libermanism," or variants thereof, consumer orientation, production based on supply and demand and profitability factors) are being introduced to a greater or lesser degree in the Soviet Union as well as in the satellite countries. Contrary to prevailing opinion in the West, the satellites are not reorganizing their economies in defiance of Moscow. This is not to say that the "Communist monolith" still retains its original, Stalinist form. If the long-range objective of the Communist world is to catch up with and surpass the West (as it clearly was under Khrushchev, and as it must continue to be if the future of communism is to be assured), then a great deal of leeway has to be allowed and encouraged by Moscow. The progressive loosening of bloc ties has yielded some very real benefits to the Soviet bloc: it has created a new image of the bloc in the West, which, in turn, has set the state for a phenomenal rise in East-West trade. From 1958 to 1963 alone, the Common Market increased its imports from the Soviet bloc by 96 percent and its exports by 73 percents.[3]

In the world market, the Soviets have shown themselves to be shrewd traders. The Soviets are not ignorant of the law of supply and demand. The Soviets know all about programing industrial production. Notwithstanding this expertise and grudging deference to the commonsense principles of the market economy, the Soviet state persists in shortchanging the consumer. The melancholy drabness of the urban scene, the shoddiness of apparel, and the unsavoryness of fare are but the symptoms of deep-lying ills. Since the malfunction of the Soviet economy derives from noneconomic causes; namely, the rottenness of the political system, mere economic expertise cannot remedy the situation.

Thus far, the Communists have dealt with the chronic domestic crises by exporting them into world politics. They have channeled internal pressures into foreign conquest. The West, insofar as it has succeeded in containing Com-

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[3] Khrushchev repeatedly emphasized the need for increased trade with the West. Certainly, he did not object to the development of trade relations between satellites and the West. During his visit to Czechoslovakia (Aug. 27–Sept. 5, 1964) he said: "We need to study all the best achievements, the best foreign experience, and apply this ourselves in order to obtain higher labor productivity." (East Europe, October 1964, p. 40.) In December 1964, Premier Kosygin, addressing the Supreme Soviet, was reported to have expressed the readiness of the Soviet Union to "link its long-term economic planning with foreign trade prospects to expand the Soviet market for western goods and the production of Soviet goods for export." (New York Times, Dec. 10, 1964.)

munist expansionism and bottling up the Communists in their own contradictions, has raised the tensions within Soviet society and among the Communist states. Thus, for example, the Western alliance's successful defense of Europe has denied the Soviet valuable and spectacular territorial gains and, by shielding the fabulous economic growth of Western Europe against Communist interference, exposed the niggardly performance of the Soviet economy to the comparative scrutiny of the East European peoples under Soviet domination. America's successful defense of the Formosa Straits, the offshore islands, and South Korea has blocked Chinese expansionism and pushed back the Pieping Communists onto the Moscow Communists. The worst that can befall the Communists is being kept at home and having to savor, in each other's company, the full flavor of socialism.

The history of communism is enlivened by rhythmic economic crises and rhythmic political purges. These two kinds of convulsions are closely related to one another. Whenever the Communist system breaks down, as every so often it must, the Communists propitiate the angry spirits of Marx, Engels, and Lenin by offering sacrificial scapegoats and divert from themselves the resentments of their long-suffering serfs by purging their own ranks. At such times of intra-party crises and economic stress, the Communists bow to necessity, shift strategic gear—and relax the very tensions which they created in the first place. From threats of violence, war and revolution, they turn to the propaganda of "peaceful coexistence" and "popular front," "relaxation of tensions" and "general and complete disarmament." These, or equivalent slogans, served as the standard ammunition of Communist propaganda in the early twenties and the mid-thirties. To this propaganda strategy, Premier Khrushchev added little but his personal, earthy style of execution.

Mastery at psychological warfare has brought the Communists to power. It has gained them mastery over half of Europe, two-thirds of Asia, and sundry strongpoints in the midst of the free world. It has enabled the Communists to gain ground at the expense of the Western democracies, superior to them in military and economic resources. Communist psychological warfare now threatens to divide the Western alliance. The strategy of "peaceful coexistence," so it seems, is now about to wrest success abroad from the jaws of domestic failure. The Communists, out of breath from their own exertions, seek to persuade the West to call a halt in the race for military-technological superiority and to permit them to catch their breath. The Communist economies badly need a reviving infusion from abroad. The "prudent members of the bourgeoisie," to use Khrushchev's coy phrase, are expected to supply it. Speaking on December 9, 1963, to the Central Committee, Premier Khrushchev conceded that the Soviet Union would have to seek much of the equipment and know-how for the chemical complex in the West. He said: "We shall place orders with those who want to make an honest profit, provided there are credits, because this has become the norm of economic relations." Since, in times gone by, the "capitalists" availed themselves of similar opportunities for making an "honest profit," they are likely to do so again. This remarkable scheme has been executed so often with the same result; namely, another full-scale Communist offensive against the free world, that, by now, even the most witless among the "prudent members of the bourgeoisie" should be able to unravel it. Yet, some of the West's leading statesmen and opinion leaders as well as sovietologists contemplate this old trick as if they had never seen it before.

As always, the easiest mark for Communist psychological conditioning is the West's sophisticated intelligentsia. Highly sophisticated people are apt to deprecate their susceptibility to psychological manipulation. Hence it is easier to trick them than more simple-minded people. Not less successful have been the Communists' periodic overtures to that very stronghold of Western capitalism, big business. In the hour of need, the Communists have always been able to count on the help of the hardheaded entrepreneur , eager for export markets and on the sophisticated Western intellectual, impatient of the imperfections of his own society—and international reality.

It is now clear that the various commodity agreements concluded in 1963 between Western governments and the Soviet Union helped the Soviets to solve two problems which had next to no relation to the dietary requirements of their own people: they were able to meet and, in some instances, even exceed, export commitments to other bloc countries, as well as "neutralist" states,[4] and to meet the goal for the production of chemical goods, such as tires,

[4] Statement by Secretary of Agriculture Orville Freeman to the U.S. Senate Foreign Relations Committee, Apr. 9, 1964.

for which cereals furnished the raw material.[5] Yet, when the Governments of the United States and Canada disclosed their negotiations with the Soviets, inspired spokesmen argued that the shipment of Western produce to the Soviet Union would "open up" Soviet society. Presumably, the Soviets, touched by the West's easy credit terms, will obligingly raise the Iron Curtain and grant free passage to democratic ideals. No one has as yet explained satisfactorily why the contemplation of an American bushel of wheat, or an English plastics factory, or a West German steel ingot should stir the average Soviet citizen to admiration of the suppliers' political institutions. The average Soviet citizen, if he thinks about such matters at all, is likely to be impressed by the cleverness of his rulers who have managed to procure these commodities cheaply and on credit. In brief, advantageous trade with the West strengthens the position of the rulers; i.e., the Communist party. Lenin said: "If the capitalists are about to be hanged, they will compete with another over who will sell the rope."

If Western imports could open up Communist society, then the Soviet Union should by now be about as open as most Western democratic countries. In the interwar period, plentiful foreign imports ranging from foodstuffs to the most modern industrial equipment eased socialist reconstruction. Without billions of lend-lease the Soviets could not have won the war against Germany. The Western Allies provided the Soviets not only with arms but also with huge industrial plants, a merchant fleet and many thousands of automotive vehicles. Thus, the West helped to speed Soviet postwar reconstruction, not to speak of its involuntary contributions, via large-scale espionage, to Soviet techonology.

The appalling malfunction of the Soviet economy should constitute the greatest vulnerability of the Soviet Union. The fact that economic weakness has never seriously threatened the rule of the Communist party in Russia as well as in Eastern Europe and stymied Communist power plays abroad is largely due to the intellectual and moral confusion of the very people whom Premier Khrushchev promised to bury. Not so surprisingly, the Soviets have always argued vehemently that an economic blockade cannot bring them to fall. Surprisingly, a large number of Western experts agreed. The fact is that, even at the height of the cold war, this strategy has never been tried. We are told that an economic blockade, though it might be economically successful, would provoke the Soviets into fearsome political and military retaliation. The fact is that, throughout the entire era of their rule, no one has been able to provoke the Soviets into starting a fight as long as they thought that the odds were against them. Of course, the Western democracies, in order to blockade the Soviet Union, would have to agree upon a common strategy of political and economic warfare and restrain their individual eagerness for honest profits derived from trade with the Soviet Union. They will do neither as long as they scorn the historical record, mistake the nature and purpose of communism, and keep on negotiating for the impossible compromise between despotism and freedom.

The single greatest weakness of the Western peoples—aside from a short memory—resides in their failure to coordinate their political and economic policies. This failure lies at the root of the present crisis of NATO. One would suppose that the NATO allies, wiser by 15 years of experience in collective military defense, would have come to understand the inter-relationship of war and economics and the subservience of both to politics. Unfortunately, they have not only not understood this connection but have also pursued conflicting policies which run counter to the purpose of the alliance. The Soviets have noted this basic weakness of the Western alliance. The Soviets have exploited it.

Thus far, the current relaxation of tensions has not shaken the solidarity of the Communist power elites in the Soviet bloc. The common stake of Communist functionaries in the preservation of their power and privileges sets inflexible limits to liberalizing tendencies at home. It assures the Soviet Union the absolute fealty of the East European satellite states which are not as large and as self-assertive as China. On matters of foreign policy, such as a German settlement and the denuclearization of Europe, Gomulka, Kadar, and Tito have not dissented even by a whisper from Premier Khrushchev. No such primary interest ties together the Western peoples. An alliance of free peoples is always riven by the conflict between the awareness of mutual interests, on one hand, and the popular appeal of national and factional causes on the other. The West's common concern has always been more abstract that the mutuality

[5] Deutsches Industrieinstitut, Material zum Zeitgeschehen, No. 1, Jan. 9, 1964.

of interest which animates the Communist rulers. Since the Communists did not launch a military attack against Europe, the West's need for unity cannot be proven conclusively. The essentially negative stance of the Western alliance imperils its durability.

The Communists, served by an excellent intelligence service, understand full well the Western dilemma. Certainly they are not impressed by the West's adoption of their own line; namely, that the cold war should be ended, that peaceful coexistence is a good thing, and that the status quo in Eastern Europe should be questioned.

There is nothing mythical about the malfunction of the Soviet economy and the viciousness of communism as a political system. The record is long and clear. When a disease proves incurable, the next best thing to do is to remove the source of infection. This side of surrender the West has no choice but to exploit the many and manifest weaknesses of the Communist system. It cannot do so until it has cured its own fundamental weakness; namely, the lack of understanding and purpose. It has long been said that the Western peoples cannot achieve true unity as long as they have nothing in common but fear of the Soviet Union and do not join in great constructive undertakings. This is true. But it is difficult to see how the West can proceed undisturbed to doing great things in common as long as it does not take the true measure of Communist expansionism engendered by the very weakness of the Communist system. The cold war has been with us for a long time. As yet, no wholesome substitute for winning it has come into sight.

AIR TRANSPORT ASSOCIATION,
Washington, D.C., March 17, 1965.

Hon. J. W. FULBRIGHT,
Chairman, Committee on Foreign Relations,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: In further response to your letter of February 6, 1965, I am grateful for the opportunity to present views in connection with the study of East-West trade now being conducted by the Committee on Foreign Relations because the U.S.-flag airlines are a vital element in our Nations foreign commerce.

The committee has received considerable comment on the broad question of expanding East-West trade. I would only add that in our opinion the controlling question is whether any policy modification would advance U.S. political and economic objectives, reduce international tension, and narrow areas of possible conflict. Beyond that general observation, our comments are confined to air transport questions with regard to the U.S.S.R. and the Eastern European nations, except Yugoslavia. Under present conditions, it would be academic to discuss Red China, North Korea, North Vietnam, and Cuba.

The opportunity and the ability of the U.S.-flag air transport system to provide services needed to accommodate increased East-West trade is an important part of the basic trade policy question. While the decision concerning East-West travel and trade can be taken only by the Government, it is axiomatic that air service is an essential factor if it is desired to expand such travel and trade. Therefore, it would be necessary to make arrangements for establishing U.S.-flag air service at the outset of any such program.

Passenger travel and cargo shipments between the United States and the U.S.S.R. and the nations of Eastern Europe would be predominantly of U.S. origin. The transportation of this traffic by foreign-flag airlines would, as it does today, increase the U.S. balance-of-payments deficit. Maximum use of U.S.-flag airline service would protect the balance of payments, both today and in the future. Accordingly, expansion of East-West trade would require appropriate U.S.-flag airline activity in these transportation markets.

It is largely for the U.S. Government to decide whether or not to create an atmosphere favorable to East-West travel and, if so, to which specific countries. Likewise, Government policy decisions will materially affect the volume and type of goods which might move and thus that portion which might move by air. The degree to which such passenger and cargo traffic is encouraged by the Government and permitted by the other countries in question will fundamentally affect the economic viability of U.S.-flag airline services. A very considerable traffic flow would be required before a substantial volume of service to a large number of capitals in Eastern Europe could be mounted. A low traffic volume would, in general, only permit infrequent service to a limited number of cities.

Each nation is recognized to have exclusive sovereignty over its own airspace, and air transport service between any two countries requires intergovernmental agreement. In the case of most Western nations, such an agreement normally would provide a framework for the authorization of air services on a reciprocal basis involving markets governed by the same relatively free play of economic forces. A closed economic system exists in the Soviet Union, however, particularly as regards the establishment and marketing of air services. It seems probable that the same regime exists in the other Eastern European countries. Initially, therefore, any air services between the United States and these countries should be established on a provisional, experimental basis, and the usual, long-term air transport agreement should not be considered.

The Soviet Union's technical and financial ability to establish transatlantic airline service is beyond question. If the Russian-affiliated airlines in the Eastern European countries are not presently capable of providing service to the United States, there is no doubt that the Russian airline, Aeroflot, could provide them with the necessary aircraft and technical competence. It is not unlikely that the Soviet Union will use one or more of these affiliates to operate such services when Aeroflot does not choose to seek, or cannot obtain landing rights in other countries. The airlines of the Eastern European nations should, therefore, be regarded as Aeroflot in different colors, at least for the time being. It should also be taken for granted that Aeroflot and its affiliates will be motivated not by the economic justification for such airline service but by the overall political and economic objectives of their respective governments.

These air transport questions, along with other trade questions brought before the committee, require detailed examination. They give added emphasis to the need for the current study. Increased travel, and expanded trade in peaceful goods between the United States and certain eastern European countries might well be found to serve the cause of world peace and economic stability, both of which are necessary for our industry to prosper. Should it be concluded that modification of U.S. trade policy in this respect would, at the same time, serve the best interests of the United States, the establishment of appropriate U.S.-flag airline services should be an essential part of the policy determination. As in the case of establishing relations involving other areas of American trade interest, however, the U.S. Government and U.S.-flag airline management will have to exercise considerable caution in establishing East-West air transport services.

My final comment deals with export control documentation requirements imposed on exports generally and currently applicable to air cargo shipments leaving the United States. We have questioned the necessity and the productivity of certain practices in the past, and we have made various suggestions. These include (1) elimination of the requirement for a shipper's export declaration on consignments valued under $100; (2) elimination of the requirement for authentication of the shipper's export declaration on consignments valued under $500; and (3) elimination of the diversion statement on air waybills. We would urge that suggestions such as these be considered and adopted quite apart from any change in U.S. policy on East-West trade, since policies involving the movement of strategic goods would not be affected.

I greatly appreciate the opportunity to comment and I would be pleased to furnish whatever additional information you feel might be helpful.

Cordially,

S. G. TIPTON.

STATEMENT OF M. P. VENEMA, CHAIRMAN OF THE BOARD, UNIVERSAL OIL PRODUCTS CO.

Universal Oil Products Co. submitted a statement in June 1964 to this committee outlining its position in favor of East-West trade. Since that time, Universal has entered into negotiations with the Rumanians for the design and construction of a petroleum processing plant.

These negotiations stemmed from the successful conclusion of discussions in June 1964 between representatives of the United States and Rumania. As a result of these discussions certain agreements were reached between the two countries. The two countries agreed that products, designs, and technology exported to Rumania would not be transshipped or re-exported without the prior consent of the U.S. Government and that each government would make arrangements for the mutual protection of industrial property rights and processes. It was also agreed that commercial contracts between United States firms and

Rumanian state enterprises could provide for the settlement of commercial differences and disputes by arbitration in third countries. On June 15, President Johnson notified Congress that he found it in the national interest for the Export-Import Bank to guarantee private credits extended to Rumania for the purchase of U.S. products and services. The President, in his state of the Union address, stated that it would be the policy of the United States to explore ways to increase trade with the Eastern European countries.

It has been the policy of the United States for many years to foster the independence of the Eastern European satellite countries from Russia by increasing trade with these countries and promoting cultural, educational and scientific exchange programs. American companies have been unrestricted in their trade with Yugoslavia for many years and for the past several years trade in non-strategic goods with Poland has been permitted by the U.S. Government. In this respect Universal has had a very satisfactory business relationship in Yugoslavia, having designed more than 20 units in that country.

News reports indicate that the Rumanian Government and certain of the other satellite countries have shown a desire for independence from Russia by following programs of economic development based on their own national plans and in opposition to a program of Soviet-Eastern European joint economic development (Comecon). These countries have shown that they are interested in building up their own economies independent of Russia.

We feel that the United States should enter into agreements with the other Eastern European countries similar to that entered into with Rumania. These closer economic ties can only result in a further split in the bloc and promote the independence of these countries. In addition if the United States allows American firms to increase their trade in the Eastern European countries, it would help considerably in solving the pressing balance-of-payments problem facing our country, and domestically would result in increased employment in the industries that provide the goods and services for this trade.

The House Foreign Affairs Committee in their report issued June 1, 1964, recommended that every effort be made to exert influence on the nations of the Soviet bloc through "trade, exchanges of persons, distribution of publications and related programs." The report also stated that "The instrument of economic policy should be used to promote both further liberalization of the internal systems and the shifting of Soviet bloc resources from military programs into areas of civil and consumer production." As to trade between our allies and the Eastern European countries the House report stated :

"The distance between the U.S. approach and that of our European allies to trade with the Soviet bloc has been widening rapidly. The continuation of the present trend toward the elimination of trade restrictions between Western Europe and the Communist bloc will mean that the U.S. embargo will not inhibit Eastern Europe from obtaining desired products but will merely prevent U.S. firms from selling these items."

In conclusion, we feel that it is in the best interest of the United States to enter into agreements with the Eastern European countries in order that American firms may do business in these countries. In the long run, we feel that such an agreement with Russia would contribute substantially to better relations between our two countries. Universal, in its business, competes not only with companies in the Western World, but with state organizations in the Eastern European satellite countries. In order to effectively compete with these companies, we must compete on a relatively equal footing. If we do not compete equally, Universal will lose business not only in the vast potential market of the Eastern European countries, but in the rest of the free world. We feel that any American firm that does a substantial amount of oversea business is in a similiar position. Our trade policy must be realistic. It must take into consideration the actual situation as it exists in the world today. As we said in the conclusion of our previous statement, it is our sincere hope that the hearings conducted by this committee will result in a realistic reappraisal of our East-West trade policy and provide the necessary emphasis to effect the changes so badly needed.

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APPENDIX

A. Department of State Memorandum on Credits From Free World to Communist Countries

LONG-TERM CREDITS

Long-term credits.—As of mid-February 1965, we estimate that countries in the industrial West (Western Europe and Japan) have granted long-term credits (i.e. repayments terms extending longer than 5 years) totalling about $180 million on about 12 export contracts to countries in the Soviet bloc. The average length of these 12 contracts has been about 8½ years and the total value of the contracts involved (amount covered by credit plus downpayment) is about $225 million. The long-term financing has been almost entirely for the purchase of fertilizer and chemical plants. We have no information indicating that credits in excess of 5 years have been granted to Communist China.

The following table, based on information available from various sources, summarizes our current information on long-term credit contracts from the free world to the Soviet bloc. Because the subject of long-term credits has received considerable attention in the Western press during the past year, more information has become available on some of these transactions than has usually been the case with credit contracts to the bloc, most of which have been veiled in commerical secrecy. Nevertheless, it should be noted that these figures constitute a working estimate and may be subject to adjustment as more precise information becomes available.

Long-term credits from free world to Communist countries, mid-February 1965

Lending country	Recipient	Date	Length of credit	Total value of contract (millions of U.S. dollars)	Order
United Kingdom	Czechoslovakia.	May 1964	10 years.	11.1	2 fertilizer plants.
Do	U.S.S.R.	September 1964	14 years.	87.1	Complex of dacron plants.
Do	Hungary	October 1964	13 years.	7.4	Fertilizer plant.
Do	U.S.S.R.	November 1964	do	13.1	Acetic acid plant.
Do	U.S.S.R.	December 1964	12 years.	14.6	Chemical plant.
Do	U.S.S.R.	do	do	11.6	Do.
Total for United Kingdom.				144.9	
Belgium	Hungary	August 1963	10 years.	7.2	Do.
Do	do	October 1964	9 years.	2.5	Fertilizer plant.
Do	Bulgaria	Spring 1964	do	38.5	Do.
Total for Belgium				48.2	
Italy	Czechoslovakia.	April 1964	12 years.	10.0	2 metallurgical plants.
Total for Italy				10.0	
Japan	U.S.S.R.	Summer 1964	8 years.	10.0	Urea plant.
Do	U.S.S.R.	October 1964	do	13.9	Polyvinyl plant.
Total for Japan				23.9	
Grand total				227.0	

44-477—65——18

The long-term credits listed are all for plants and capital equipment and hence are in excess of the 5 year Berne Union limit. Since the Berne Union rules do not apply to ships, which are customarily financed under long-term credits ranging in the neighborhood of 10 to 15 years, the various orders for ships which have been placed by the U.S.S.R., Rumania, and other bloc countries with shipyards in Japan and Western Europe are not included here.

MEDIUM-TERM CREDITS

Medium-term credits.—A substantial amount of the Soviet bloc's industrial purchasing from the West during the past 7 years—capital equipment, technology, and complete plants—has been financed through medium-term credits, 3 to 5 years in length, backed by Government guarantees arranged through quasi-governmental credit insurance corporations in the free world selling country. Precise details on the nature and volume of these transactions has been extremely difficult to obtain, both because of commercial secrecy maintained by the free world firms involved and the desire of their respective governments to protect their nationals in their rivalry with other countries. We are, however, able to make a general estimate of the amount of the balance of total credit outstanding from the industrial West—the United Kingdom, Western Europe, the United States, and Japan—to the Soviet bloc. At present we estimate that this "credit outstanding" figure ranges around $1 billion. Of this the U.S.S.R. accounts for about one-half.

B. Department of State Memorandum on Outstanding Obligations of, and Credits for, Soviet Bloc Countries, Yugoslavia, and Cuba

ALBANIA

Albania is not in default of any loan or monetary obligation to the U.S. Government.

BULGARIA

1. Settlement of claims of U.S. nationals and related financial questions

Bulgaria agreed on January 12, 1961, to settle on a lump-sum basis claims of U.S. nationals arising out of war damage, nationalization of property, and certain financial debts. The lump-sum settlement of $3,543,398 includes $3,143,398 in assets of the Bulgarian Government and Bulgarian corporations which were blocked in the United States during the Second World War and $400,000 which was to be paid by the Bulgarian Government to the U.S. Government in two installments, on July 1, 1964, and on July 1, 1965. The July 1964 collection has been accomplished.

Bulgaria has no other outstanding debt or obligation to the U.S. Government.

CZECHOSLOVAKIA

1. World War I indebtedness

Czechoslovakia's World War I indebtedness to the United States amounts to $73,366,108.90 principal due and unpaid and $96,993,457.62 interest due and unpaid. These sums and the unmatured principal bring total World War I indebtedness to $262,234,556.52, as of June 30, 1964.

Cumulative payments toward settlement of World War I debts amount to $20,134,092.26.

2. Mutual Aid Settlement Agreement (lend-lease)

Under the Mutual Aid Settlement Agreement of September 16, 1948, Czechoslovakia agreed to pay the equivalent of $172,961.45 in Czechoslovakia crowns. This amount has been paid in full.

3. Surplus Property Credit Agreement

Czechoslovakia has failed to meet its obligation for $7,599,000 under the Surplus Property Credit Agreement of May 28, 1946. Czechoslovakia suspended payments in July 1952 in retaliation for certain measures which had been taken against Czech property in the United States.

As of December 31, 1964, the principal balance outstanding on this account totals $7,402,199.30 including an arrearage of $2,532,331.36. An amount of $1,506,785.15 is past due on interest.

4. Export-Import Bank credits

Between May 1935 and July 1946 the Export-Import Bank authorized a total of eight credits in the amount of $23,728,931.63, of which $5,384,692.62 was disbursed by the Bank and $17,393,457.98 was disbursed by commercial banks, guaranteed by Export-Import. These credits have been completely repaid.

Since the present Czechoslovak Government came to power in 1948, the Export-Import Bank has not extended any loans or credits to Czechoslovakia.

HUNGARY

1. World War I indebtedness

Hungary's World War I indebtedness to the U.S. Government amounts to $696,475 principal due and unpaid and $2,093,411.05 interest due and unpaid. These amounts and the unmatured principal bring the total indebtedness as of June 30, 1964, to $4,001,971.05.

Cumulative collections totaling $556,919.76 had been made on this debt.

2. Surplus Property Credit Agreements

In three Surplus Property Credits Agreements in 1946 and 1947 Hungary purchased property priced at $15,917,026.30.

Although Hungary has made no dollar payments, Hungary has at U.S. request and as required by the agreements, paid the equivalent of $13,320,502.41 in Hungarian currency to defray various U.S. expenses in Hungary for purchase of buildings, improvements, and operation of the Legation. After a payment in December 1964, the principal balance outstanding on this account is $7,654,167.34 as of December 31, 1964, including an arrearage of $3,810,627.45. No interest is past due or unpaid on this account.

3. Export-Import Bank credits

No Export-Import Bank credits have ever been disbursed to Hungary; however, guarantees have been issued recently in connection with Hungarian purchases valued at approximately $10 million.

POLAND

1. World War I indebtedness

Poland's World War I indebtedness to the U.S. Government amounts to $77,682,000 principal due and unpaid and $236,587,604.20 interest due and unpaid. These sums and the unmatured principal bring the total indebtedness to $435,478,984.20 as of June 30, 1964.

Cumulative collections on the World War I debts amount to $22,646,297.55.

2. Mutual Aid Settlement Agreement (Lend-Lease)

Complying with the Mutual Aid Settlement Agreement of June 28, 1956, Poland paid in full the $110,000 due.

3. Surplus Property Credit Agreement

Under the Surplus Property Credit Agreement of April 22, 1946, Poland incurred an obligation to pay the United States $37,720,431.89.

On March 20, 1961, Poland agreed to liquidate in seven annual installments the arrearage of $1,901,963.15 which had accumulated under the original Surplus Property Credit Agreement. Poland has continued to make annual installments against the arrearage in addition to the regular annual installments of principal and interest.

The outstanding principal as of December 31, 1964, is $14,510,323.89. Poland had already repaid $23,210,108 of the principal and $11,605,751.81 in interest.

4. Surplus Agricultural Commodities Agreements (Public Law 480)

The United States has negotiated eight Public Law 480 sales agreements with Poland totaling $538,200,000. Payment is in Polish zlotys which is made available for use by the U.S. Government. The balance of zlotys remaining after deducting the amount spent by the U.S. will be paid to the United States in dollars over a 30-year term beginning 10 years from the date of the original agreement. First dollar repayments fall due in 1967.

5. Settlement of claims of U.S. nationals

In July 1960 Poland agreed to pay $40 million over a 20-year period to American nationals whose property was nationalized in Poland. Annual payments were begun in January 1961 and have since been regularly made. The outstanding balance at the end of 1964 is $32 million.

6. Agency for International Development loans

Loans totaling $60,999,944.47 were made available to Poland in 1957, 1958, and 1959 under Agency for International Development programs. As of December 31, 1964, $4,176,166.87 principal and $15,711,838.38 in interest had been repaid on these loans.

7. Export-Import Bank credits

All credits authorized and disbursed to Poland before World War II have been completely repaid.

In April 1946 the Export-Import Bank extended and disbursed a $40 million credit to Poland. As of December 31, 1964, Poland has repaid $23,236,000 in principal and $15,971,987.73 in interest.

RUMANIA

1. World War I indebtedness

Rumania's World War I indebtedness to the U.S. Government amounts to $28,776,560.43 principal due and unpaid and $45,523,930.64 interest due and unpaid. These sums and the unmatured principal bring the total indebtedness to $109,384,491.07 as of June 30, 1964.

Cumulative collections on this debt have come to $4,791,007.22, excluding $100,000 paid in 1940 as a token of good faith.

2. Settlement of claims of U.S. nationals and other financial matters

This agreement, which was signed and entered into force on March 30, 1960, provides for a lump-sum settlement of $24,526,370 in discharge of the claims against the Government of the Rumania People's Republic for the restoration of, or payment of compensation for, various property rights and interests of nationals of the United States. Of this amount, the sum of $22,026,370 was realized from the liquidation of Rumania assets subject to wartime blocking controls in the United States. The balance, $2,500,000, was paid in five annual installments of $500,000 each. The first payment was made on July 1, 1960.

U.S.S.R.

1. World War I indebtedness

The Soviet Union's World War I indebtedness to the U.S. Government amounts to $192,601,297.37 principal due and unpaid and $438,449,173.05 interest due and unpaid. The total indebtedness comes to $631,050,470.42.

Cumulative collections totaling $8,750,311.88 have been applied toward this debt, principally proceeds from liquidation of Russian assets in the United States.

2. Lend-lease agreements

The Soviet Government has agreed to pay for lend-lease delivered after V-J Day. In an agreement signed on October 15, 1945, the U.S.S.R. undertook to pay for undelivered lend-lease articles which were in production or in storage in the United States before V-J Day. The total amount to be paid by the U.S.S.R. for these articles is $222,494,574. The Soviet Government has been making regular partial payments on this account and as of July 1, 1964, has paid a total of $120,770,094. In making annual payments on account, the U.S.S.R. deducts certain sums which it claims as compensation or damages resulting from the failure of the United States to complete deliveries, the merits of which have not been settled. In addition, the U.S.S.R. has made deductions unrelated to lend-lease—for alleged damages inflicted by Cuban counterrevolutionaries on the ship *Baku* operated by the Soviet Government and for alleged damages resulting from the attachment by a private party of Soviet-owned sugar in Puerto Rico—both of which claims the United States has rejected. Because of the U.S.S.R. deductions, the U.S. accounting records show an arrearage of $56,344,439.

The United States has been unable to reach settlement with the Soviet Government for lend-lease assistance which was delivered before V–J Day.

YUGOSLAVIA

1. World War I indebtedness

Yugoslavia's World War I indebtedness to the U.S. Government amounts to $22,730,000 principal due and unpaid, and $18,718,593.78 interest due and unpaid.

These amounts and the unmatured principal bring the total indebtedness as of June 30, 1964, to $80,343,593.78.

Cumulative collections on the World War I debts amount to $2,588,771.69.

2. Mutual Aid Settlement Agreement (lend-lease)

Under the Mutual Aid Settlement Agreement of July 19, 1948, Yugoslavia undertook to pay the United States Din45 million for World War II lend-lease assistance. Of this total, all but Din13,031,740 (with a current U.S. dollar equivalent value of $17,375) has been repaid.

3. Agency for International Development loans

Loans totaling $189,200,000 have been made available to Yugoslavia since the end of World War II under Agency for International Development programs. As of December 31, 1964, the equivalent of $11,551,725.70 in Yugoslav currency had been paid on principal and the equivalent of $20,902,033.40 had been paid on interest on these loans.

4. Agricultural Trade Development and Assistance Act (Public Law 480)

Loans in the dollar equivalent amount of $232,768,316.11 have been made from the total Public Law 480 sales agreements (title I) concluded with Yugoslavia since World War II, repayable in Yugoslav currency (dinars). The equivalent of $452,213.14 was paid on principal and of $24,957,327.47 as interest on these credits through December 31, 1964.

Drawings on dollar credit sales under Public Law 480 (title IV) concluded with Yugoslavia total $83,416,965. These credits are repayable in U.S. dollars. Through December 31, 1964, the United States collected $1,098,766 principal and $848,918 interest on these credits.

5. Claims of U.S. citizens for nationalization or other taking

Under an agreement dated July 19, 1948, Yugoslavia paid the United States $17 million as full settlement of all claims of U.S. nationals on account of nationalization and other taking by Yugoslavia of property which occurred between September 1, 1939, and the date of the agreement. The payment covered 91 percent of the awards made by the former International Claims Commission which was established to adjudicate the claims.

The Governments of the United States and Yugoslavia signed an agreement in November of 1964, settling claims of U.S. nationals against Yugoslavia for the taking by Yugoslavia of their property under the nationalization law of December 26, 1958, and other circumstances since July 19, 1948, the date of the last claims settlement agreement with Yugoslavia.

6. Export-Import Bank loans

There are at present two credits outstanding to Yugoslavia. In August 1950 $55 million was extended, of which $38,250,000 has been repaid, leaving a balance of $16,750,000. Interest payments to date have come to $20,387,547.15.

A line of credit in the amount of $50 million was extended to Yugoslavia in February 1961, of which $47,633,448.92 has been drawn down and the remaining $2,366,551.08 is still available for disbursement. Principal in the amount of $1 million and interest of $4,485,086.98 has been repaid on this credit through December 31, 1964.

CUBA

1. World War I indebtedness

Cuba has paid up in full its World War I debt to the U.S. Government.

2. Export-Import Bank credits

Since the Castro regime came to power, the Export-Import Bank has not done any business with Cuba.

Twenty-three loans were extended to Cuba between 1934 and June 1957, all of which have been terminated.

Presently open on the Export-Import Bank statement of credits are six loans totaling $37,700,000, of which $36,300,000 is outstanding. Over $8 million of this indebtedness is delinquent, and overdue interest exceeds another $8 million.

3. Expropriated U.S. Government-owned property

Cuba has expropriated the U.S. Government-owned Nicaro nickel property valued at $133 million among other privately held nationalized American properties.

C. Department of State Memorandum Concerning Most-Favored-Nation Treatment by the United States of Imports From Communist Countries

I. Prior to World War II.
II. Postwar period.
III. Subsequent to Korean conflict.
IV. More recent developments.

Until the mid-1930's the United States maintained, with a few exceptions not pertinent to the Soviet Union, a single-column tariff. Thus, commitments by the United States to grant most-favored-nation (MFN) treatment with regard to customs duties did not have the same commercial significance as they do today. MFN treatment now entitles other countries to the substantial reductions from the rates established by the Tariff Act of 1930 which the United States has negotiated since 1934 and has extended through the MFN principle.

I. PRIOR TO WORLD WAR II

The United States did not commit itself to treat imports from the Soviet Union on a MFN basis until the matter was regulated by official commercial agreements beginning in 1935. Mutual trade concessions were exchanged for the first time between the United States and the U.S.S.R. in an exchange of notes on July 13, 1935. In this exchange, the United States granted MFN tariff treatment to Soviet products for the duration of the agreement. The Soviet countercommitment consisted of an agreement to increase its purchases in the United States. The 1935 agreement was extended by additional exchanges of notes on July 11, 1936, and August 4, 1937. In the 1937 exchange, the United States committed itself to accord unconditional and unrestrictive MFN to Soviet imports in all matters concerning customs duties and charges of every kind. The 1937 agreement was extended in annual exchanges until July 31, 1942, when the agreement was extended for an indefinite period of time.

II. POSTWAR PERIOD

U.S.S.R. and Eastern Europe.—While trade between the United States and the U.S.S.R. was conducted at a very low ebb during the immediate postwar period, the United States did not deny trade agreement concessions to the U.S.S.R. and no steps were taken to terminate the arrangements mentioned in section I, above. With regard to the smaller Eastern European countries which fell under Communist domination, trade relations continued to be governed by the agreements previously made between the United States and those countries until the matter was brought to a head by the Korean conflict (see section III, below).

China.—The United States made a commitment to MFN treatment through article XVI of the Treaty of Friendship, Commerce, and Navigation between the United States and the Republic of China, signed at Nanking on November 4, 1946. The treaty remains in force between the United States and the present Government of the Republic of China. The United States has no trade agreements with Communist China, with which all trade has been prohibited under the Trading with the Enemy Act since 1950.

III. SUBSEQUENT TO KOREAN CONFLICT

Trade Agreements Extension Act of 1951.—The United States withdrew MFN treatment from Soviet bloc countries in late 1951 and early 1952 in accordance with section 5 of the Trade Agreements Extension Act of 1951, which called on the President, as soon as practicable, to "suspend, withdraw, or prevent the application" of MFN treatment to "imports from the Union of Soviet Socialist Republics and to imports from any nation or area dominated or controlled by the foreign government or foreign organization controlling the world Communist movement."

Pursuant to this legislation, the United States took the following actions with respect to the Communist countries with whom trade agreements or treaties were in force.

Albania.—No formal intergovernmental action was necessary with respect to Albania, toward which the United States had made no MFN commitment. In an exchange of notes regarding MFN treatment and passports, made on June 23

and 25, 1922, at Tirana, the Albanian Government had agreed to extend MFN treatment to imports from the United States on a unilateral basis.

Bulgaria.—A MFN commitment was extended to Bulgaria by the United States under a provisional commercial agreement dated August 18, 1932. Notice of the U.S. intent to terminate the agreement was transmitted for the United States by the Government of Switzerland to Bulgaria on July 12, 1951. The agreement was terminated and trade agreement concessions to Bulgaria were suspended on October 12, 1951.

Czechoslovakia.—As of 1951, Czechoslovakia was the only Communist country to which the United States had committed itself to MFN treatment under the General Agreement on Tariffs and Trade (GATT). Czechoslovakia had negotiated for accession to the GATT prior to the Communist takeover.

On July 31, 1951, the United States announced that it intended to withdraw trade agreement concessions from Czechoslovakia. The matter was placed before the contracting parties, and a majority of them agreed to a declaration of September 27, 1951, which stated that the United States and Czechoslovakia should be free to suspend, each with respect to the other, the obligations of the GATT. U.S. trade agreement concessions to Czechoslovakia were suspended on November 1, 1951.

U.S.S.R.—The United States informed the Soviet Government on June 23, 1951, that the commercial agreement (described in sec. I above) would terminate 6 months from the date of notification.

Yugoslavia.—Mutual MFN commitments are exchanged between the United States and Yugoslavia under the provisions of article VI of a treaty of commerce concluded at Belgrade on October 14, 1881, between the United States and Serbia. No action was taken in 1951 to withdraw MFN treatment from Yugoslavia, since Yugoslavia was not found to be Soviet dominated in the sense of section 5 of the Trade Agreements Extension Act of 1951. The treaty of 1881 remains in force today.

IV. MORE RECENT DEVELOPMENTS

Poland.—Effective December 16, 1960, the President of the United States restored MFN treatment to Poland, after having determined that Poland was not Soviet dominated within the meaning of article 5 of the Trade Agreements Extension Act of 1951. This was a unilateral act by the United States, and not the subject of a new trade agreement.

Cuba.—Both the United States and Cuba are contracting parties to the GATT. An exclusive agreement respecting reciprocal trade and supplementing the GATT was signed at Geneva on October 30, 1947, by the two countries. Under the provisions of the exclusive agreement, the Convention of Commercial Reciprocity signed on December 11, 1902, and the Reciprocal Trade Agreement signed on August 24, 1934, and amended in 1939 and 1941 were made inoperative for such time as the United States and Cuba were both contracting parties to the GATT as defined in article XXXII of the General Agreement. Notice of the U.S. intent to terminate the agreements of 1902 and 1934, as amended, was transmitted for the United States by the Government of Switzerland to Cuba on August 21, 1962. Both agreements were terminated on August 21, 1963.

With respect to its GATT obligations toward Cuba, the United States has sought no formal action in the GATT comparable to the declaration of September 1951 on relations between the United States and Czechoslovakia. However, the agreements have no practical effect because of the break in diplomatic relations between the United States and Cuba and because of the U.S. embargo on trade with Cuba.

Trade Expansion Act of 1962.—Section 231 of the Trade Expansion Act of 1962 superseded section 5 of the Trade Agreements Extension Act of 1951. It removed the area of discretion previously available to the President and flatly required denial of MFN treatment to all Communist countries or areas. In effect, it meant that MFN treatment would have to be withdrawn from Poland and from Yugoslavia. As enacted in 1962, section 231 reads as follows:

"The President shall, as soon as practicable, suspend, withdraw, or prevent the application of the reduction, elimination, or continuance of any existing duty or other import restriction, or the continuance of any duty-free excise treatment, proclaimed in carrying out any trade agreement under this title or under section 350 of the Tariff Act of 1930, to products, whether imported directly or indirectly, of any country or area dominated or controlled by communism."

Congress subsequently modified this provision through the Foreign Assistance Act of 1963, section 402 of which added the following new subsection (b) to section 231 of the Trade Expansion Act of 1962:

"(b) The President may extend the benefits of trade agreement concessions made by the United States to products, whether imported directly or indirectly, of a country or area within the purview of subsection (a) which, at the time of enactment of this subsection, was receiving trade concessions, when he determines that such treatment would be important to the national interest and would promote the independence of such country or area from domination or control by international communism, and reports this determination and the reasons therefor to the Congress."

The only Communist countries receiving MFN treatment at the time of enactment of subsection (b) were Poland and Yugoslavia. On March 26, 1964, the President made the determinations permitting continuation of MFN treatment for Poland and Yugoslavia. Thus, MFN treatment has been maintained for products of Yugoslavia without interruption and has been granted to products from Poland since 1960. However, it may not be extended to any other Communist country unless existing legislation should be further modified.

D. Memorandum Concerning U.S.S.R. Tariff Treatment of U.S. Goods

March 10, 1965.

To: Mr. Norvill Jones, staff member, Senate Foreign Relations Committee.
From: Mr. Alexander Schnee, Legislation Officer, Office of Congressional Relations, Department of State.
Subject: U.S.S.R. tariff treatment of U.S. goods.

The policy of the U.S.S.R. on the tariff treatment of imported goods is set forth in Council of Ministers U.S.S.R. Decree No. 671, 28 June 1961, which states:

"To establish that the minimum duty rates provided for in the customs tariff of the U.S.S.R. are applied to commodities (if their duty-free importation is not stipulated) originating in or imported from countries which apply to Soviet commodities imported into these countries most-favored-nation treatment with respect to customs duties, and that maximum duty rates are applied to commodities originating in or imported from countries which do not apply the cited policy to Soviet commodities."

Under this policy, U.S. goods would be dutiable at the maximum duty rates since the United States does not accord most-favored-nation treatment to products of the U.S.S.R. in accordance with section 231 of the Trade Expansion Act of 1962.

E. "The Foreign Trade of the Soviet Union" Research Memorandum, RSB–92, October 23, 1964

This memorandum is a summary of the 1963 official foreign trade statistics recently released by the U.S.S.R. Ministry of Foreign Trade.

ABSTRACT

Total Soviet trade in 1963 amounted to $14.3 billion, an increase of 6 percent over 1962. Increased imports, machinery from the industrialized CEMA countries, and wheat from Canada accounted for most of the increase in total trade. Exports increased only 3 percent over 1962.

The great bulk (70 percent) of Soviet trade is conducted with other Communist countries. The Soviet Union traded as much with East Germany as with all the industrialized countries of the non-Communist world. Soviet trade with Communist China, although declining rapidly, was twice as great as Soviet trade with any other Afro-Asian country. Except for India and the U.A.R., Soviet trade with the non-Communist less-developed countries did not increase substantially in 1963, and in many instances it declined. Finland, with a small economy but a long Soviet frontier, traded more with the U.S.S.R. than any other non-Communist country.

The overall pattern of Soviet trade remains unchanged: Imports of machinery equipment from the industrialized West and Soviet bloc; exports of

such raw materials as petroleum, wood, furs, and grains to the same countries; exports of machinery and equipment, petroleum, and consumers' goods to the less-developed countries, and imports of raw materials such as rubber, cotton, and tropical foodstuffs from these countries. A new factor in 1963 was the importation of grain from the free world, principally Canada, accompanied by declining grain exports to free world countries.

The data in this paper have been derived from the official publication of the U.S.S.R. Ministry of Foreign Trade, Vneshnaya Torgovlya. Ruble values in this publication have been converted to dollar values by us at the rate of 1.111 dollars to the ruble, since this rate appears to approximate a correct value for the ruble in international trade. It should be noted, however, that some Soviet exports to and some Soviet imports from other Communist countries are apparently traded at prices exceeding prices for comparable Western goods. This factor introduces some distortion into the aggregated data; e.g., in exaggerating the total level of trade with other Communist countries relative to the level of trade with the free world. Although the extent of the distortion is not measurable from existing data, it is believed to be small.

I. TRADE VOLUME

According to official Soviet statistics, Soviet trade turnover in 1963 amounted to $14.3 billion, a 6-percent increase over the $13.5 billion turnover of the previous year.[1] The 6-percent increase is a slower rate of growth than that attained in 1962. Although Soviet foreign trade consistently shows an annual increase, the rate of growth has been irregular.

TABLE 1.—*Total Soviet trade turnover, 1956–63*

[Millions of U.S. dollars]

	1956	1957	1958	1959	1960	1961	1962	1963
Exports	3,615	4,381	4,298	5,441	5,562	5,998	7,034	7,272
Imports	3,612	3,938	4,349	5,073	5,629	5,833	6,450	7,059
Total	7,227	8,319	8,647	10,514	11,191	11,831	13,484	14,331
Percent of increase over total of preceding year	10	15	4	22	6	6	14	6

The irregular rate of growth of Soviet trade reflects the influence of Soviet foreign policy on foreign trade. Much of the fluctuation has been due to the sharp increase and subsequently precipitious decline in trade with Communist China. When trade with Communist China is excepted, the foreign trade of the Soviet Union shows a more consistent rate of growth.

The $846 million increase in Soviet trade turnover in 1963 was due almost

[1] Source of statistical data in this paper is the official annual publication of the U.S.S.R. Ministry of Foreign Trade, Vneshnyaya Torgovlya S.S.S.R. za 1963 god (Foreign Trade of the U.S.S.R. in 1963). This statistical review gives figures for the total imports and exports of the U.S.S.R. and subtotals for trade with "Socialist countries" and "capitalist countries." It also supplies a breakdown of imports and exports by country. Normally the figures supplied in the country breakdowwn, when added, do not equal the subtotal and total figures. In 1963, the sum of total imports from the country breakdown equals $7,049.9 million, whereas the total import figure given by the Handbook is $7,058.5 million, a discrepancy of $8.6 million. This could be due to the omission of marginal amounts from the country breakdown but inclusion in the total figure. The country breakdown of exports totals $7,068.1 million, whereas the total given is $7,272.4 million, a discrepancy of $204.3 million. In the years prior to 1962 the discrepancy in export figures was in the vicinity of $100 million. In 1962 it moved upward to $462 million. One possible explanation for the discrepancy is that total exports include items, particularly gold sales and military assistance, which are omitted from the country breakdown.

Ruble values in this publication have been converted to dollar values by us at the rate of 1.111 dollars to the ruble, since this rate appears to approximate a correct value for the ruble in international trade. It should be noted, however, that some Soviet exports to and some Soviet imports from other Communist countries are apparently traded at prices exceeding prices for comparable Western goods. This introduces some distortion into the aggregate data, for example, in exaggerating the total level of trade with other Communist countries relative to the level of trade with the free world. Although the extent of the distortion is not measurable from existing data, it is believed to be small.

entirely to a $603 million increase in imports. Imports amounted to $7,059 million, an increase of 9 percent over 1962. The CEMA countries and Canada were the source of most of the increase. Exports rose only $242 million to $7,272 million, an increase of 3 percent over the previous year. Despite the trend toward rising imports, the Soviet statistics still show a favorable trade balance for 1963, a surplus of $214 in exports over imports. Purchases of wheat, however, caused imports to exceed exports during the fourth quarter of the year, and this trend presumably continued into 1964.

For purposes of comparison, the Soviet trade turnover of $14 billion in 1963 is less than half the U.S. turnover of $40 billion. The United States was partner to roughly 13 percent of the world's trade in 1963. The Soviet Union was a party to 4.6 percent of the world's trade. As a world trading power, the Soviet Union ranks fifth, after the United States, West Germany, the United Kingdom, and France. The U.S.S.R. has a slightly larger trade turnover than Italy, Canada, or Japan.

The following table shows the annual increase in Soviet trade from 1955 to 1963.

TABLE 2.—*Index of physical volume of Soviet foreign trade, 1956–63*
(preceding year=100)

	1956	1957	1958	1959	1960	1961	1962	1963
Turnover	111	113	111	126	105	106	115	106
Exports	106	120	103	132	101	110	116	103
Imports	116	107	120	121	110	102	112	109

II. GEOGRAPHICAL DISTRIBUTION

Trade with East European countries.—During 1963 trade with Eastern Europe (Yugoslavia excepted) totaled $8,390 million, or 58 percent of total Soviet foreign trade. The increasingly larger role played by Eastern Europe in Soviet foreign trade—53 percent in 1960, 55 percent in 1961, 56 percent in 1962, and 58 percent in 1963, may reflect, to some extent, increasing CEMA cooperation, but the redirection of trade caused by the decline in Sino-Soviet and Sino-CEMA trade is probably the most important factor.

The Soviet Union's most important trading partner is East Germany, which accounted for 18 percent of Soviet trade in 1963. The two countries exchanged goods valued at $2,617 million, as much as the trade of the Soviet Union with all the industrialized countries of the free world. Soviet exports to East Germany actually declined by 4.3 percent, whereas Soviet imports increased 21.4 percent, resulting in a near balance of trade and perhaps a reversal in the Soviet-East German trade pattern. It appears that East Germany may become a net supplier of goods to the Soviet Union, possibly to begin repaying Soviet credits.

Soviet-East German trade was dominated by machinery and equipment; over half of Soviet imports are in this category. Soviet imports of machinery and equipment rose to $713 million, an increase of 17 percent over last year. This category of imports accounted for most of the increase in Soviet imports from East Germany. Specifically, the U.S.S.R. purchased increasing quantities of electrical equipment, cranes, excavators, calculators, agricultural machines, and railway cars. The Soviets purchased less food processing and light industry equipment than in 1962. They exported a wide variety of products to East Germany. The most important categories were petroleum, metals, grain, and machinery and equipment.

The trend in Soviet trade with Czechoslovakia, the second largest trading partner of the Soviet Union, was similar to that of East Germany. Soviet imports, mostly machinery and equipment, increased more than exports. The U.S.S.R. exports to Czechoslovakia primarily the same type commodities it exports to East Germany.

All East European countries, except Albania, increased their trade with the U.S.S.R. in 1963. Albania is omitted from the Soviet statistics and presumably its trade with the U.S.S.R., if any, was negligible. Czechoslovakia showed the largest increase in Soviet trade of any country in the world.

TABLE 3.—*Increase in trade with the Soviet Union in 1963, Eastern Europe*

	Amount (millions of U.S. dollars)	Increase over 1962 (percent)
Czechoslovakia	204	13
East Germany	171	7
Poland	118	10
Bulgaria	102	12
Rumania	86	12
Hungary	67	8

Communist Asia.—Soviet trade with the Communist countries of Asia amounted to $1,028 million, a decline of $172 million from the 1962 total. The Asian Communist area accounted for 7 percent of Soviet trade. The continued decline in Soviet trade with the area reflects the further decrease in Sino-Soviet trade, which totaled $600 million, a decrease of $150 million from 1962. Soviet exports to China amounted to a comparatively paltry $187 million, while imports were $413 million. The Chinese surplus will be applied to Chinese debts. Communist China now accounts for only 4 percent of total Soviet trade. In 1959, the last year before Sino-Soviet trade went into a tailspin, the two countries exchanged goods in excess of $2 billion, and Communist China, with 20 percent of total Soviet trade, was the U.S.S.R.'s leading trading partner. Despite the precipitous decline in Sino-Soviet trade, Communist China remains the Soviet Union's largest trading partner in the Afro-Asian world. This fact is not so much a testimonial to the size of Sino-Soviet trade as it is evidence of the Soviet Union's inability, so far, to develop trade on a large scale with non-Communist less-developed countries (LDC's).

The decrease in Sino-Soviet trade in 1963 reflected primarily a decrease in Soviet shipments of petroleum, down $20 million, and discontinuance of grain exports, which in 1962 amounted to $21 million. Chinese exports were down $103 million, as the Chinese curtailed shipments of tin, mercury, other ores, cotton, and rice. Clothing and textiles account for 62 percent of Chinese deliveries to the U.S.S.R.

Trade with Mongolia, which the Soviet Union subsidizes with a large export surplus in machinery and equipment, declined slightly. Trade with North Korea and North Vietnam remained virtually unchanged from 1962 even though these countries have sided with Peiping in the Sino-Soviet dispute.

Cuba.—Soviet trade with Cuba declined $41 million to $564 million. Despite the decline, Cuba still accounts for nearly 4 percent of total Soviet trade. The Soviet Union continues to subsidize the Cuban economy with a large export surplus. Soviet exports to Cuba in 1963 were $400 million, imports only $164 million. Soviet exports increased while imports were decreasing, adding to the net drain on Soviet resources. The Soviet Union increased shipments of machinery and equipment, complete plants, tractors, auto spare parts, crude oil, and grain. Soviet imports dropped sharply due to a 55 percent reduction in purchases of Cuban sugar. Despite reduced imports of raw sugar from Cuba, Soviet exports of refined sugar increased 10 thousand tons to a total of 802 thousand tons.

Yugoslavia.—Although Yugoslavia trades less with the Soviet Union than any active East European CEMA member ($183 million in 1963 compared to Rumania's $809 million, the smallest CEMA total, and East Germany's $2.6 billion, the largest), Yugoslav trade with the U.S.S.R. made a significant leap in 1963, rising over 50 percent. The Soviet Union exported increased quantities of machinery and equipment to Yugoslavia and increased imports of lead, pesticides, fruit, and clothing.

Free world.—Total Soviet trade with the free world in 1963 rose by $500 million over 1962 to $4,245 million, but remained less than half the $10 billion trade between the Soviet Union and the Communist area. The free world's share of Soviet trade rose to 29 percent compared with 28 percent in 1962. Trade with the industrialized countries of the free world amounted to $2,684 million, 18 percent of the Soviet total, the same percentage in 1962. Soviet exports were $1,261 million and Soviet imports $1,423, giving the U.S.S.R. a $162 million deficit with the hard currency countries.

The Soviet Union's most important trading partner in the free world is Finland, a country, which, although not Communist, is subject to Soviet pressure in its foreign trade policy. The Soviet-Finnish trade turnover in 1963 amounted to $427 million, or 3 percent of the Soviet total. Soviet exports to Finland are mostly petroleum, metals, grain, machinery and wood. Soviet purchases from Finland are dominated by machinery and equipment. The trade of the two countries was nearly balanced in 1963.

The United Kingdom ranked second among the U.S.S.R.'s free world trading partners in 1963. Their trade turnover rose by $15 million to be a total of $345 million. The Soviet Union continued to enjoy a large export surplus in trade with the United Kingdom despite a decline in grain sales. Soviet exports continued to be dominated by wood pulp and fur. The United Kingdom is not a large purchaser of Soviet oil. Soviet purchases in the United Kingdom consisted mostly of machinery and equipment. Purchases of chemical equipment increased while equipment for food and light industry decreased.

Soviet trade with Italy increased by $43 million to a total of $273 million and was brought into balance for the first time by increased Soviet purchases of chemical and paper equipment, ships (tankers), and chemical products. Crude oil continues to dominate Soviet exports to Italy.

Soviet trade with Japan increased by 10 percent to a total of $289 million. Trade with other important industrialized free world trading partners, West Germany and France, decreased sharply. Turnover was down $66 million with France and $59 million with West Germany.[1]

Soviet-U.S. trade, which is a marginal item in the total trade of both countries, increased approximately $9 million to a total of $52.7 million, or three-tenths of 1 percent of the Soviet total and an even smaller percentage of the U.S. total. No U.S. grain sales appear in the 1963 statistics, as no U.S. grain reached Soviet shores prior to the closing of calendar year 1963. Therefore, U.S. shipments of 1.7 million tons of wheat should appear in the 1964 statistics and should cause Soviet imports from the U.S. to increase nearly sevenfold. In 1963 Soviet imports amounted to $28 million and exports were $25 million, giving the U.S. a small favorable trade balance. The Soviet Union increased exports of furs and chrome and imports of petroleum coke and chemical products. Hides still constitute over half of U.S. exports to the U.S.S.R.

Soviet-Canadian trade, which is usually insignificant, took a spectacular leap in 1963 on the strength of Canadian wheat sales. Total trade increased from $5 to $178 million. Canadian exports of $175 million constituted nearly the entire turnover. Of this amount $159 million was Canadian wheat and $12 million wheat flour.

In general, Soviet trade with the industrialized free world in 1963 followed the same commodity pattern as in recent years: Soviet imports of machinery and equipment in exchange for exports of raw materials. The Soviet Union imports a wide variety of equipment, about $600 million worth, from the free world. In 1963 chemical equipment from the free world increased to about $100 million, and this trend has certainly continued into 1964. The Soviet Union's big money earner is petroleum, and Soviet sales to this area increased slightly to about 30,950 thousand tons. Normally the Soviet Union exports considerable grain to this area, but grain sales declined from 1.5 to 1.1 million tons in 1963. Other important Soviet exports to the industrialized free world are wood, wood products, and furs.

Less developed countries.—Soviet trade with the less developed countries[2] amounted to $1,617 million, of which $855 were Soviet exports and $761 were Soviet imports.[3] Trade with the LDCs accounted for 11 percent of Soviet trade, up 1 percentage point over 1962.

India, for the second straight year, is the Soviet Union's largest trading partner among the LDCs. Trade turnover increased substantially from $197

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[1] The 1963 statistics, for the first time, include a separate entry for West Berlin, as well as the usual entries for the FRG and GDR.

[2] LDC's in this paper include all of South and Central America, all the Middle East, Asia, and Oceania except Australia, New Zealand, and Japan, all of Africa except the Union of South Africa, and Greece, Iceland, Portugal, Spain, and Yugoslavia.

[3] The Soviet handbook gives a total figure for trade with less-developed "capitalist countries" of $1,561 million, of which $912 million Soviet exports and $649 million imports. The total figure we have used is the sum of the country figures for those countries considered for purposes of this paper to be less developed. The difference between this and the Soviet figure is a result of the discrepancy in country breakdown and total figures noted in footnote 1. Furthermore, we do not know what countries the Soviets consider "less developed capitalist."

to $317 million. Preliminary reports state that Soviet trade with India continues to increase at a rapid rate during the first 6 months of 1964. It is not a balanced increase, however, being primarily an increase in Soviet exports. Although the gap is closing, China leads India by $283 million as the Soviet Union's largest Afro-Asia trading partner. The Soviet Union exports mainly machinery and equipment to India, including complete plants, and petroleum products. The Soviets import principally hides, cordage, and tea.

The United Arab Republic remains the Soviet Union's second largest trading partner among the LDCs. Trade with the United Arab Republics also increased in 1963, from $176 to $259 million. Soviet exports increased $32 million, imports $51 million. Trade between the two countries is dominated by Soviet sales of machinery and equipment, particularly complete plants, and Soviet purchases of cotton.

Malaysia is the Soviet's third largest trading partner among the LDCs. This trade consists almost entirely of Soviet purchases of rubber. Soviet imports, all rubber, totaled $134 million. Exports were only $3 million. Due to declining rubber purchases, Soviet trade with Malaysia fell $26 million in 1963. Soviet imports of rubber from Indonesia were also declining. There is no evidence in the 1963 data of a Soviet shift of purchase from a "neocolonialist" Malaysia to socialist Indonesia.

The geographical distribution of Soviet trade with the LDCs of the non-Communist world remains virtually unchanged from last year. The Soviet Union traded goods valued at $819 million with the LDCs of Asia, including the Middle East. This increase is one of $110 million, or 15 percent, over 1962. Asia remains, by far, the most important area of Soviet LDC trade. Trade with Africa, including the United Arab Republic, increased $127 to $424 million, an increase of 43 percent. When the United Arab Republic is excluded, Soviet trade with Africa is a very modest $165 million,[4] an increase of $44 million or 36 percent over 1962.

Soviet trade with Latin America (excluding Cuba) is marginal. In 1963 it totaled $106 million, a decline of $6 million from 1962. Almost the entire amount was traded with Brazil.

Soviet exports to the LDC's consist mainly of machinery and equipment and complete industrial plants. A growing percentage of these exports are financed by economic aid credits, approximately 47 percent in 1962. The Soviet Union seeks to replace Western companies as supplier of petroleum to the LDC's who do not have a native petroleum supply. The Soviet Union exports a great deal of consumer goods to the LDC's, goods such as watches, radios, laundry soap, etc., which would not find a ready outlet in the more discriminating market of the West or even in the industrialized satellites.

The U.S.S.R. imports raw material and tropical foodstuffs from the LDC's. Soviet imports from a particular less-developed country are likely to consist almost entirely of the one or two commodities that the LDC traditionally exports; e.g., rubber from Malaya and Indonesia, cotton from the U.A.R., cacao from Ghana, and coffee and cotton from Brazil.

III. COMMODITY STRUCTURE

The commodity structure of Soviet trade remains basically unchanged. The Soviet Union is an important importer and exporter of machinery and equipment, ore, iron and steel, textile raw material (particularly cotton), and foodstuffs. It is a large importer of rubber, textiles and clothing, and an exporter of petroleum, wood, and furs.

Machinery and equipment.—Soviet trade in machinery and equipment in 1963 rose to $3.9 billion, or 27 percent of its total trade. Soviet exports of machinery and equipment increased by 23 percent in 1963, to 19.7 percent of the total value of Soviet exports. In 1962 such exports accounted for 17 percent of the Soviet total.

Over half the Soviet Union's $1.4 billion of machinery and equipment exports went to the Communist countries of Europe, and $160 million went to the Communist countries of Asia, including $42 to Communist China. Deliveries of machinery and equipment to China rose slightly in 1963 but are still only a fraction of their former levels. In 1963 the Soviet Union shipped more machinery and equipment to Outer Mongolia than to China. Cuba took $140 million of Soviet machinery, a $47 million increase over 1962. The remaining

[4] The United States traded $779 million with Africa, excluding the United Arab Republic, in 1963.

$400 million of Soviet exports of machinery and equipment went almost entirely to the less-developed countries of the non-Communist world, especially to India, the U.A.R., and Indonesia. Soviet exports of machinery and equipment to the industrialized West remain a marginal amount, or about $16 million in 1963.

Soviet imports of machinery and equipment increased 10 percent over the previous year and totaled $2.5 billion in 1963. Such imports accounted for 35 percent of total Soviet imports, approximately the same percentage as in 1962; $1.9 billion, or 75 percent, of Soviet imports of machinery and equipment comes from the Communist countries of Europe, particularly East Germany and Czechoslovakia. The remainder ($607 million) of Soviet imports comes from the industrialized West and Japan. Finland is the free world's largest supplier of machinery and equipment.

The Soviet Union is a net importer of machinery and equipment. In 1963 imports exceeded exports by $1,031 million. The gap between Soviet imports and exports in this category leveled off in 1963, after rising sharply in the past few years. Soviet net imports of machinery and equipment were $534 million in 1960, $774 million in 1961, and $1,070 million in 1962.

Imports of chemical equipment took a leap in 1963, from $159 to $223 million. Other equipment imports on the rise were railroad equipment and ships. If foreign trade is a clue to investment, there is little in the 1963 statistics to cheer the Russian consumer. Imports of machinery and equipment for light industry and food processing were both down sharply, contrary to the rising trend in machinery imports.

Food.—Soviet exports of grain fell from 7,814 to 6,235 thousand tons. Wheat fell from 4,765 to 4,081 thousand tons. The Soviet Union maintained, and in some cases exceeded 1962 levels in their shipments of grain to the Communist countries of Europe. They increased their deliveries to Cuba from 412 to 462 thousand tons. The Soviets decreased by about 50 percent their shipments to big free world grain customers, such as Great Britain, Brazil, Austria, and Finland. They discontinued altogether grain shipments to Communist China.

The 1963 handbook omits the grain category in the commodity breakdown of Soviet imports. Their imports rose at least 154 thousand tons, however, this increase being the amount imported from Canada. Grain imports from the United States should appear in the 1964 statistics.

Other commodities.—Soviet trade in other commodities presents a mixed picture of increases and declines. Major increases in Soviet exports, other than machinery and equipment, were in crude oil and refined sugar. Crude oil exports increased from 26,279 to 30,243 thousand tons. Other petroleum products registered similar increases. Major decreases in Soviet exports were in grain and cotton. Major increases in imports were in cotton, grain, furniture, clothing, fruit, and machinery and equipment. Major decreases were in steel pipe, raw sugar, and rubber.

The following table shows the weight of various commodities in the total imports and exports of the Soviet Union in 1962 and 1963:

Various commodities as a percentage of total Soviet imports and exports, 1962–63

Commodities	Export		Import	
	1962	1963	1962	1963
1. Manufactured goods	63.6	64.9	74.6	73.7
(*a*) Machinery and equipment	16.6	19.7	34.8	34.9
(*b*) Fuels, liquid and solid	11.2	11.8	3.0	2.7
(*c*) Metals	9.5	9.2	6.5	4.7
(*d*) Food	5.1	6.4	6.1	5.7
(*e*) Consumer goods	2.6	2.6	17.8	18.3
2. Raw materials	36.4	35.1	25.4	26.3
(*a*) Crude oil	5.2	5.9	.1	.1
(*b*) Ores and concentrates	3.9	4.0	4.6	4.2
(*c*) Raw materials of animal and vegetable origin	11.2	10.9	7.7	8.2
(*d*) Raw materials for the preparation of food	8.2	6.5	5.4	7.1
Total	100	100	100	100
Total value (millions of U.S. dollars)	----------	7,272.4	----------	7,058.5

Soviet foreign trade, by country, 1962–63

[Millions of U.S. dollars]

	1962 turnover	1963			
		Imports	Exports	Turnover	Percent of total
Grand total	13,484.6	7,058.5	7,272.4	14,330.9	100.0
Total, Communist countries	9,470.7	4,899.0	5,002.5	9,901.5	70.0
Communist bloc, Europe	7,558.8	4,146.5	4,162.7	8,309.2	58.5
Albania					
Bulgaria	837.0	444.7	495.4	940.1	6.5
Czechoslovakia	1,596.0	950.5	848.9	1,799.3	12.6
East Germany	2,446.0	1,303.5	1,313.7	2,617.2	18.2
Hungary	800.0	423.1	443.4	866.4	6.0
Poland	1,158.0	614.5	662.4	1,276.9	8.9
Rumania	723.0	410.2	398.9	809.1	5.6
Communist bloc, Asia	1,190.0	588.1	440.0	1,028.1	7.1
Communist China	750.0	413.0	187.2	600.2	4.
North Korea	170.0	88.1	82.1	170.2	1.1
North Vietnam	85.0	35.3	56.7	92.0	.6
Mongolia	187.0	51.7	114.0	165.7	1.1
Cuba	605.0	164.4	399.8	564.2	3.9
Total, free world	3,669.0	2,149.2	2,063.7	4,212.9	30.0
Developed countries	2,370.0	1,388.5	7,208.3	2,596.8	18.1
Australia	30.0	58.3	1.2	59.5	.4
Austria	112.0	72.4	45.7	118.1	.8
Belgium	79.0	28.7	49.1	77.8	.5
Canada	5.0	174.8	3.4	178.2	1.2
Denmark	45.0	32.0	21.0	53.0	.3
Finland	396.0	209.0	218.2	427.2	3.0
France	238.0	70.9	103.5	174.4	1.2
West Germany		149.0	131.1	280.1	1.9
West Berlin [1]		2.4	1.7	4.1	
West Germany total	339.0	151.4	132.8	284.2	1.9
Italy	230.0	136.1	136.7	272.8	1.9
Japan	259.0	165.3	123.9	289 2	.20
Netherlands	90.0	37.2	42.2	79.4	.5
New Zealand	3.0		.9	.9	
Norway	29.0	13.5	16.7	3.02	.2
Sweden	130.0	69.4	64.3	133.7	.9
Switzerland	13.0	11.7	8.9	20.6	.1
United Kingdom	330.0	129.9	215.0	344.9	2.4
United States	44.0	27.9	24.8	52.7	.3
Less developed countries	1,299.0	760.7	855.4	1,616.8	11.1
Europe	81.0	121.4	147.7	269.1	1.7
Greece	42.0	22.4	26.7	49.1	.3
Iceland	20.0	10.8	9.8	20.6	.1
Portugal					
Spain	1.0	1.3	14.9	16.2	.1
Yugoslavia	118.0	86.9	96.3	183.2	1.2
Asia	708.0	363.0	456.2	819.2	5.7
Afghanistan	65.0	19.6	44.9	64.5	.4
Burma	18.0	13.8	6.7	20.5	.1
Cambodia	8.0	2.1	3.2	5.3	
Ceylon	16.0	7.3	19.2	26.5	.2
Cyprus	4.0	1.3	1.7	3.0	
Iran	33.0	17.8	23.8	41.6	.2
Iraq	56.0	5.2	43.4	48.6	.3
India	197.0	94.8	221.9	316.7	2.2
Indonesia	97.0	29.8	49.9	79.7	.5
Lebanon	8.0	1.1	4.5	5.6	
Malaysia	163.0	133.8	3.1	137.0	.9
Nepal	1.0		1.1	1.1	
Pakistan	9.0	9.7	6.2	15.9	.1
Syria	12.0	14.2	13.1	27.3	.2
Thailand	7.0	3.6	1.5	5.1	
Turkey	10.0	7.1	8.7	15.8	.1
Yemen	4.0	1.7	3.3	5.0	

[1] The Soviet data for 1963 contain a separate entry for West Berlin.

Soviet foreign trade, by country, 1962–63—Continued

[Millions of U.S. dollars]

	1962 turnover	1963			
		Imports	Exports	Turnover	Percent of total
Less developed countries—Continued					
Africa	290.0	201.7	221.9	423.6	2.9
Algeria	1.0	.7	5.1	5.8	----
Ethiopia	2.0	2.0	1.1	3.1	----
Ghana	27.0	21.6	16.6	38.2	.2
Guinea	23.0	2.3	14.1	16.4	.1
Libya	2.0	.8	2.6	3.4	----
Mali	13.0	3.0	12.2	15.2	.1
Morocco	12.0	10.1	9.8	19.9	.1
Nigeria	1.0	.7	.5	1.2	----
Rhodesia	14.0	16.0	----	16.0	.1
Senegal	----	.4	----	.4	----
Somalia	1.0	.2	6.8	7.0	----
Sudan	21.0	17.2	13.6	30.8	.2
Tanganyika	1.0	.8	----	.8	----
Togoland	1.0	----	.2	.2	----
Tunisia	4.0	2.8	4.1	6.9	----
United Arab Republic	176.0	123.5	135.2	258.7	1.8
Latin America	113.0	75.4	30.7	106.1	.7
Argentina	18.0	18.4	.9	19.3	.1
Brazil	66.0	43.4	29.5	72.9	.5
Mexico	7.0	8.2	.1	8.3	----
Peru	6.0	.2	----	.2	----
Uruguay	16.0	5.2	.2	5.4	----

F. Department of State Memorandum on Soviet Bloc Exports of Oil to the Free World

1. Bloc exports to the free world in 1963 represented about 6 percent of free world demand (excluding demand of the United States). There will undoubtedly be large increases in bloc oil exports. However, the growth rate in oil consumption is very high, and the relative position of bloc oil in export trade is unlikely to be altered substantially.

2. An increasing share of bloc oil exports to the free world has been carried in free world tankers during the last few years (see table 3, attached). In 1963, 61 percent of total Soviet bloc oil sales to the West was carried in free world tankers, compared with 53 percent in 1960. (About 90 percent of bloc oil exports move by sea.) Free world tankers have continued to carry about 60 percent of annual U.S.S.R. petroleum shipments to free world since 1960. In 1960 only negligible quantities of East European oil destined for free world nations were carried in free world vessels. Since then, however, free world tankers have carried an annual average of about 3 million tons of East European oil, or about 55 percent of total East European oil sales, to the free world.

3. The principal purpose of the new friendship pipeline is to provide Eastern Europe with increased supplies of Soviet crude oil, which when processed, are planned to be used to satisfy the rapidly increasing domestic demands in these countries. It might be noted, however, that a planned branch off of the friendship line from Poltsk to Ventspils, a Baltic port, will provide oil for export to northern Europe and Scandinavia. This line is scheduled for completion in 1965.

TABLE 1.—*Soviet-bloc exports of petroleum to free world countries,[1] by bloc area, 1955—1st half 1964*

[In million metric tons]

Year	From the U.S.S.R.			From the East European countries [3]	From the Soviet bloc		
	Crude oil	Petroleum products	Total [2]		Crude oil	Petroleum products	Total [2]
1955	0.9	3.1	4.0	1.4	0.9	4.5	5.4
1956	1.3	3.9	5.2	1.3	1.3	5.2	6.5
1957	1.7	4.6	6.3	2.4	1.7	7.0	8.7
1958	4.3	5.3	9.6	2.8	4.3	8.1	12.4
1959	6.5	8.0	14.5	3.0	6.5	11.0	17.5
1960	9.4	9.2	18.6	3.5	9.4	12.7	22.1
1961	13.4	9.6	23.0	3.9	13.4	13.5	26.9
1962	13.9	11.3	25.2	4.5	13.9	15.8	29.7
1963	15.7	13.4	29.1	5.5	15.7	18.9	34.6
1st half 1964	8.2	6.6	14.8	2.9	8.2	9.5	17.7

[1] Includes Yugoslavia.
[2] Because of rounding, components may not add to the totals shown.
[3] All petroleum products. Albania (not considered to be a member of the Soviet bloc) shipped small quantities of crude oil to Italy—80,000 and 150,000 tons—in 1962 and 1963.

TABLE 2.—*Soviet-bloc exports of petroleum to free world countries, by destination 1961—1st half 1964*[1]

[In thousand metric tons]

Destination	Crude oil from the U.S.S.R.	Petroleum products			Total petroleum	Percent of demand
		From the U.S.S.R.	From the East European countries	Total		
1961						
Free world	13,000	9,600	3,900	14,000	27,000	[4] 5
Free Europe	9,100	7,700	3,300	11,000	20,000	8
NATO	7,700	4,000	2,400	6,400	14,000	7
Common Market	7,200	2,500	2,200	4,700	12,000	9
Other NATO	470	1,500	200	1,700	2,200	3
Other European [3]	1,400	3,700	900	4,600	6,000	14
Middle East and Africa	1,600	700	500	1,200	2,800	5
Non-Communist Asia	2,200	1,100		1,100	3,300	4
Latin America [3]	400	60	66	130	530	Negligible
1962						
Free world	14,000	11,000	4,500	16,000	30,000	[4] 5
Free Europe	10,000	9,200	3,800	13,000	23,000	8
NATO	8,500	4,600	2,700	7,300	16,000	7
Common Market	8,100	3,200	2,300	5,500	14,000	9
Other NATO	410	1,300	320	1,600	2,000	3
Other European [3]	1,800	4,700	1,200	5,900	7,700	16
Middle East and Africa	1,300	400	540	940	2,200	4
Non-Communist Asia	2,100	1,600	13	1,600	3,700	4
Latin America [3]	150	1	67	68	220	Negligible

See footnotes at end of table, p. 286.

TABLE 2.—*Soviet-bloc exports of petroleum to free world countries, by destination 1961—1st half 1964* [1]—Continued

[In thousand metric tons]

Destination	Crude oil from the U.S.S.R.	Petroleum products			Total petroleum	Percent of demand
		From the U.S.S.R.	From the East European countries	Total		
1963						
Free world	16,000	13,000	5,500	19,000	35,000	[4] 6
Free Europe	12,000	11,000	5,400	16,000	28,000	9
NATO	9,500	5,400	3,800	9,200	19,000	7
Common Market	9,000	3,400	3,400	6,800	16,000	9
Other NATO	460	1,900	400	2,300	2,800	3
Other European [2]	2,500	5,300	1,600	6,900	9,400	17
Middle East and Africa	1,200	230	100	330	1,500	2
Non-Communist Asia	2,000	2,200	50	2,200	4,200	4
Latin America [3]	570	260	30	290	860	Negligible
1964 (1st half)						
Free world	8,200	6,600	2,900	9,500	18,000	[4] 5
Free Europe	6,200	4,800	2,600	7,400	14,000	8
NATO	5,100	2,400	1,700	4,100	9,200	7
Common Market	4,700	1,700	1,400	3,100	7,800	8
Other NATO	400	740	380	1,100	1,500	3
Other European [2]	1,000	2,400	830	3,200	4,200	13
Middle East and Africa	490	320	100	420	910	3
Non-Communist Asia	900	1,500	180	1,700	2,600	4
Latin America	620	46	----------	46	670	1

[1] Data have been rounded to 2 significant digits. Because of rounding, components may not add to the totals shown.
[2] Includes Yugoslavia.
[3] Excludes Cuba.
[4] Excludes the United States.

TABLE 3.—*Tanker movements of bloc oil to free world countries, 1960–61* [1]

Year	Total bloc oil exports to free world		Total sea shipments of bloc oil to free world	
	Million metric tons	Percent carried in free world tankers	Million metric tons	Percent carried in free world tanker
1960	22.1	52.5	18.4	63.0
1961	26.9	67.6	23.0	79.1
1962	29.7	58.9	27.8	62.9
1963	34.6	60.7	31.1	67.5

[1] Includes Yugoslavia, but excludes Cuba. Bloc petroleum carried in foreign vessels is sold c.i.f.—carried in ships chartered by the U.S.S.R.—and is sold f.o.b. (under foreign control)—carried on ships made available by the foreign purchaser. Although the exact distribution of the total volume carried in foreign ships between these 2 categories is not known, recent statements by Soviet officials indicate that the volume carried on Soviet chartered ships is diminishing rapidly and may soon constitute only about 10 percent of the total.

G. U.S. Trade With Principal Countries of Eastern Europe, 1962, 1963, and January-September 1964

[Thousands of dollars]

Commodity	1962	1963	January-September 1964
TRADE WITH CZECHOSLOVAKIA			
Exports, total [1]	7,172	9,790	10,194
Wheat			2,350
Barley			727
Corn, except seed			822
Seedcorn, except sweet seedcorn	21		72
Rye			569
Fruit juices	3	176	
Hops	1,412	1,787	1,071
Soybean oilcake and meal			120
Lard	125	836	833
Hides and skins, except fur skins, undressed	529	170	399
Soybeans	1,413	2,490	665
Rubber, synthetic	243	1	[2]
Woodpulp			40
Sulfur, crude	1,012	776	462
Crude animal materials		42	4
Seeds for planting	210	72	1
Coal, bituminous	123	711	
Fishoils and fish liver oils, inedible		103	307
Tallow, inedible	175	105	121
Soybean oil, crude, inedible			299
Organic chemicals	86	410	[2]
Carbon black	11	411	23
Antibiotics and preparations	372	175	63
Medicinal and pharmaceutical products, other	249	341	226
Plastic materials	192	46	32
Gum rosin	37	32	
Wood rosins	119	100	131
Chemicals, other	21	46	56
Pencil slats	353	229	337
Card punching and auxiliary machinery and parts	4	5	92
Textile and leather machinery	35	45	41
Glassworking machinery		324	
Trucks, industrial, electric-powered			43
Nonelectric machinery, other	86	67	79
Radio beacon transmitters and parts	24	70	
Electric machinery, apparatus, and applicances, other	17	38	18
Scientific, professional, measuring, and controlling instruments and apparatus	46	45	46
Manufactured goods, other	50	87	75
Other domestic exports	14	28	9
Reexports of canned cooked hams and shoulders	8	8	32
Reexports of cocoa beans	99		
Reexports of developed motion-picture film	39	[2]	
Reexports, other	34	14	29
General imports, total	9,989	10,357	8,944
Imports for consumption, total [3]	9,940	9,902	8,941
Canned cooked hams and shoulders	579	624	340
Chocolate and preparations	85	91	82
Sugar confectionery and other sugar prepareations	37	77	59
Paprika	78		
Alcoholic beverages	44	71	54
Mink fur, undressed	70	153	145
Fur skins, undressed, other	99	67	43
Angora rabbit hair	349	211	60
Crude materials, other	61	106	77
Inorganic chemicals	62	65	48
Benezene	233		
Chemicals, other	80	139	74
Wood manufactures, except furniture	69	17	22
Linen, ramie, and hemp fabrics	250	226	101
Textile yarn, fabrics, made-up articles, and related products, other	165	201	129
Drawn or blown glass, unworked, in rectangles	414	411	376
Imitation gemstones	652	647	717
Beads, bugles, and spangles	752	793	635
Articles of beads, bugles, and spangles	107	13	36
Glass and glassware, other	1,189	963	693
Pottery	127	97	111

See footnotes at end of table. p. 294.

G. U.S. TRADE WITH PRINCIPAL COUNTRIES OF EASTERN EUROPE, 1962, 1963, AND JANUARY–SEPTEMBER 1964—Continued

[Thousands of dollars]

Commodity	1962	1963	January–September 1964
TRADE WITH CZECHOSLOVAKIA—Continued			
Bars, rods, angles, shapes and sections of iron or steel	----------	----------	71
Rhodium	----------	----------	55
Nails, screws, rivets, and similar articles	64	188	186
Manufactures of metal, other	91	60	90
Typewriters	275	510	298
Lathes and parts	163	139	329
Metalworking machinery, other	136	206	115
Machinery, other	103	149	175
Passenger cars, new, including chassis	73	22	13
Motorcycles and parts	230	187	324
Bicycles	155	100	198
Bicycle parts	447	440	208
Lighting fixtures and fittings	596	637	456
Furniture	43	73	210
Gloves, leather	160	94	37
Hats of fur and fur felt	106	122	156
Clothing, except of fur, other	72	21	14
Footwear, leather	86	399	1,017
Scientific, professional, measuring, and controlling instruments and apparatus	69	22	44
Musical instruments, sound recorders, and parts	127	168	144
Printed matter	606	804	464
Toys and games	60	39	4
Glass Christmas tree ornaments	119	50	31
Sporting goods, except firearms	167	61	13
Artificial fruit and flowers	54	29	30
Manufactured goods, other	308	271	223
Other imports for consumption	‹ 128	‹ 139	‹ 234
TRADE WITH EAST GERMANY			
Exports, total [1]	1,698	6,403	16,141
Meat, fresh, chilled, or frozen	37	367	469
Wheat	----------	----------	7,849
Barley	----------	451	261
Corn, except seed	----------	2,910	1,591
Rye	----------	836	404
Oranges and tangerines, fresh	334	----------	----------
Fruit juices	30	----------	----------
Hops	20	----------	----------
Tobacco, unmanufactured	1,067	768	946
Calfskins	20	----------	----------
Fur skins, undressed	13	46	42
Soybeans	----------	404	490
Cotton linters	----------	143	191
Clover seed	----------	94	----------
Crude vegetable materials, other	151	57	96
Coal, bituminous	----------	275	2,710
Tallow, inedible	----------	36	----------
Methanol	----------	----------	210
Superphosphatic fertilizer	----------	----------	509
Manufactured goods, other	26	13	39
Other domestic exports	----------	2	3
Reexports of raw cotton	----------	----------	320
Reexports, other	----------	1	11
General imports, total	3,096	3,131	5,032
Imports for consumption, total [3]	3,006	3,225	5,023
Wild pig and hog skins	----------	4	518
Mink fur, undressed	411	903	1,280
Fur skins, undressed, other	187	21	48
Manmade fibers	----------	----------	102
Montan wax	241	243	169
Carbon and carbon black	63	113	35
Potassium ferricyanide	29	45	24
Potassium nitrate, refined	52	26	25
Cresols and cresylic acid, crude	66	137	61
Fur skins, dressed	72	11	11
Drawn or blown glass, unworked, in rectangles	51	26	38

See footnotes at end of table, p. 294.

G. U.S. TRADE WITH PRINCIPAL COUNTRIES OF EASTERN EUROPE, 1962, 1963, AND JANUARY–SEPTEMBER 1964—Continued

[Thousands of dollars]

Commodity	1962	1963	January–September 1964
TRADE WITH EAST GERMANY—Continued			
Glass and glassware, other	132	141	111
China ornaments	31	33	43
Pottery, other	9	42	62
Pig iron			1,326
Wire rod of iron and steel			64
Typewriters	281	61	82
Textile machinery	35	217	58
Printing presses and parts	91	193	47
Pumps, air and vacuum, and parts			37
Machinery, other	44	36	64
Bicycle parts	230	163	54
Binoculars, microscopes, and other optical instruments	64	21	19
Photographic cameras and parts, except motion picture	251	192	318
Musical instruments, sound recorders, and parts	77	94	105
Printed matter	11	54	24
Works of art and collectors' items	131	74	2
Artificial fruit and flowers	220	178	135
Other imports for consumption	[4] 227	[4] 197	[4] 161
TRADE WITH HUNGARY			
Exports, total [1]	836	17,280	11,060
Nonfat dry milk			1,249
Wheat		7,885	[5] 2,486
Rice			108
Corn, except seed		5,956	158
Grain sorghums	[3]		32
Hops	33		
Soybean oilcake and meal		1,131	2,408
Lard		147	58
Food, other	1	4	19
Hides and skins, except fur skins, undressed	77	264	148
Soybeans	13	1,030	1,387
Cotton, raw, except linters			2,267
Seeds for planting	12	25	6
Coal, bituminous		214	
Organic chemicals	131	44	13
Inorganic chemicals		107	49
Mineral tar and crude coal-tar chemicals			44
Antibiotics and preparations	167	52	
Medicinal and pharmaceutical products, other	15	13	101
Herbicides			105
Chemicals, other	62	22	31
Fur skins	17	32	21
Nylon filament yarn and monofilaments; nylon tire cord and fabric			87
Office machines	1	8	54
Metalworking machinery and parts		20	4
Glassworking machinery	181		
Radio beacon transmitters and parts		134	
Machinery, other	10	55	66
Scientific, professional, measuring, and controlling instruments and appratus	19	68	74
Printed matter	50	3	5
Manufactured goods, other	24	18	43
Other domestic exports	23	34	37
Reexports		14	[3]
General imports, total	1,813	1,585	1,243
Imports for consumption, total [3]	1,683	1,544	1,179
Vegetables and preparations	55	29	5
Paprika	119	54	102
Alcoholic beverages	122	97	70
Feathers, crude	61	20	8
Essential oils, perfume, and flavor materials	30	16	7
Chemicals, other	34	36	18
Linen, ramie, and hemp fabrics	82	36	10
Jute fabrics	60	3	
Textile yarn, fabrics, made-up articles, and related products, other	61	63	60

See footnotes at end of table, p. 294.

G. U.S. Trade With Principal Countries of Eastern Europe, 1962, 1963, and January–September 1964—Continued

[Thousands of dollars]

Commodity	1962	1963	January–September 1964
TRADE WITH HUNGARY—Continued			
Glassware	85	38	35
Pottery	48	72	56
Structural steel			48
Bicycles	108	216	131
Footwear	5	16	28
Printed matter	16	54	43
Toys and games	28	30	14
Stamps	122	174	77
Works of art and collectors' items, other	47	77	52
Brooms and brushes	175	138	90
Baskets and bags of straw	28	21	19
Baskets and bags of willow or osier	174	161	142
Wigs and other human hair manufactures	20	28	23
Manufactured goods, other	95	49	59
Other imports for consumption	[4] 108	[4] 116	[4] 82
TRADE WITH POLAND			
Exports, total [1]	94,454	108,897	115,533
Pork, fresh or frozen			766
Nonfat dry milk [6]	949	786	1,254
Butter		2,200	2,528
Cheese [6]	52	647	
Wheat [6]	26,271	[5] 44,887	[5] 56,301
Rice	3,003	694	1,645
Barley, except pearl barley	9,873	3,516	1,766
Corn, except seed	1,857		2,752
Grain sorghums	2,958	18,295	3,068
Wheat flour [6]	3,101	2,166	605
Cornmeal [6]	124	131	106
Beans, dried [6]	194	31	8
Soybean oilcake and meal		258	
Feedstuffs for animals, other	123		
Lard			221
Tobacco, unmanufactured		2,599	1,934
Tobacco manufactures	346	576	311
Hides and skins, except fur skins, undressed	386	322	518
Soybeans	479	2,529	220
Rubber, synthetic	1,442	507	1,438
Cotton pulp	177	192	59
Woodpulp		95	27
Cotton, raw, except linters	20,524	13,145	12,021
Wool rags and used clothing of wool	563	637	426
Aluminum ores and concentrates	733		
Molybdenum ores and concentrates	145		
Coal, bituminous			94
Tallow, inedible	4,022	4,561	7,034
Soybean oil, crude, inedible	4,305	789	6,865
Cottonseed oil, refined, not further processed	1,699		4,001
Soybean oil, refined, hydrogenated	1,547		1,282
Organic chemicals	124	79	634
Aluminum oxide, fused, crude, and in grains	92		
Silicon carbide, crude, and in grains	259		
Antibiotics	300	172	9
Cortisone and preparations	384	365	388
Medicinal and pharmaceutical products, other	166	143	175
Plastic materials	26	88	107
Chemicals, other	163	187	93
Rubber manufactures	9	123	21
Acetate filament yarn and monofilaments	312	223	344
Yarn and thread of manmade fibers, other	323	374	256
Electrical steel sheets and strip	161	205	168
Metal structures and finished parts		1	161
Typewriters and parts	12	4	105
Metalworking machinery	220	262	186
Textile and leather machinery	79	113	40
Construction and mining machinery	74	94	
Grinders, pulverizers, and granulators			95
Glassworking machinery	2	794	2
Lifting and loading machinery	142	26	150
Metal container manufacturing machinery and parts	326	3	1
Metal finishing, cleaning, and coating machinery and parts	1,520		5

See footnotes at end of table, p. 294.

G. U.S. TRADE WITH PRINCIPAL COUNTRIES OF EASTERN EUROPE, 1962, 1963, AND JANUARY–SEPTEMBER 1964—Continued

[Thousands of dollars]

Commodity	1962	1963	January–September 1964
TRADE WITH POLAND—Continued			
Gear reduction units, except vehicular	1	173	
Nonelectric machinery, other	301	376	168
Electric power machinery and switchgear	48	111	45
Telecommunications apparatus	122	11	4
Electric measuring and controlling instruments and apparatus	31	203	86
Scientific, professional, measuring, and controlling instruments and apparatus	163	181	293
Printed matter	145	173	131
Unspecified food for relief [7]	2,884	3,420	2,065
Clothing for relief	324	357	313
Commodities for relief, other	231	332	1,636
Other domestic exports	587	523	486
Reexports of inedible tallow		154	
Reexports, other	50	94	116
General imports, total	45,836	43,119	39,767
Imports for consumption, total [3]	45,476	42,718	39,644
Horses	14	164	3
Canned cooked hams and shoulders	21,410	17,997	15,078
Pork, prepared or preserved, other	4,030	5,510	5,162
Meat and preparations, other	109	453	44
Fruit and preparations	147	216	211
Chicory roots, dried	220	228	276
Caraway seed	99	126	53
Food, other	160	210	89
Alcoholic beverages	111	86	61
Calfskins	452	287	516
Wild pig and hog skins	844	462	413
Hides and skins, except fur skins, undressed, other	89	116	79
Fox fur, except silver and black, undressed	1,203	1,401	1,890
Mink fur, undressed	1,763	1,523	1,783
Poppyseed	248	228	121
Bristles	245	527	291
Feathers and down, crude	1,091	766	352
Seeds for planting	6	183	56
Peat moss, fertilizer grade	335	247	209
Organic chemicals	30	557	708
Benzene	303		
Naphthalene	162		
Medicinal and pharmaceutical products	1,108	823	14
Casein	1,383	159	120
Chemicals, other	138	115	136
Pig and hog leather	642	1,512	872
Rubber tires	123	29	
Wood manufactures, except furniture	173	185	260
Paper and paperboard	80	122	260
Cotton fabrics, woven	261	87	16
Woolen fabrics, woven	3	113	126
Linen, ramie, and hemp fabrics	1,407	1,608	1,925
Textile yarn, fabrics, made-up articles, and related products, other	200	190	185
Cement	280		
Drawn or blown glass, unworked, in rectangles	68	97	99
Glass and glassware, other	521	508	558
Pottery	150	168	155
Bars, rods, angles, shapes, and sections of iron or steel			1,521
Universals, plates and sheets of iron or steel	91	941	1,702
Tubes, pipes, and fittings of iron or steel		73	157
Zinc blocks, pigs, and slabs	97	41	241
Wire nails, over 0.065 inch in diameter, of iron or steel	527	459	412
Nails, screws, and similar articles of iron or steel, other	28	178	372
Manufactures of metal, other	115	97	113
Machinery	112	116	132
Bicycles	992	170	16
Furniture	894	945	794
Footwear	250	463	322
Printed matter	114	67	70
Dolls, toys, and games	329	92	87
Glass Christmas tree ornaments	917	450	318
Stamps	102	92	102
Brooms and brushes	189	169	170
Baskets and bags of straw and willow	609	643	537
Other imports for consumption	502	719	457

See footnotes at end of table, p. 294.

G. U.S. TRADE WITH PRINCIPAL COUNTRIES OF EASTERN EUROPE, 1962, 1963, AND JANUARY-SEPTEMBER 1964—Continued

[Thousands of dollars]

Commodity	1962	1963	January–September 1964
TRADE WITH RUMANIA			
Exports, total [1]	802	1,249	4,223
Wheat			167
Grain sorghums	15	17	
Beans, dried		95	
Soybeans		15	
Woodpulp			347
Cotton, raw			1,387
Sulfur, crude			106
Seeds for planting	201	3	17
Coal, bituminous		397	922
Tallow, inedible			327
Animal greases and fats, inedible, other	40	7	53
Organic chemicals	42		52
Carbon black	9		36
Antibiotics and preparations	85	167	31
Medicinal and pharmaceutical products, other	32	46	49
Plastics	2	4	265
Chemicals, other	25	3	11
Agricultural machinery and implements	98	2	49
Textile machinery and parts	99		
Paper pulp machines and parts	22		
Paper converting machines and parts		232	
Printing and bookbinding machinery	1	22	
Flour-mill and gristmill machines and parts	5		242
Heating and cooling equipment	1	18	4
Pipe valves and parts		36	
Nonelectric machinery, other	29	14	32
Radio beacon transmitters and parts	35		
Electric machinery, apparatus, and appliances, other	11	28	6
Oil burners, industrial		23	
Scientific, professional, measuring, and controlling instruments and apparatus	35	52	10
Developed motion-picture film	8	61	40
Manufactured goods, other	5	7	42
Other domestic exports			10
Reexports	2		18
General imports, total	626	789	982
Imports for consumption, total [3]	609	765	921
Walnuts, shelled	49	116	57
Spices	106	75	45
Food, other	40	3	27
Fur skins, undressed	44	49	23
Wood in the rough or roughly squared		38	
Feathers, crude	67	2	
Drawn or blown glass, unworked, in rectangles	138	176	297
Glass and glassware, other	75	37	44
Furniture	8	25	95
Leather shoes		1	28
Stamps	51	178	266
Other imports for consumption	[4] 31	[4] 65	[4] 39
TRADE WITH U.S.S.R.			
Exports, total [1]	15,297	20,239	142,048
Horses and mules	130	25	5
Live animals, other	1	267	
Wheat		[7]	[5] 110,418
Rice			9,667
Seed beans		783	
Tobacco, unmanufactured	44		
Cattle hides, undressed	1,903	3,552	975
Rubber, synthetic	1,459	4	
Woodpulp		586	968
Cotton pulp		256	3
Cotton, raw, except linters			311

See footnotes at end of table, p. 294.

G. U.S. TRADE WITH PRINCIPAL COUNTRIES OF EASTERN EUROPE, 1962, 1963, AND JANUARY–SEPTEMBER 1964—Continued

[Thousands of dollars]

Commodity	1962	1963	January–September 1964
TRADE WITH U.S.S.R—Continued			
Manmade fiber staple and tow	1,431	547	1,550
Petroleum coke		1,638	298
Tallow, inedible	4,011	2,066	8,250
Butanol			303
Organic chemicals, other	8	3,864	16
Carbon black		1,602	303
Inorganic chemicals, other	283	613	102
Medicinal and pharmaceutical products	22	22	79
Plastic materials	133	202	699
Benzene hexachloride and compounds			400
Herbicides	26	803	1,729
Agricultural insecticides			2,719
Prepared rubber accelerators	45	120	124
Antioxidants, cyclic, for rubber compounding	117	581	212
Rubber compounding agents, cyclic, other	193	144	
Chemicals, other	5	170	103
Articles of rubber	4	4	82
Yarn and thread of artificial fibers	422	385	
Textile fabrics, except cotton	32	31	19
Tubes, pipes, and fittings of iron or steel	49		(2)
Molybdenum wire		308	
Steel structural shapes, fabricated	33		
Manufactures of metal, other	69	6	14
Power generating machinery, except electric	23	8	55
Agricultural machinery and implements	18	43	3
Laundry and dry cleaning equipment, commercial, and parts	21	8	181
Textile and leather machinery, other	176	107	36
Paper, pulp, and paper processing machinery	2,168	2	1
Printing and bookbinding machinery	5	37	29
Food processing machinery and parts, except domestic	282	6	21
Road rollers; excavating and similar machinery and parts		150	606
Air and gas compressors, positive displacement, and parts	2	1	34
Conveying equipment and parts	30	105	462
Mechanical handling equipment, other	58	73	131
Wrapping, packaging, and filling machines and parts	143	81	240
Ball and roller bearings	31	1	3
Plastic-making machinery and parts			166
Power transmission systems, except vehicular	135		1
Nonelectric machinery, other	636	428	115
Electric power machinery and switchgear	30	2	90
Insulated wire and cable			48
Electric measuring and controlling instruments and apparatus	146	1	26
Mine shuttle cars		32	160
Machinery and transport equipment, other	39	42	25
Clothing, except of fur	121	47	26
Scientific, professional, measuring, and controlling instruments and apparatus	122	125	107
Printed matter	28	38	29
Manufactured goods, other	528	205	59
Clothing for relief	16	90	34
Other domestic exports	39	15	11
Reexports	80	13	
General imports, total	16,136	20,337	14,696
Imports for consumptions, total [3]	16,320	20,391	15,395
Scallops			105
Sturgeon and sturgeon roe	136	144	20
Fish and preparations, other	33	12	28
Mushrooms, fresh or dried	45	47	17
Persian lamb and caracul fur, undressed	1,603	1,284	1,066
Sheep and lamb fur, undressed, other	266	156	
Mink fur, undressed			59
Sable fur, undressed	3,317	2,765	2,748
Squirrel fur, undressed	1,937	2,056	928
Fur skins, undressed, other	339	509	122
Wool and other animal hair	26	35	130
Cotton linters	597	495	543
Cotton waste	58		24
Potassium chloride, crude	254		

See footnotes at end of table, p. 294.

G. U.S. TRADE WITH PRINCIPAL COUNTRIES OF EASTERN EUROPE, 1962, 1963, AND JANUARY–SEPTEMBER 1964—Continued

[Thousands of dollars]

Commodity	1962	1963	January–September 1964
TRADE WITH U.S.S.R—Continued			
Chrome ore	916	2,963	3,499
Bristles	159	194	121
Sausage casings	31	110	152
Licorice root	395	613	279
Naphthalene	409	----------	----------
Pyridine	23	88	----------
Essential oils, perfume, and flavor materials	106	119	50
Chemicals, other	34	48	44
Fur skins, dressed	51	46	14
Drawn or blown glass, unworked, in rectangles	605	5	244
Diamonds, cut but unset	262	23	238
Platinum	1,045	2,454	446
Osmiridium	----------	----------	50
Palladium	1,945	3,954	2,855
Rhodium	1,101	1,647	931
Musical instruments, sound recorders, reproducers, and parts	18	18	47
Printed matter	69	80	67
Stamps	55	255	135
Works of art and collectors' items, other	192	52	216
Other imports for consumption	[4] 293	[4] 219	[4] 217

[1] Excludes "special category" exports.
[2] Less than $500.
[3] Commodity data are reported on the basis of imports for consumption. Beginning September 1963, the data are not completely comparable in content with data for earlier periods due to a revision in the U.S. tariff structure.
[4] Includes an estimate of low-value shipments of $250 or less each on informal entry shipments, and under $100 each on formal entry shipments.
[5] Excludes U.S. wheat shipped from a Canadian port, as reported by U.S. grain inspectors, valued at approximately $4,076,000 to Poland in 1963; and in January–September 1964, $1,144,000 to Hungary; $2,837,000 to Poland; and $7,420,000 to U.S.S.R.
[6] Includes relief shipments.
[7] Excludes dairy products, grains, and beans.

Source: Quarterly report under Export Control Act, Department of Commerce, Jan. 4, 1965.

H. Free World Trade With Sino-Soviet Bloc,[1] 1962, 1963, and January to June 1964

[In millions of dollars and percentages]

Period	Total, Sino-Soviet bloc [2]	Eastern Europe	Eastern Europe excluding U.S.S.R.	U.S.S.R.	Communist China
Free-world exports (f.o.b.):					
1962	$5,171.3	$4,470.9	$2,453.3	$2,017.6	$678.4
1963	$5,537.2	$4,737.9	$2,652.2	$2,085.7	$765.6
Percentage increase	7.1	6.0	8.1	3.4	12.9
1963, January to June [3]	$2,477.7	$2,084.7	$1,211.1	$873.6	$375.5
1964, January to June [3]	$3,031.0	$2,572.0	$1,453.9	$1,118.1	$439.0
Percentage increase [3]	22.3	23.4	20.0	28.0	16.9
Free-world imports (c.i.f.):					
1962	$5,513.9	$4,680.5	$2,490.1	$2,190.4	$795.8
1963	$5,824.9	$4,996.2	$2,657.6	$2,338.6	$785.2
Percentage increase	5.6	6.7	6.7	6.8	−1.3
1963, January to June [3]	$2,383.3	$2,001.7	$1,179.4	$822.3	$360.7
1964, January to June [3]	$2,773.7	$2,265.7	$1,359.5	$906.2	$483.5
Percentage increase [3]	16.4	13.2	15.3	10.2	34.0

[1] Cuba is included in free world.
[2] Includes trade with Outer Mongolia, North Korea, and North Vietnam where data are available.
[3] Excludes all Cuban trade.

Source: U.S. Department of Commerce.

I. Total Free-World Trade With the Sino-Soviet Bloc, 1948 and 1959–63

[In millions of U.S. dollars]

Year	Total, free world	Total, Sino-Soviet bloc [1]	Sino-Soviet bloc as percent of world	Eastern Europe	Eastern Europe excluding U.S.S.R.	U.S.S.R.	Communist China	North Vietnam
	Free-world exports [2]							
1948	54,400	1,968.5	3.6	1,434.2	900.7	533.5	534.3	----------
1959 [3]	101,900	3,669.1	3.6	3,003.2	1,854.0	1,149.2	651.0	11.7
1960 [3]	113,800	4,425.1	3.9	3,738.4	2,174.0	1,564.4	669.9	10.1
1961 [3]	119,100	4,966.6	4.2	4,198.2	2,372.6	1,825.6	738.9	12.7
1962 [3]	125,100	5,171.3	4.1	4,470.9	2,453.3	2,017.6	678.4	12.9
1963 [3] [4]	136,200	5,537.2	4.1	4,737.9	2,652.2	2,085.7	765.6	12.8
	Free-world imports [2]							
1948	60,000	2,008.0	3.3	1,519.7	1,026.0	493.7	488.3	----------
1959	107,100	3,762.8	3.5	3,039.5	1,795.3	1,244.2	698.3	14.2
1960	119,800	4,462.1	3.7	3,661.0	2,145.9	1,515.1	776.6	15.7
1961	124,000	4,987.1	4.0	4,225.6	2,367.3	1,858.3	732.4	17.8
1962	132,700	5,513.9	4.2	4,680.5	2,490.1	2,190.4	795.8	22.7
1963 [4]	144,100	5,824.9	4.0	4,996.2	2,657.6	2,338.6	785.2	24.8

[1] Includes trade with Outer Mongolia and North Korea.
[2] Cuba is included in free world.
[3] Beginning 1959 free-world exports to the Sino-Soviet bloc exclude reexports from Hong Kong.
[4] Preliminary.

Note.—Sino-Soviet bloc figures are compilations of unadjusted data, as reported by free-world countries.
Source: International Monetary Fund, and U.S. Department of Commerce.

J. FREE-WORLD[1] EXPORTS TO THE SINO-SOVIET BLOC BY COUNTRY GROUPS AND AREAS, CALENDAR YEARS 1962 AND 1963, AND JANUARY TO JUNE 1964

[In millions of dollars]

Area	Total Sino-Soviet bloc[2]	Eastern Europe	Eastern Europe excluding U.S.S.R.	U.S.S.R.	Communist China
Exports, total:					
1962	5,171.3	4,470.9	2,453.3	2,107.6	678.4
1963	5,537.2	4,737.9	2,652.2	2,085.7	765.6
1964, January to June[3]	3,031.1	2,572.0	1,453.9	1,118.1	439.0
United States:					
1962	125.2	125.2	105.0	20.2	(4)
1963	166.7	166.7	143.8	22.9	(4)
1964, January to June[3]	267.0	267.0	135.5	131.5	(4)
Canada:					
1962	182.6	45.6	42.5	3.1	137.0
1963	276.4	179.5	40.3	139.2	96.9
1964, January to June[3]	296.9	242.1	39.5	202.6	54.7
Japan:					
1962	212.8	166.0	16.6	149.4	38.5
1963	251.9	179.3	21.2	158.1	62.4
1964, January to June[3]	152.5	83.8	18.6	65.2	61.5
European Cocom countries:					
1962	2,096.3	1,955.7	1,234.6	721.1	134.0
1963	2,066.0	1,902.0	1,281.3	620.7	156.9
1964, January to June[3]	1,022.5	949.9	698.5	251.4	69.4
Total Cocom:					
1962	2,616.9	2,292.4	1,398.7	893.7	309.5
1963	2,761.0	2,427.5	1,486.6	940.9	316.2
1964, January to June[3]	1,738.9	1,542.8	892.1	650.7	185.6
Other Europe:					
1962	861.1	845.5	453.6	391.9	14.6
1963	902.7	886.5	476.0	410.5	15.4
1964, January to June[3]	439.4	425.9	257.4	168.5	13.4
Near East:					
1962	292.3	254.0	149.7	104.3	37.4
1963	383.4	333.4	179.3	154.1	49.9
1964, January to June[3]	165.9	138.9	77.3	61.6	26.9
Africa:					
1962	104.6	93.7	60.8	32.9	10.6
1963	150.3	108.3	68.3	40.0	38.6
1964, January to June[3]	75.5	54.0	32.5	21.5	14.3
Far East, excluding Japan:					
1962	512.8	421.9	148.5	273.4	89.0
1963	491.0	425.6	162.3	263.3	62.4
1964, January to June[3]	224.7	200.3	95.1	105.2	23.0
Oceania:					
1962	165.9	64.8	32.7	32.1	101.1
1963	303.6	91.0	33.6	52.5	207.0
1964, January to June[3]	224.6	123.9	31.1	92.8	100.6
Latin America, including Cuba:					
1962	617.7	498.6	209.3	289.3	116.2
1963	545.2	465.6	241.2	224.4	76.1
1964, January to June[3]	162.1	86.2	68.4	17.8	75.2

[1] Including Cuba.
[2] Includes exports to outer Mongolia, North Korea, and North Vietnam.
[3] Preliminary; and excluding all Cuban trade.
[4] Negligible.

Source: U.S. Department of Commerce.

K. Free-World [1] Imports From the Sino-Soviet Bloc, by Country Groups and Areas, Calendar Years 1962 and 1963, and January to June 1964

[In millions of dollars]

Area	Total Sino-Soviet bloc [2]	Eastern Europe	Eastern Europe, excluding U.S.S.R.	U.S.S.R.	Communist China
Imports, total:					
1962	5,513.9	4,680.5	2,490.1	2,190.4	795.8
1963	5,824.9	4,996.2	2,657.6	2,338.6	785.2
1964, January to June [3]	2,773.7	2,265.7	1,359.5	906.2	483.5
United States:					
1962	82.3	78.8	62.7	16.1	.2
1963	85.1	81.4	60.2	21.2	.3
1964, January to June [3]	47.4	45.4	36.5	8.9	.2
Canada:					
1962	20.0	15.7	14.0	1.7	4.3
1963	23.6	18.8	16.7	2.1	4.8
1964, January to June [3]	15.0	10.2	9.0	1.2	4.8
Japan:					
1962	226.6	163.0	15.7	147.3	46.0
1963	274.9	180.5	18.5	162.0	74.6
1964, January to June [3]	199.1	116.2	10.8	105.4	68.3
European Cocom countries:					
1962	2,273.0	2,102.3	1,251.6	850.7	165.0
1963	2,539.8	2,363.3	1,443.7	919.6	165.8
1964, January to June [3]	1,236.1	1,127.4	740.2	387.2	104.6
Total Cocom:					
1962	2,601.8	2,359.8	1,344.0	1,015.8	215.5
1963	2,923.4	2,644.0	1,539.1	1,104.9	245.5
1964, January to June [3]	1,497.5	1,299.2	796.6	502.6	178.0
Other Europe:					
1962	866.1	844.4	489.0	355.4	21.6
1963	1,017.7	990.4	558.8	431.6	26.5
1964, January to June [3]	576.1	558.8	313.8	245.0	18.1
Near East:					
1962	391.0	347.6	224.1	123.5	43.1
1963	350.2	308.2	195.4	112.8	41.7
1964, January to June [3]	134.9	119.5	75.9	43.6	15.4
Africa:					
1962	144.1	115.7	76.0	39.7	28.4
1963	155.5	127.7	92.9	34.8	27.0
1964, January to June [3]	76.1	60.5	41.9	18.6	15.1
Far East excluding Japan:					
1962	726.4	349.7	147.1	202.6	369.7
1963	794.2	360.3	149.5	210.8	426.6
1964, January to June [3]	414.6	166.4	83.2	83.2	244.7
Oceania:					
1962	25.8	13.5	11.9	1.6	12.3
1963	33.7	16.7	13.7	3.0	16.7
1964, January to June [3]	20.2	8.8	7.7	1.1	11.4
Latin America including Cuba:					
1962	758.6	649.8	198.0	451.8	105.2
1963	550.1	548.9	108.2	440.7	1.2
1964, January to June [3]	54.2	53.4	41.3	12.1	.1

[1] Including Cuba.
[2] Includes imports from Outer Mongolia, North Korea, and North Vietnam.
[3] Preliminary and excluding all Cuban trade.

Source: U.S. Department of Commerce.

L. Trade of NATO Countries With Communist Countries,[1] 1963

[In millions of dollars]

Country	Imports (c.i.f.)			Exports (f.o.b.)		
	Total from entire world	From Communist countries [1]	Imports from Communist countries as percent of world imports	Total, to entire world	To Communist countries [1]	Exports to Communist countries as percent of world exports
Belgium-Luxembourg	5,112.6	128.9	2.5	4,850.5	87.4	1.8
Denmark	2,114.6	97.2	4.6	1,865.4	89.8	4.8
France	8,729.9	280.2	3.2	8,084.9	291.4	3.6
West Germany	13,274.5	752.4	5.7	14,831.9	675.6	4.6
Greece	80.4	69.5	8.6	290.2	57.7	19.9
Iceland	109.6	19.6	17.9	94.2	16.2	17.2
Italy	7,580.9	481.4	6.4	5,074.6	292.9	5.8
Netherlands	5,967.2	156.2	2.6	4,962.0	96.0	1.9
Norway	1,821.7	53.9	3.0	1,073.5	50.5	4.7
Portugal	651.0	4.9	.8	416.9	7.5	1.8
Turkey	690.7	50.2	7.3	368.0	35.4	9.6
United Kingdom	13,496.5	568.6	4.2	11,854.7	417.5	3.5
Total, European NATO	60,353.6	2,663.0	4.4	53,766.8	2,117.9	3.9
Canada	[2] 6,081.2	[2] 35.5	.6	6,471.6	201.5	4.5
United States	[2] 17,014.7	[2] 91.8	.5	22,921.7	203.1	.9
Total, NATO	83,448.5	2,790.3	3.3	83,160.1	2,612.5	3.1

[1] Albania, Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, Rumania, U.S.S.R., Communist China, other Asian Communist areas, and Cuba.
[2] F.o.b.

Source: Department of State.

M. International Trade of European Communist Countries, 1963

[In millions of U.S. dollars]

	U.S.S.R.[1]		Albania [2]		Bulgaria [2]		Czechoslovakia	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
Total	7,272	7,059	41	65	773	785	2,462	2,160
Communist countries	5,003	4,899	38	61	625	644	1,812	1,566
U.S.S.R.				[3]	388	443	957	843
Eastern Europe	4,163	4,147	25	17	210	180	751	632
Other Communist countries	840	752	13	44	27	21	104	91
Free world countries	2,064	2,149	3	4	148	141	650	594
Industrialized countries	1,209	1,389	2	3	96	101	349	345
Less developed countries	855	760	1	1	52	40	301	249

	East Germany [1]		Hungary [2]		Poland		Rumania	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
Total	2,692	2,296	1,099	1,148	1,770	1,979	915	1,022
Communist countries	2,076	1,756	789	809	1,089	1,291	631	689
U.S.S.R.	1,276	1,172	392	416	617	648	413	399
Eastern Europe	762	529	364	365	420	588	179	255
Other Communist countries	55	76	33	28	52	55	39	35
Free world countries	616	540	310	339	681	688	284	333
Industrialized countries	423	387	210	252	485	503	208	265
Less developed countries	193	153	100	87	196	185	76	68

[1] Official data published by the U.S.S.R. and East Germany include internal unexplained discrepancies. In particular, total exports and total imports, as given in their publications, differ from the sum of export and of imports when individual country data in these publications are added.
[2] 1962 trade data. At the present time 1963 data are not available.
[3] Negligible.

SUMMARY INDEX

(List of witnesses appears alphabetically in the contents)

Page

Agricultural commodities 229
Aid, possibility of cooperative program with U.S.S.R 8
Aiken, Senator George D.:
  Examination of witnesses:
    Berman, Prof. Harold J 115–117
    Frank, Prof. Isaiah 139, 141–142
    Kennan, Dr. George F 168
Air transport 265
Allied trade unity:
  Institutional framework to help create 103
  Steps necessary for 102
Allies deprived of markets if Soviet trade expands 57
American investment in Western Europe, significance of 142
Analysis of Soviet trade with the West 181
Arguments against Soviet trade seen fallacious 106, 129
Balance of payments:
  Seriousness of problem 197
  Trade aids problems of 68, 86
Bankers extend loans if Government guarantees risk 90
Battle Act:
  Provisions of the 146
  Restrictions on trade under the 18
Benefits of normal East-West trade 148, 151
Book publishing in the U.S.S.R 199
British policy toward East-West trade 126
Business and labor, relative interests of, over trade policies 9
Businessmen:
  Export controls hinder United States 110
  Moscow conference 56
  Summary of report to President on trip to Soviet Union 24
  Trip of United States, to Russia 45
Capacity of Communist bloc to trade on commercial basis with West 175
Captive nations versus totalitarian Red states 96
Cargo Preference Act Assists U.S. merchant fleet 70, 74
Change in United States and U.S.S.R. relations since 1962 18
Changes in the Soviet Union 26, 166, 168, 262
Chemicals 209
China, People's Republic of:
  French recognition of 51
  Trade with 256
Committee on trade, proposal for high-level 125
Commodity prices, proposal to control 145
Communication between East and West not aided by trade 100
Communist countries:
  Economic difficulties 235
  Possible dumping by 116
  Trade of NATO countries with 298
Communist import trade, amount of 64
Communist system, wise U.S. policies could help changes in 167
Cooperative aid, possibility of program with U.S.S.R 8
Comparisons of United States–Soviet goods 46
Consumer goods:
  In U.S.S.R., low priority of 139
  Possible adjustments in imports by U.S.S.R 139

Page
Contacts of United States with Soviets 108
Copyright relations between United States and U.S.S.R 199
Cotton 204
Credit:
Amended arrangements requested 69, 73
Approval for government guarantees for long-term, sought 85
Discussion on granting credit 206, 246
Extend, for normal commercial dealings 117
Importance of 5
Legislative restrictions on Soviet loans 88
Long-term, from free world to Communist countries 269
Position on long-term loans and 149
Question of granting long-term 58, 175
Reasons for U.S. banks restraint in financing Soviet trade 87
Restrictions on financing trade with bloc need clarifying 84
To U.S.S.R. opposed, other than normal commercial 138
Trade on a cash or short-term basis 174
Western European countries finance Soviet exports 86
Denial of trade to East does damage to political relations 166
Desirability of increased trade with the U.S.S.R 59
Developing countries:
Political consequences of trade by U.S.S.R. with 138
Rules needed for trade between U.S.S.R. and 140
Russian oil interests in 20
Should adopt property rights convention 172
Development of the Red trade weapons 97
Dock strike, effect of recent, on trade 82
Dumping:
Charges of, against the U.S.S.R 121
Definition of 116
Differing definitions of 137
Possibility of, by Communist countries 116
Question of, by the United States 115, 131
Eastern Europe:
Effect of Yugoslav policy on countries in 162
Trade with principal countries of 287
Trade with the Soviet Union and 254
United States should encourage trade independence in 133
Electrical machinery 252
Electronics 219
Embargo, U.S. policy of, seen ineffective 25
Equal trade of scientific know-how unopposed 128
Europe, use of Russian oil 14
Export controls:
Administration of, seen unnecessarily restrictive 144, 210
Alinement of, to the U.S.S.R.'s 134
Criticism of present 125
Hinder U.S. businessmen 110
Significance of 52
Withdrawal of export controls help relations with our allies 135
Export-Import Bank:
Guarantees, consequence of restrictions on 83
Possibility of modifying restrictions 93
Possible finance of United States and U.S.S.R. trade by 52
Provisions of the act for 147
Reexamination of guarantee restrictions 120
Fair trade practice code:
For international trade 4, 6
Likelihood of Soviet agreement to 160
Outline of 4, 6
Farm equipment 220
Farm products 253
Feasibility of expanded East-West trade 57
Foreign debt settlement called for 171, 178
Foreign investment—Important source of income 173
Foreign policy, objectives of United States 216

Page
France's recognition of Communist China ... 51
Free world:
Oil, relative demand to supply of ... 21
Trade with Sino-Soviet bloc ... 295
Furs ... 222
Fulbright, Senator J. W.:
Examination of witnesses:
Berman, Prof. Harold J ... 106, 111–114, 115–116, 123–129
Blackie, William ... 28, 45–48, 51–54
Dobriansky, Dr. Lev E ... 101–104
Frank, Prof. Isaiah ... 135, 136, 145–146
Hardy, Howard ... 70–71, 77–79
Haynes, Elliott ... 62–65
Javits, Senator Jacob K ... 8–9
Kennan, Dr. George F ... 149, 160–163, 166–167, 170
Nickerson, A. L ... 14–18, 21–22
Page, W. H ... 86–88, 89–90, 93–94
Gold, drain of U.S. supply aggravated by the French ... 197
Gross national product, growth rate of the Soviet ... 261
Increased trade will help improve United States and U.S.S.R. relations ... 61
Industrial machinery ... 234
Inefficiencies of U.S.S.R. import-export system cited ... 109
Interest equalization tax now applicable to bank loans ... 91
International trade:
Economic progress ... 217
Fair trade practice code for ... 4, 6, 160
Iron and steel products ... 232
Johnson Act:
Possibility of repealing ... 92
Provisions of the ... 146
Regulations under ... 121
Joint United States-Soviet ventures a possibility ... 59, 63
Lausche, Senator Frank J.:
Examination of witnesses:
Berman, Prof. Harold J ... 110–111, 116–117, 118–123
Dobriansky, Dr. Lev E ... 99–101
Frank, Prof. Isaiah ... 142–145
Hardy, Howard ... 79–82
Nickerson, A. L ... 15, 18–21
Page, W. H ... 90–93
Legislative restrictions on Soviet loans ... 88
Lend-lease debts ... 61
Licensing:
Present requirements not clearly defined ... 69, 72
Problems of ... 230
Machine tools ... 242
Merchant fleet, size of the United States ... 61, 74
Most-favored-nation treatment:
By the United States of imports from Communist countries ... 274
Caution approach to ... 173
Effect of denying, to Yugoslavia ... 160
For Bulgaria or Czechoslovakia? ... 162
Possible Presidential discretion ... 53
Mutual advantage—motive for trade ... 114
National security:
Effect of expanded trade on ... 60
Trade in light of ... 111
NATO, trade of, countries with Communist countries ... 298
Oil:
Consequences of Soviet exports ... 13
Determination of prices of Soviet ... 15
European use of Russian ... 14
Growth in reserves, demand and production ... 239
Importance of Russian exports ... 11
Increasing shipments in Soviet tankers ... 15
Production, Russian imports aid technology of ... 20

	Page
Oil—Continued	
Relative demand to supply of free world	21
Rumanian processing plant	266
Russian interests in developing countries	20
Russian pipelines	11
Soviet bloc exports to free world	11, 240, 284
Soviet production	10
Soviet production benefited by increased foreign trade	12
Statistics on Socony-Mobil Oil Co., Inc., production	49
Outstanding obligations of, and credits for, Soviet bloc countries, Yugoslavia and Cuba	270
Patent rights, Russians respect	63
Peaceful uses of East-West trade	248
Political and economic ramifications of East-West trade	3, 95
Political concessions, use trade as leverage for	98, 99
Political conditions placed on trade expansion	113
Political consensus needed to alter trade policy	137
Political consequences of trade by U.S.S.R. with developing countries	138
Political considerations sometimes dictate trade policies	128
Presidential waiver of provisions of certain laws relating to East-West trade	146
Private companies dealing with a Government trading system	63
Public Law 480, freight differential subsidies under	70, 74
Reasons for U.S. low trade levels with the U.S.S.R.	133
Restriction of trade penalizing only the United States	163
Rice	214
"Russia—Borrowing From the Capitalists," article from Time magazine, February 12, 1965	39
Selling of prototype equipment to the U.S.S.R.	121
Shipping:	
American bottom requirement	79
Problems of	231
Subsidy arrangement to, called inadequate	70, 74
Sino-Soviet bloc, free world trade with	295
Soviet bloc:	
Little trade with, by American subsidiaries abroad	170
Oil exports to the free world	284
Possible dangers of dealing with the trade monopoly	150
Soviet Union:	
Arbitrary bilateral agreements of	140
Attitude to China's and United States participation in Vietnam	168
Changes in economic system	26, 166, 168, 262
Consequences of oil exports	13
Continuing need of the, for wheat	78
Demands on Russian economy	58
Economy is making progress	114
European use of Russian oil	14
Full operation of farms in	82
Growth rate of the gross national product	261
Has much to sell	57
Inefficiencies of export-import system cited	109
Interest in capital and consumer goods	64
Low priority of consumer goods in	139
1958 proposal for extended trade with United States	112
1964 proposal for extended trade with United States	113
Oil interests in developing countries	20
Oil production	10
Oil production benefited by increased foreign trade	12
Position of, on barter deals	62
Sensitive to international public opinion	146
Tariff treatment of U.S. goods	276
Trade with the, and Eastern European nations	254
U.S. economic contributions to Russia's inner empire	95
Volume of bloc oil exports to free world	11
Strategic and nonstrategic trade, distinction between	17, 237
Strategic trade controls irritating to Russians	62
Summary of 1963 official trade statistics of the Soviet Union	276

Page
Superiority of American system, trade would show 47
Symington, Senator Stuart:
Examination of witnesses:
Blackie, William 28–29, 49–51, 54
Danielian, N. R 172, 197–198
Kennan, Dr. George F 149–150, 163–166, 168–169
Technology:
Equal trade of scientific know-how unopposed 128
List of recent acquisitions of western, by the U.S.S.R 179
Opposition to transfer of 208
Question of Russians copying United States products 58
Russian imports aid, of oil production 20
Selling of prototype equipment to the U.S.S.R 121
Textile manufacturing 234
Tractors, comparison of United States-Soviet 46
Trade:
Advisability of, with Russia 16
A political vehicle 8
As instrument of more aggressive national policy 30
Controls to foster trade 107
Criticism of the purposes of present laws 142
In Communist countries where allies trade 54
In light of national security 111
Provides channels of communication 28
Russians abide by contracts 53
Seen as aid to satellite governments, not people 101
Serving or harming U.S. National interests? 123
With satellites might benefit Russia 19
Trade expansion:
Differences in, potential of U.S.S.R. and satellites 12
Effect of, on National security 60
Political conditions placed on 113
Political importance to United States of 3
Steps necessary to 60
Stumbling blocks to, between United States and U.S.S.R 51
To show Communist weaknesses and to aid free enterprise 30
U.S. employment affected by 54
Will help improve United States and U.S.S.R. relations 61
Trade negotiations:
Assume United States equal to U.S.S.R. in 127
Need for 5
Trade policies:
Free hand for the executive in adapting 136
Need for clarification 68, 72, 78
Need for guidelines for 85
Political consensus needed to alter 137
Political considerations sometimes dictate 128
Reasons for reexamination of East-West 26, 143
Relative interests of business and labor over 9
Should be unified with allies 98, 102
Suggestions for 3
Treat satellite countries individually on 28
Uncertainty by business of U.S. 52
Trade restrictions:
Must protect property rights before relaxing 172, 176
Under the Battle Act 18
Recommendations to ease 119
Revision not abolition of 125
Should conform with trade policy declaration 78
Treaty of friendship and commerce suggested 61
United States:
Economic contribution to Soviet Russia's inner empire 95
Only major country not selling behind the Iron Curtain 50
Trade with principal countries of Eastern Europe 287
Vietnam, Soviet attitude to China's and United States participation in 168

Page

Western Europe:
Countries finance Soviet exports 86
Countries guarantee Soviet loans 89
Countries in default on debts to the United States 93
Policy unity before the U.S. trade with the Soviets? 126
Significance of American investment in 141
U.S. trade competition with 165
Wheat:
Amount and cost of storing U.S. surplus 79
Continuing need of the Soviet Union for 78
Cost of production—United States and U.S.S.R 79
Difficulties of United States sale to Russia 78
Direct subsidization to commercial sellers proposed 81
Restrictions on production of, in other countries 77
Sale of wheat to Soviet bloc 218, 220
Sales to continue? 145
U.S. controls on exports 67
Williams, Senator John J.:
Examination of witnesses:
Berman, Prof. Harold J 117–118
Blackie, William 54–55
Page, W. H 88–89, 91–92
Yugoslavia:
Effect of denying most-favored-nation treatment to 160
Effect of policy on Eastern European countries 162
"Revisionist" policy of 161

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