

**EAST-WEST ECONOMIC ISSUES, SANCTIONS  
POLICY, AND THE FORMULATION OF  
INTERNATIONAL ECONOMIC POLICY**

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**HEARING**  
BEFORE THE  
SUBCOMMITTEES ON  
EUROPE AND THE MIDDLE EAST  
AND ON  
INTERNATIONAL ECONOMIC POLICY AND TRADE  
OF THE  
COMMITTEE ON FOREIGN AFFAIRS  
HOUSE OF REPRESENTATIVES  
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<sup>1</sup> Submitted by the Department of State.

# EAST-WEST ECONOMIC ISSUES, SANCTIONS POLICY AND THE FORMULATION OF INTER- NATIONAL ECONOMIC POLICY

THURSDAY, MARCH 29, 1984

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON FOREIGN AFFAIRS,  
SUBCOMMITTEES ON EUROPE AND THE MIDDLE EAST  
AND ON INTERNATIONAL ECONOMIC POLICY AND TRADE,  
*Washington, D.C.*

The subcommittees met in joint session at 10:15 a.m., in room 2172, Rayburn House Office Building, Hon. Tom Lantos, presiding.

Mr. LANTOS. The Subcommittees on Europe and the Middle East and on International Economic Policy and Trade meet today to review U.S. policy concerning East-West economic relations and the formulation of U.S. international economic policy.

A number of questions concerning East-West economic relations concern Congress. After the repeal of the Yamal pipeline sanctions in November 1982, Secretary of State George Shultz announced a series of steps to be undertaken that would contribute to a common policy on East-West trade.

The Congress is interested in knowing the results of these measures, especially the revision of the Cocom list and the efforts to limit the flow of subsidized credit to the Soviet Union, and whether or not a more unified policy on East-West trade now exists.

The Congress also wishes to know the exact status of sanctions on Poland and the Soviet Union and what actions the administration expects to take on the sanctions in the near future.

Related to this matter is the question of the status of East European debt, particularly Poland's, the present U.S. policy concerning rescheduling debt payments, and the protection of American creditors.

These issues are part of a broader congressional concern about the formulation of U.S. international economic policy. Much of the world faces slow or no economic recovery. The growth of international indebtedness worsens, as is evident from this week's news about Argentina.

America's allies call for stronger leadership from the United States. Thus, there is concern about the principles guiding economic policy, the future course of American policy on international indebtedness and trade, and the impact of America's high interest rates and budget deficits on the world economy.

We are anxious to know what measures the administration is considering to solve these problems, particularly in light of the forthcoming economic summit in London in June.

Our witness today is the Honorable W. Allen Wallis, Under Secretary of State for Economic Affairs, and I might say a very distinguished economist.

Secretary Wallis has a major role in preparing policy on these issues. We are interested in hearing his testimony and remarks.

Secretary Wallis, we welcome you before the subcommittees. I understand you have a prepared statement which will be entered into the record in full, and we would like to suggest that you proceed with a summary of your prepared statement and any other remarks you would care to make.

Let me say, before you begin, Mr. Secretary, that as a professional economist myself, I am particularly delighted to welcome you to this hearing today, because you have brought to economic policy formulation a degree of professional expertise and background and knowledge which are remarkable.

We are delighted to welcome you.

#### STATEMENT OF HON. W. ALLEN WALLIS, UNDER SECRETARY FOR ECONOMIC AFFAIRS, DEPARTMENT OF STATE

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

I appreciate the personal compliments, and I am happy to be in a position to reciprocate.

I appreciate the opportunity to appear before a professional economist.

Mr. LANTOS. Could you bring the mike closer to you, Mr. Secretary? [Pause.]

We assume you want to speak with a strong and clear voice.

Mr. WALLIS. Actually, my voice is not in perfect condition, although it is recovering. I do not know whether that is a trip that I made to China last week, or just from talking too much around the State Department. But it is not as strong as it ought to be. So, I will move this in further.

But I do want to thank you also for the invitation to appear before the subcommittees. The administration welcomes this opportunity to review with you and your committees the current status of East-West commercial, financial, and credit relations.

I appreciate the fact that your staff has informed us in advance of the topics you just mentioned that you would like me to talk about, because there is no way I could appear and extemporaneously comment on all those subjects, and I may have trouble with some of those that come up in questioning. I have with me Mr. Thomas Niles, Deputy Assistant Secretary in charge of Economic Affairs, of the Bureau of European and Canadian Affairs at the Department of State.

I will focus my comments on the status of sanctions on the U.S.S.R. and Poland, on the status of our followup activities in the Organization for Economic Cooperation and Development [OECD] and the International Energy Agency [IEA] and on East-West commercial and energy relations, in the Coordinating Committee for Multilateral Security Export Controls [Cocom]—export controls on

technology transfer, and in NATO, on the security implications of East-West relations.

I have prepared a complete statement, as you noted, for the subcommittee's record on these matters, but I will not attempt to go through it, especially because it includes quite a number of pages of statistical tables, which I am sure you would not appreciate having me sit here and read.

Mr. LANTOS. Without objection, they will be part of the record, Mr. Secretary.

Mr. WALLIS. Thank you.

In order to leave as much time as possible for questions and discussions and comments by committee members, I will read a shortened version of the statement.

Let me say, first, though, a few words about the administration's overall approach to East-West trade. One of the principal objectives of this administration's policy toward East-West economic relations is to insure that our commerce with the East remains consistent with our broad security concerns.

We want to avoid economic exchanges, particularly transfers of technology, that contribute to the military potential of the U.S.S.R. and its allies, or that subsidize the heavily militarized Soviet economy and thus alleviate their difficult resource allocation decisions.

Our policy is not one of economic warfare against the Soviets. We do not seek the collapse of the Warsaw Pact economies, and we could not cause that in any case.

The administration believes in trade between the West and the Communist nations, as between any nations, where that trade is conducted at prevailing market prices and terms, where there is a balance of advantages, and where the transaction does not contribute to the strategic advantage of the Soviets.

Western consumers and producers, both agricultural and industrial, can benefit from trade within such an overall framework.

Now, we fully appreciate that the best approach to East-West economic policy is one that is coordinated with our allies and our principal economic partners.

Working over the past 2 years in Cocom, at the OECD, at NATO, in the IEA, and at the economic summit, we have achieved a significant degree of convergence in our economic policies with regard to the East.

The areas of agreement include: Strengthening controls on the export of strategic technology, enhancing the security of Western energy supplies, and tightening the credit terms that apply to East-West trade.

The United States and its partners have explicitly recognized that the Soviets use some form of trade to enhance their military capabilities, and, consequently, that the West must be vigilant to insure that its economic relations are consistent with its security interests.

It is these two themes: First, a recognition of the security implications of our trade with the East; and, second, an understanding that it is most effective to coordinate our policy with that of our partners that underlie most of my comments today.

Let me turn to a discussion of our sanctions policy, focusing first on the Soviet Union.

As you know, the United States announced sanctions against the Soviet Union in the wake of its invasion of Afghanistan. In 1981, following the imposition of martial law in Poland, President Reagan announced suspension of Aeroflot service, the closing of the Soviet Purchasing Commission, postponement of negotiations on a new long-term grain agreement, suspension of negotiations on a maritime agreement, and a new regime of port access, and a complete review of exchange agreements, including refusal to renew some agreements.

He also expanded controls on exports to the Soviet Union of oil and gas equipment and technology, and then suspended action on all license applications to sell either high-technology oil and gas equipment or the technology to the U.S.S.R.

And to demonstrate our dissatisfaction with the lack of progress toward reconciliation in Poland, the President later decided to expand to subsidiaries and licensees abroad our controls on the export of oil and gas equipment and technology.

Now, those steps demonstrated that the Soviet Union cannot enjoy a normal business relationship with this country after international behavior which we find totally repugnant.

While many of our sanctions remain in effect, they are kept under constant review to insure that they continue to serve their intended purpose.

In other words, they should not unfairly penalize the ability of American firms to compete in world markets, or damage this country's reputation as a reliable supplier.

A case in point is the sanctions on oil and gas equipment which were removed on November 13, 1982. The partial grain embargo against the U.S.S.R. was also lifted, and subsequently the United States negotiated a long-term grain agreement with Moscow.

Our economic measures against the Soviet Union have had, and will continue to have, an effect, but the impact remains difficult to quantify.

It is clear that the measures have imposed a cost on the Soviets and have forced a readjustment in our economic relations. There have, of course, also been costs to U.S. businesses and agriculture from lost orders and trade diversion.

With respect to the best publicized of the administration's economic sanctions against the Soviet Union, those related to construction of the export gas pipeline from Siberia to Western Europe, the Soviets completed the pipelaying phase of this project last year, installed a small number of compressors, and have transported small amounts of gas over the line.

The Soviets have met their initial delivery commitments to Western European customers by using surplus capacity in existing pipelines.

However, we should recall that the Soviets originally planned to complete the project, including both laying the pipe and installing all compressor stations by 1984. We now estimate that this will not be finished until 1986. Much of the delay can be attributed to our sanctions.

Moreover, in evaluating the effectiveness of our sanctions, it is impossible to ascertain to what extent the Soviets have been forced

to divert resources from other important projects in attempting to complete the pipeline.

Our Polish sanctions included the following actions: A freeze on new official credits, the suspension of debt-rescheduling negotiations and the suspension of Poland's most-favored-nation status [MFN status], opposition of Poland's membership in the IMF, the suspension of landing rights for the regularly scheduled flights of the Polish airline LOT, withdrawal of Polish fishing rights in U.S. waters, suspension of travel between Poland and the United States under the Marie Sklodowska Curie Joint Travel Fund, which finances the joint scientific research projects, and suspension of the Export-Import Bank's line of credit insurance for Poland.

To encourage national reconciliation in Poland, the administration has adopted a step-by-step approach on our Polish policy, which is designed to reward positive steps by the Polish Government on the political, economic, and human rights fronts.

Thus, in November, the President endorsed two limited steps to ease economic sanctions on Poland. First, we agreed with our allies to enter into debt-rescheduling discussions, and we are continuing to participate in Paris Club discussions with the Poles.

We also agreed to permit Polish officials to engage in discussions with private U.S. fishing interests about potential fishing arrangements. And those steps represented a response to positive developments in Poland, specifically last summer's successful papal visit and the release of the majority of political prisoners.

On January 16, in response to Lech Walesa's call for an easing of sanctions, the President decided to take two further steps. We will permit 88 Polish charter flights between the United States and Poland this year, and we have lifted the ban on fishing by Polish vessels in U.S. waters. As soon as the legal requirements for economic cooperation with U.S. fishing interests are met, the Poles will be issued an allocation of fish.

An evaluation of the effectiveness of the administration's sanctions on Poland is difficult since the Polish economy was already adversely affected by the liquidity crisis and the bank retrenchments in late 1980.

If we believe the statements of the Polish Government, however, our Polish sanctions have exacted a huge toll on the Polish economy, with figures of \$10 billion and up in lost production and exports being quoted by Polish authorities.

The actual economic impact of U.S. sanctions has certainly been more limited, but there can be no question that the Polish Government has paid a heavy price for the suppression of human rights.

Our most effective economic sanction has been the embargo on new official credits. This has made Polish access to trade financing more difficult so that an increasing share of Poland's imports from the West has been on a cash-and-carry basis.

Nevertheless, for purely financial reasons, lending to Poland would have fallen off sharply even without official sanctions, because the market recognizes Poland to be a poor credit risk.

Our go-slow approach on debt rescheduling has also impeded Polish efforts toward normalization of financial relations.

On the other hand, Poland has not made any significant payments on debt to Western Governments since early 1982 and this de facto moratorium has eased the Polish payments burden.

Meanwhile, Poland has used the excess hard currency earned by reducing imports and boosting exports to make substantial payments to private bank creditors, which have signed three debt re-scheduling agreements.

In 1981, 1982, and 1983, net Polish payments to Western banks totaled some \$4.7 billion.

The other U.S. sanctions on Poland have been less significant economically, though all have had a symbolic effect.

The Department of Commerce is now completing an assessment of the effects of MFN withdrawal on exports to the United States, and we shall make that study available to the subcommittee upon completion later this spring.

The preliminary assessment is that suspension of MFN reduced Polish exports to the United States and we are now evaluating its exact impact. The suspension of the Marie Skłodowska Curie Funds has curtailed, though it has not completely eliminated scientific exchanges with Poland.

I would like to say a few words about allied cooperation on sanctions. In response to Soviet actions in Poland, the European Community took steps in December 1981 to reduce imports of 56 Soviet products, including vodka, furs, diamonds, salmon, caviar, tractors, and other products. Those sanctions reduced Soviet exports of those items by \$122 million in both 1982 and 1983. The sanctions were not renewed when they expired at the end of 1983.

With respect to Poland, the NATO allies agreed in January 1982 to halve new official credits to Poland, and postpone debt-rescheduling negotiations. Our allies remain unwilling to offer new credits to Poland, though debt-rescheduling talks in the Paris Club were resumed last fall.

While the impact of these economic measures has, in general, been less important than ours, in joining us, even with symbolic measures, the alliance has nevertheless sent Moscow and Warsaw an important message on Western unity. This message has been reinforced by allied agreement in late 1982 to review key aspects of East-West economic relations in the OECD, Cocom, NATO, and IEA, and to initiate several key studies.

These efforts have produced a number of concrete results and in the process substantially increased allied awareness of the economic and security implications of East-West trade.

For example, as a result of our common efforts in the OECD, we are now able to monitor more closely the West's trade and financial relations with Eastern Europe and the U.S.S.R. to help insure that these relations remain on a sound market-oriented footing.

The OECD work program seeks to improve information exchange through enhanced data collection so that more comprehensive, integrated debt and financial statistics can be placed at the disposal of Western policymakers.

On the analytical side, efforts are well underway to integrate more fully the organizations' trade and financial analysis, and the quality of the reports has already improved measurably.

For the future, we intend to press for expanded OECD work in a number of areas including the balance of advantages in East-West trade, with special emphasis on countertrade practices.

The OECD export credit arrangement has been the focus of our efforts to reduce official support of export credits to the Soviet Union and Eastern Europe. These efforts are part of our broader objective of reducing credit subsidies worldwide.

With the successful negotiation of a new OECD export credit arrangement last October, we achieved our principal objectives, including holding the line on rates to category I countries—that is, relatively prosperous countries, including the Soviet Union.

This consolidated the gains made in 1982, when participants in the arrangement agreed to raise minimum rates for countries including the Soviet Union from 8.75 percent to 12.4 percent.

With that action and the general decline in market interest rates over the past 2 years, credit subsidies to the Soviet Union from most OECD countries have been greatly reduced.

The new arrangement provisions also feature automatic adjustment to average market rates, which will help prevent any future subsidization.

In parallel efforts over the past year in the NATO Economic Committee, we have sought to underscore the security aspects of our trade and financial relationships with the Soviet Union and Eastern Europe.

There is now a stronger consensus than ever that economic relations should not be permitted to contribute to Soviet and Warsaw Pact military capabilities.

In their communique last June, the NATO ministers stressed that East-West economic relations must be consistent with our shared security interests and that we must exercise caution in the transfer of technology, in dependency relationships, and in other economic dealings that could contribute to the military capabilities of the Soviet Union.

This heightened awareness of the security ramifications of East-West economic relations also has had a positive impact on Cocom negotiations.

In Cocom discussions over the past year, we have studied ways of improving surveillance and control over Western exports that have strategic or military relevance to the Warsaw Pact nations.

At an April 1983 Cocom high-level meeting, we explored a number of ways in which the multilateral system of controls could be strengthened. Specifically, our partners agreed that several categories of oil and gas equipment and technology warrant consideration for possible inclusion in the multilateral embargo.

Preliminary agreement has already been reached for addition to the Cocom list of several other oil- and gas-related proposals made by the United States.

And finally, Cocom has agreed to the establishment of a proposed course—a proposal of ours to inventory emerging technologies that should be monitored for their potential strategic applications.

Perhaps our greatest success in Cocom, however, has been the significant headway that has been made toward strengthening the effectiveness of the Cocom embargo.

Governments of our Cocom allies are now giving increased attention to the problem of enforcement, and are devoting significantly increased resources to such activities.

Moreover, a high priority has been placed on resolving the problem of diversions through third countries. Cooperative efforts are underway to insure that third countries are aware of the risk of illegal diversions through their territories to the Warsaw Pact.

In the energy sector, the President has urged European countries to consider the security implications of the new Soviet gas pipeline and to examine indigenous alternatives for meeting West European requirements for natural gas.

While the Western dialog on energy security and natural gas dependence was strained by the controversy over the Siberian pipeline and the U.S. sanctions, a serious dialog has emerged about European natural gas requirements, the potential of such alternative sources as Norway, and the need to improve preparedness against gas supply interruptions.

Last year the combined OECD and IEA Secretariat completed an "Energy Requirements and Security Study," whose most important analysis centered on natural gas in Western Europe.

IEA and OECD ministers subsequently endorsed a set of policy conclusions drawn from the combined Secretariat study, including a set of interrelated principles on the secure development and use of natural gas.

The IEA study had a real impact on the thinking of Western officials responsible for planning Western energy supplies for the 1990's and beyond, and there is a new emphasis on developing secure energy sources, including OECD gas fields.

To summarize, the formulation and implementation of U.S. policy toward economic relations with the Soviet Union and its allies is, necessarily, a balancing act.

On one extreme is unrestrictive economic intercourse with the East, nothing held back. On the other extreme is a total embargo, nothing traded, financed, or exchanged. Now, scarcely anyone would support either extreme.

The question is where to draw the line.

My testimony has reviewed the Reagan administration's approach to drawing the line. The administration's objective as contained in a recent White House press release is to insure that there is an appropriate balance between national security and export interests.

We are working continually with our allies to carry out that objective. We have made substantial headway over the past 2 years in advancing our concerns about the conduct of East-West economic relations and in strengthening our collective approach to East-West economic policy formulation. There can be no doubt that Western security interests have benefited as a result.

Nevertheless, much remains to be done, and will be undertaken in the work planned by the key multilateral institutions.

We intend to persevere in all the areas relevant to Western security, knowing full well that building consensus among democratic countries is necessarily a long-term commitment.

Thank you very much, Mr. Chairman.

Mr. LANTOS. Thank you very much, Mr. Secretary.

[Mr. Wallis' prepared statement follows:]

PREPARED STATEMENT OF HON. ALLEN W. WALLIS, UNDER SECRETARY FOR ECONOMIC AFFAIRS, DEPARTMENT OF STATE

IT HAS BEEN A PRINCIPAL OBJECTIVE OF THIS ADMINISTRATION TO LINK CLOSELY OUR ECONOMIC POLICIES WITH OUR BROADER POLITICAL-SECURITY OBJECTIVES TOWARD THE WARSAW PACT. WE MUST ENSURE THAT ECONOMIC EXCHANGES, PARTICULARLY WHERE TECHNOLOGY TRANSFER IS INVOLVED, DO NOT CONTRIBUTE SIGNIFICANTLY TO THE MILITARY POTENTIAL OF THE USSR AND ITS ALLIES. WE ALSO SEEK TO ENSURE THAT THE TRADE AND CREDIT PRACTICES OF WESTERN GOVERNMENTS DO NOT DISTORT OR SUBSIDIZE TRADE IN FAVOR OF THE EAST, THUS ALLEVIATING THE DIFFICULT RESOURCE ALLOCATION CHOICES IMPOSED BY THE WARSAW PACT'S MILITARY BUILDUP. WE ARE NOT, HOWEVER, ADVOCATING ECONOMIC WARFARE AGAINST THE SOVIETS, NOR DO WE SEEK THE "COLLAPSE" OF THE WARSAW PACT ECONOMIES. ON THE CONTRARY, THIS ADMINISTRATION SUPPORTS MUTUALLY BENEFICIAL TRADE BETWEEN THE WEST AND THE COMMUNIST NATIONS AS LONG AS THAT TRADE IS CONDUCTED AT PREVAILING MARKET PRICES AND TERMS, AS LONG AS THERE IS A MUTUAL BALANCE OF ADVANTAGES, AND PROVIDED THE SPECIFIC TRANSACTIONS DO NOT CONTRIBUTE DIRECTLY TO THE STRATEGIC ADVANTAGE OF THE SOVIETS. WESTERN CONSUMERS AND PRODUCERS, BOTH AGRICULTURAL AND INDUSTRIAL, CAN BENEFIT FROM TRADE WITHIN SUCH AN OVERALL FRAMEWORK.

BECAUSE OF THE POTENTIAL HAZARDS AND BENEFITS OF EAST-WEST ECONOMIC RELATIONS, IT IS AN AREA WHICH MUST BE UNDER CONSTANT U.S. GOVERNMENTAL REVIEW AND THE SUBJECT OF CLOSE AND REGULAR

CONSULTATIONS WITH OUR ALLIES AND PRINCIPAL ECONOMIC PARTNERS. THERE CAN BE NO DOUBT THAT THE MOST EFFECTIVE APPROACH TO EAST-WEST ECONOMIC POLICY IS THROUGH CONSULTATIONS WITH OUR ALLIES, AND WE HAVE SOUGHT CONSISTENTLY TO TAKE INTO ACCOUNT THEIR INTERESTS AND CONCERNS. DIFFERENCES OF PERCEPTION WITHIN THE ALLIANCE AND VARIATIONS IN THE PACE AT WHICH VIEWS HAVE EVOLVED SOMETIMES HAVE MADE THE PATH ROCKY. YET, THROUGH PATIENCE AND STATESMANLIKE DETERMINATION, WE HAVE FORGED A COMMON APPROACH TO EAST-WEST ECONOMIC RELATIONS. IN THE COORDINATING COMMITTEE FOR MULTILATERAL EXPORT CONTROLS (CCECM), AT THE OECD AND THE INTERNATIONAL ENERGY AGENCY (IEA), IN NATO, AND AT THE ECONOMIC SUMMITS, WE HAVE STRUCTURED A SOUND BASIS FOR WESTERN ECONOMIC POLICY TOWARD THE EAST WHICH SHOULD SERVE US WELL FOR THE REST OF THE DECADE.

#### RECENT ECONOMIC DEVELOPMENTS

THE USSR ENCOUNTERED MAJOR LIQUIDITY PROBLEMS IN 1981 DUE TO FALLING PRICES FOR ITS OIL EXPORTS, UNUSUALLY HIGH FOOD IMPORT REQUIREMENTS, AND THE INCREASED FINANCIAL DEMANDS OF ITS WARSAW PACT PARTNERS, MOST PARTICULARLY POLAND. THE SOVIETS RESPONDED BY DRAWING ON ASSETS IN WESTERN BANKS, GOLD SALES AND INCREASED BORROWING FROM WESTERN BANKS. OVERALL INDEBTEDNESS TO THE WEST INCREASED SHARPLY, AND HAD IT CONTINUED, WOULD HAVE BEEN A SUBJECT OF GROWING CONCERN. IN FACT, THE SOVIET BALANCE OF PAYMENTS SITUATION HAS STEADILY IMPROVED SINCE 1981, TURNING

IN SIZEABLE HARD CURRENCY CURRENT ACCOUNT SURPLUSES IN 1982 AND 1983. SOVIET ASSETS IN WESTERN BANKS HAVE INCREASED STEADILY WHILE NET INDEBTEDNESS TO THE WEST HAS FALLEN. THE SOVIET ECONOMY HAS FOR THE PAST SEVERAL YEARS EXPERIENCED LOW (BY HISTORICAL STANDARDS), BUT POSITIVE ECONOMIC GROWTH. IT CONTINUES TO BE PLAGUED BY FUNDAMENTAL STRUCTURAL PROBLEMS SUCH AS DECLINING LABOR PRODUCTIVITY, SECTORAL BOTTLENECKS AND CONTINUED INEFFICIENT RESOURCE ALLOCATION.

THE ECONOMIC SITUATION IN EASTERN EUROPE, SERIOUSLY IMPAIRED AS A RESULT OF THE POLISH FINANCIAL CRISIS IN 1981 AND THE WESTERN BANK REACTION TO THAT CRISIS HAS, WITH THE NOTABLE EXCEPTION OF POLAND, ALSO IMPROVED, BUT THE PROSPECTS FOR THE LONGER TERM VIABILITY OF THE EASTERN EUROPEAN ECONOMIES SEEMS MORE UNCERTAIN. AS THE FIRST REGION TO BE HIT BY THE CREDIT CRUNCH, EASTERN EUROPEAN GOVERNMENTS WERE ALSO THE FIRST TO UNDERTAKE DRACONIAN ADJUSTMENT MEASURES, PRINCIPALLY BY SLASHING HARD CURRENCY IMPORTS -- PARTICULARLY OF INVESTMENT GOODS -- TO ACHIEVE SURPLUSES ON THEIR TRADE AND CURRENT ACCOUNTS. EXCEPT IN HUNGARY, MORE FUNDAMENTAL STRUCTURAL REFORMS HAVE NOT BEEN ATTEMPTED, HOWEVER. THE IMPACT ON ECONOMIC GROWTH HAS BEEN PREDICTABLE. THE REDUCTION IN WESTERN IMPORTS AND THE REDUCED FLOW OF NEW CREDITS HAS BEEN A KEY FACTOR IN THE DECLINE OF GNP, WHICH FELL BY 0.5 PERCENT ANNUALLY IN 1980-82 COMPARED WITH AN ANNUAL AVERAGE GROWTH OF 2.5 PERCENT IN 1976-79.

THE HALT IN NEW BANK LENDING TO THE REGION HAS RESULTED IN A NET FINANCIAL OUTFLOW TO THE WEST AS EASTERN EUROPEAN COUNTRIES HAVE BEGUN TO PAY OFF THEIR DEBTS. THE REDUCTION IN THE REGION'S NET BANKING DEBT TO (BIS) REPORTING BANKS BETWEEN END-1981 AND MID-1983 AMOUNTED TO \$11.9 BILLION -- A REDUCTION OF OVER ONE QUARTER. THERE ARE NOW SOME TENTATIVE SIGNS OF RENEWED BANK INTEREST IN LENDING TO THE MORE CREDITWORTHY COUNTRIES, BUT THE OVERALL ATTITUDE REMAINS ONE OF CAUTION. THERE IS CONCERN THAT THE SUPPRESSION OF IMPORTS OF CAPITAL AND INTERMEDIATE GOODS MAY HAVE ADVERSELY AFFECTED LONG TERM GROWTH PROSPECTS AND EXPORT COMPETITIVENESS. IN LIGHT OF THIS BANK RELUCTANCE TO LEND, LUCKLUSTER EXPORT PERFORMANCE, AND EXISTING LARGE DEBT SERVICE OBLIGATIONS, THE EASTERN EUROPEAN ECONOMIES WILL REMAIN UNDER FINANCIAL PRESSURE -- IN SOME CASES SEVERE PRESSURE -- FOR THE FORESEEABLE FUTURE. WHETHER THIS WILL PROVIDE THE IMPETUS FOR RENEWED REFORM AND EXPERIMENTATION AS IN HUNGARY, OR INCREASED AUTARKY AND RELIANCE ON CEMA TRADE AS MAY BE THE CASE IN POLAND, REMAINS TO BE SEEN. (BALANCE OF PAYMENTS AND FINANCIAL STATISTICS ON THE USSR AND EASTERN EUROPE ARE APPENDED TO THIS STATEMENT.)

#### SANCTIONS POLICY

USSR. THE UNITED STATES ANNOUNCED SANCTIONS AGAINST THE SOVIET UNION IN THE WAKE OF THE SOVIET INVASION OF AFGHANISTAN. FOLLOWING THE IMPOSITION OF MARTIAL LAW IN POLAND, PRESIDENT REAGAN ANNOUNCED FURTHER SANCTIONS. THESE INCLUDED THE

SUSPENSION OF AEROFLOT SERVICE, CLOSING OF THE SOVIET PURCHASING COMMISSION, POSTPONEMENT OF NEGOTIATIONS ON A NEW LONG TERM GRAINS AGREEMENT, SUSPENSION OF NEGOTIATIONS ON A MARITIME AGREEMENT AND A NEW REGIME OF PORT ACCESS, AND A COMPLETE REVIEW OF EXCHANGE AGREEMENTS, INCLUDING REFUSAL TO RENEW SOME AGREEMENTS. HE EXPANDED CONTROLS ON EXPORTS TO THE SOVIET UNION OF OIL AND GAS EQUIPMENT AND TECHNOLOGY, AND THEN SUSPENDED ACTION ON ALL LICENSE APPLICATIONS TO SELL EITHER HIGH TECHNOLOGY OIL AND GAS EQUIPMENT OR TECHNOLOGY TO THE USSR. TO DEMONSTRATE OUR DISSATISFACTION WITH THE LACK OF PROGRESS TOWARD RECONCILIATION IN POLAND, THE PRESIDENT DECIDED JUNE 10, 1982, TO EXPAND TO SUBSIDIARIES AND LICENSEES ABROAD OUR SANCTIONS ON THE EXPORT OF OIL AND GAS EQUIPMENT AND TECHNOLOGY.

THESE STEPS DEMONSTRATED THAT THE SOVIET UNION CANNOT ENJOY A NORMAL BUSINESS RELATIONSHIP WITH THIS COUNTRY IN THE FACE OF INTERNATIONAL BEHAVIOR WHICH WE FIND OBJECTIONABLE. WHILE MANY OF OUR SANCTIONS REMAIN IN EFFECT, THEY ARE KEPT UNDER CONSTANT REVIEW TO ENSURE THAT THEY CONTINUE TO SERVE THEIR INTENDED PURPOSE, DO NOT UNFAIRLY PENALIZE THE ABILITY OF AMERICAN FIRMS TO COMPETE IN WORLD MARKETS, OR DAMAGE THIS COUNTRY'S REPUTATION AS A RELIABLE SUPPLIER. FOR EXAMPLE, THE SANCTIONS ON OIL AND GAS EQUIPMENT WERE REMOVED NOVEMBER 13, 1982, IN THE CONTEXT OF UNDERSTANDINGS WITH THE ALLIES ON AN EAST-WEST WORK AGENDA. THE PARTIAL GRAIN EMBARGO AGAINST THE USSR WAS ALSO LIFTED, AND SUBSEQUENTLY THE U.S. NEGOTIATED A NEW

LONG TERM GRAIN AGREEMENT WITH MOSCOW. (A LIST OF THE SANCTIONS STILL IN EFFECT AGAINST THE USSR IS ATTACHED TO THIS STATEMENT.)

OUR ECONOMIC MEASURES AGAINST THE SOVIET UNION HAVE HAD, AND WILL CONTINUE TO HAVE, AN EFFECT, BUT THE IMPACT REMAINS DIFFICULT TO QUANTIFY. THE MEASURES HAVE IMPOSED A COST ON THE SOVIETS FOR THEIR BEHAVIOR AND HAVE FORCED A READJUSTMENT IN OUR BILATERAL ECONOMIC RELATIONS. THERE HAVE, OF COURSE, ALSO BEEN COSTS TO U.S. BUSINESSES AND AGRICULTURE IN LOST ORDERS AND TRADE DIVERSION. WITH RESPECT TO THE BEST PUBLICIZED OF THIS ADMINISTRATION'S ECONOMIC SANCTIONS AGAINST THE SOVIET UNION -- THOSE RELATED TO CONSTRUCTION OF THE EXPORT GAS PIPELINE FROM SIBERIA TO WESTERN EUROPE -- THE SOVIETS COMPLETED THE PIPELAYING PHASE OF THIS PROJECT LAST YEAR, INSTALLED A SMALL NUMBER OF COMPRESSOR SETS, AND HAVE TRANSPORTED RELATIVELY SMALL AMOUNTS OF GAS OVER THE LINE. THE SOVIETS HAVE MET THEIR INITIAL CONTRACTED DELIVERY COMMITMENTS TO WESTERN EUROPEAN CUSTOMERS FOR THE GAS, USING SURPLUS CAPACITY IN PREVIOUSLY EXISTING PIPELINES. HOWEVER, WE SHOULD RECALL THAT THE SOVIETS ORIGINALLY PLANNED TO COMPLETE THE PROJECT, INCLUDING BOTH LAYING THE PIPE AND INSTALLING ALL ASSOCIATED COMPRESSOR STATIONS, BY 1984. WE NOW ESTIMATE THAT THIS TASK WILL NOT BE FINISHED UNTIL 1986. WE BELIEVE MUCH OF THIS DELAY CAN BE ATTRIBUTED TO OUR SANCTIONS. MOREOVER, IN EVALUATING THE EFFECTIVENESS OF OUR SANCTIONS, IT IS IMPOSSIBLE FOR US TO ASCERTAIN TO WHAT EXTENT THE SOVIETS HAVE BEEN FORCED TO DIVERT RESOURCES FROM OTHER PRIORITY PROJECTS SIMPLY TO MEET THIS DELAYED TARGET FOR PIPELINE COMPLETION.

POLAND. OUR POLISH SANCTIONS INCLUDED A FREEZE ON NEW OFFICIAL CREDITS, THE SUSPENSION OF DEBT RESCHEDULING NEGOTIATIONS AND POLAND'S MOST-FAVORED-NATION STATUS, OPPOSITION TO POLAND'S MEMBERSHIP IN THE IMF, SUSPENSION OF LANDING RIGHTS FOR REGULARLY SCHEDULED FLIGHTS OF THE POLISH AIRLINE LOT, WITHDRAWAL OF POLISH FISHING RIGHTS IN U.S. WATERS, SUSPENSION OF TRAVEL BETWEEN POLAND AND THE U.S. UNDER THE MARIE SKLODOWSKA CURIE JOINT TRAVEL FUND (WHICH FINANCES JOINT SCIENTIFIC RESEARCH PROJECTS), AND SUSPENSION OF THE EXPORT-IMPORT BANK'S LINE OF CREDIT INSURANCE FOR POLAND. THE SANCTIONS ON NEW CREDITS INCLUDES CREDITS FOR AGRICULTURAL PRODUCTS SOLD TO THE POLISH GOVERNMENT. HOWEVER, THERE IS NO EMBARGO ON AGRICULTURAL TRADE WITH POLAND AND THE SALE OF U.S. AGRICULTURAL COMMODITIES FOR CASH HAS CONTINUED. WE ALSO HAVE A "NO EXCEPTIONS" POLICY IN COCOM FOR NATIONAL SECURITY CONTROLLED EXPORTS TO POLAND.

TO ENCOURAGE MOVEMENT TOWARD RECONCILIATION, THE ADMINISTRATION HAS ADOPTED A STEP-BY-STEP APPROACH ON OUR POLISH POLICY DESIGNED TO REWARD POSITIVE GOP STEPS ON THE POLITICAL, ECONOMIC AND HUMAN RIGHTS FRONTS. THUS, IN NOVEMBER, THE PRESIDENT ENDORSED TWO LIMITED STEPS TO EASE ECONOMIC SANCTIONS ON POLAND. FIRST, WE AGREED WITH OUR ALLIES TO ENTER INTO DEBT RESCHEDULING DISCUSSIONS. WE ALSO AGREED TO PERMIT POLISH OFFICIALS TO ENGAGE IN DISCUSSIONS WITH PRIVATE U.S. FISHING INTERESTS ABOUT POTENTIAL FISHING ARRANGEMENTS. THOSE STEPS REPRESENTED A RESPONSE TO POSITIVE DEVELOPMENTS IN POLAND.

SPECIFICALLY LAST SUMMER'S SUCCESSFUL PAPAL VISIT AND THE RELEASE OF THE MAJORITY OF POLITICAL PRISONERS. ON JANUARY 16, IN RESPONSE TO LECH WALESZA'S CALL FOR AN EASING OF SANCTIONS, THE PRESIDENT DECIDED TO TAKE TWO FURTHER STEPS. WE WILL PERMIT 88 POLISH CHARTER FLIGHTS BETWEEN THE U.S. AND POLAND THIS YEAR AND WE HAVE LIFTED THE BAN ON FISHING BY POLISH VESSELS IN U.S. WATERS. AS SOON AS THE LEGAL REQUIREMENTS FOR ECONOMIC COOPERATION WITH U.S. FISHING INTERESTS ARE MET, THE POLES WILL BE ISSUED AN ALLOCATION OF FISH.

AN EVALUATION OF THE EFFECTIVENESS OF THE ADMINISTRATION'S SANCTIONS ON POLAND IS VERY DIFFICULT SINCE THE POLISH ECONOMY HAD ALREADY BEEN ADVERSELY AFFECTED BY THE LIQUIDITY CRISIS AND BANK RETRENCHMENT IN LATE 1980. IF WE BELIEVE THE STATEMENTS OF THE POLISH GOVERNMENT, HOWEVER, OUR POLISH SANCTIONS HAVE EXACTED A HUGE TOLL ON THE POLISH ECONOMY, WITH FIGURES OF \$10 BILLION AND UP IN LOST PRODUCTION AND EXPORTS QUOTED BY POLISH AUTHORITIES. THE ACTUAL ECONOMIC IMPACT OF U.S. SANCTIONS HAS CERTAINLY BEEN MORE LIMITED. THE PROBLEMS OF THE POLISH ECONOMY ARE FAR TOO SERIOUS AND DEEP-ROOTED TO BE LAID AT THE DOOR OF U.S. SANCTIONS. OUR SANCTIONS CANNOT ACCOUNT FOR THE DECLINES IN PRODUCTIVITY AND INCOME IN POLAND OR THE REGIME'S RELUCTANCE TO UNDERTAKE MEANINGFUL ECONOMIC REFORMS. HOWEVER, THERE CAN BE NO QUESTION THAT OUR SANCTIONS HAVE IMPOSED A HEAVY PRICE ON THE POLISH GOVERNMENT FOR THE SUPPRESSION OF HUMAN RIGHTS.

WITHOUT A DOUBT, OUR MOST EFFECTIVE ECONOMIC SANCTION HAS BEEN THE EMBARGO ON NEW OFFICIAL CREDITS. THIS HAS UNQUESTIONABLY MADE POLISH ACCESS TO TRADE FINANCING MORE DIFFICULT SO THAT AN INCREASING SHARE OF POLAND'S IMPORTS FROM THE WEST HAS BEEN ON A CASH AND CARRY BASIS. NEVERTHELESS, FOR PURELY FINANCIAL REASONS, LENDING TO POLAND WOULD HAVE FALLEN OFF SHARPLY EVEN WITHOUT OFFICIAL SANCTIONS, BECAUSE THE MARKET RECOGNIZES POLAND AS A VERY POOR CREDIT RISK. OUR GO SLOW APPROACH ON DEBT RESCHEDULING HAS ALSO IMPEDED POLISH EFFORTS TOWARD NORMALIZATION OF FINANCIAL RELATIONS. ON THE OTHER HAND, POLAND HAS NOT MADE ANY SIGNIFICANT PAYMENTS ON DEBT TO WESTERN GOVERNMENTS SINCE EARLY 1982 AND THIS DE FACTO MORATORIUM HAS EASED THE POLISH PAYMENTS BURDEN. MEANWHILE, POLAND HAS USED THE EXCESS HARD CURRENCY EARNED BY REDUCING IMPORTS AND BOOSTING EXPORTS TO MAKE SUBSTANTIAL PAYMENTS TO PRIVATE BANK CREDITORS, WHICH HAVE SIGNED THREE DEBT RESCHEDULING AGREEMENTS. IN 1981-1983 NET POLISH PAYMENTS TO WESTERN BANKS TOTALLED SOME \$4.7 BILLION.

THE OTHER U.S. SANCTIONS ON POLAND HAVE BEEN LESS SIGNIFICANT ECONOMICALLY, THOUGH ALL HAVE HAD A SYMBOLIC IMPACT. OUR SUSPENSION OF LOT LANDING RIGHTS HAS BEEN CHIEFLY SYMBOLIC, SINCE IT IS DOUBTFUL LOT'S U.S. SERVICE EARNED MUCH HARD CURRENCY FOR POLAND. THE FISHING SANCTION, NOW LIFTED, DEPRIVED POLAND OF PERHAPS SEVERAL MILLION DOLLARS OF HARD CURRENCY EARNINGS ANNUALLY. THE DEPARTMENT OF COMMERCE IS NOW COMPLETING A STUDY

TO ASSESS THE EFFECTS OF MFN WITHDRAWAL ON EXPORTS TO THE U.S., AND WE SHALL MAKE THAT STUDY AVAILABLE TO THE SUBCOMMITTEE WHEN IT IS COMPLETED LATER THIS SPRING. THE PRELIMINARY ASSESSMENT IS THAT SUSPENSION OF MFN REDUCED POLISH EXPORTS TO THE U.S., AND WE ARE NOW EVALUATING ITS EXACT IMPACT. THE SUSPENSION OF MARIE SKLODOWSKA CURIE FUNDS HAS CURTAILED, THOUGH NOT ELIMINATED, SCIENTIFIC EXCHANGES WITH POLAND.

#### ALLIED PARTICIPATION

IN RESPONSE TO SOVIET ACTIONS IN POLAND, THE EUROPEAN COMMUNITY TOOK STEPS IN DECEMBER 1981 TO REDUCE IMPORTS OF 56 SOVIET PRODUCTS, INCLUDING VODKA, FURS, DIAMONDS, SALMON, CAVIAR, TRACTORS, AND OTHER PRODUCTS. THOSE SANCTIONS REDUCED SOVIET EXPORTS OF THOSE ITEMS BY \$122 MILLION IN BOTH 1982 AND 1983. THE SANCTIONS WERE NOT RENEWED WHEN THEY EXPIRED AT THE END OF 1983. WITH RESPECT TO POLAND, THE NATO ALLIES AGREED IN JANUARY 1982 TO HALT NEW OFFICIAL CREDITS TO POLAND AND POSTPONE DEBT RESCHEDULING NEGOTIATIONS. OUR ALLIES REMAIN UNWILLING TO OFFER NEW CREDITS TO POLAND, THOUGH DEBT RESCHEDULING TALKS IN THE PARIS CLUB WERE RESUMED LAST FALL. WHILE THE IMPACT OF THESE ECONOMIC MEASURES HAS IN GENERAL BEEN LESS IMPORTANT THAN OURS, IN JOINING US, THE ALLIANCE HAS NONETHELESS SENT AN IMPORTANT POLITICAL MESSAGE ON WESTERN UNITY TO MOSCOW AND WARSAW.

MOREOVER, THIS MESSAGE WAS REINFORCED BY ALLIED AGREEMENT IN LATE 1982 TO REVIEW KEY ASPECTS OF EAST-WEST ECONOMIC RELATIONS IN THE OECD, COCOM, NATO AND IEA AND INITIATE SEVERAL KEY STUDIES. THESE EFFORTS HAVE PRODUCED A NUMBER OF CONCRETE RESULTS AND IN THE PROCESS SUBSTANTIALLY INCREASED ALLIED AWARENESS OF THE ECONOMIC AND SECURITY IMPLICATIONS OF EAST-WEST TRADE.

#### THE OECD AND EAST-WEST ECONOMIC RELATIONS

SINCE THE VERSAILLES SUMMIT, THE OECD HAS BECOME A FOCAL POINT FOR FOLLOW-UP WORK ON EAST-WEST ECONOMIC RELATIONS, INCLUDING EFFORTS TO MONITOR MORE CLOSELY THE WEST'S TRADE AND FINANCIAL RELATIONS WITH EASTERN EUROPE AND THE USSR AND PUT THESE RELATIONS ON A SOUNDER MARKET-ORIENTED FOOTING. SINCE THEN, EAST-WEST RELATIONS HAVE FIGURED PROMINENTLY ON THE AGENDAS OF TWO OECD MINISTERIALS AND EVERY EXECUTIVE COMMITTEE IN SPECIAL SESSION (XCSS) IN ORDER TO GIVE ONGOING POLICY DIRECTION TO EFFORTS OF THE SECRETARIAT AND THE RELEVANT COMMITTEES. AS A RESULT, WE HAVE RAISED CONSIDERABLY THE VISIBILITY OF EAST-WEST ISSUES IN THE ORGANIZATION AND HELPED DEVELOP A BETTER UNDERSTANDING AMONG MEMBER GOVERNMENTS OF THE ECONOMIC PROBLEMS INHERENT IN EAST-WEST TRADE AND FINANCIAL RELATIONS. THE OECD WORK PROGRAM SEEKS TO IMPROVE INFORMATION EXCHANGE THROUGH ENHANCED DATA COLLECTION/REPORTING AND ANALYSIS OF EAST-WEST ECONOMIC ISSUES. FOR EXAMPLE, PROGRESS IS BEING MADE IN CONSOLIDATING DATA COLLECTED BY THE OECD AND BIS SO THAT

COMPREHENSIVE, INTEGRATED DEBT AND FINANCIAL FLOW STATISTICS CAN BE OBTAINED. ON THE ANALYTICAL SIDE, EFFORTS ARE WELL UNDERWAY TO INTEGRATE MORE FULLY THE ORGANIZATIONS' TRADE AND FINANCIAL ANALYSIS. THE COMMITTEE ON FINANCIAL MARKETS IS WORKING TO UPGRADE ITS INPUT INTO THE TRADE COMMITTEE'S ANNUAL EAST-WEST ECONOMIC REPORT, WHICH IS AN IMPORTANT VEHICLE FOR CONSENSUS BUILDING IN THE OECD ON EAST-WEST ECONOMIC ISSUES. THE QUALITY OF THE REPORTS PRODUCED BY THE TRADE COMMITTEE AND SECRETARIAT FOR THE MAY MINISTERIAL LAST YEAR HAD ALREADY MEASURABLY IMPROVED.

FOR THE FUTURE, WE INTEND TO PRESS FOR EXPANDED OECD WORK IN A NUMBER OF AREAS INCLUDING THE BALANCE-OF-ADVANTAGES IN EAST-WEST TRADE, WITH SPECIAL EMPHASIS ON COUNTERTRADE PRACTICES; AND THE IMPLICATIONS OF RECENT ECONOMIC ADJUSTMENT MEASURES ON EASTERN EUROPE'S LONGER TERM FINANCIAL AND COMMERCIAL CAPABILITIES.

OECD EXPORT CREDIT ARRANGEMENT. THE OECD EXPORT CREDIT ARRANGEMENT HAS BEEN THE FOCUS OF ONGOING EFFORTS TO REDUCE OFFICIAL EXPORT CREDIT SUPPORT TO THE SOVIET UNION AND EASTERN EUROPE AS PART OF OUR BROADER OBJECTIVE OF REDUCING CREDIT SUBSIDIES WORLDWIDE.

WITH THE SUCCESSFUL NEGOTIATION OF A NEW OECD EXPORT CREDIT ARRANGEMENT LAST OCTOBER, WE ACHIEVED OUR PRINCIPAL OBJECTIVES INCLUDING HOLDING THE LINE ON RATES TO CATEGORY I COUNTRIES

(RELATIVELY RICH COUNTRIES, INCLUDING THE SOVIET UNION). THIS CONSOLIDATED THE GAINS WE MADE IN 1982, WHEN PARTICIPANTS IN THE ARRANGEMENT AGREED TO RAISE MINIMUM RATES FOR COUNTRIES INCLUDING THE SOVIET UNION FROM 8.75 PERCENT TO 12.4 PERCENT. WITH THAT ACTION AND THE GENERAL DECLINE IN MARKET INTEREST RATES OVER THE PAST TWO YEARS, THE POSSIBILITY OF CREDIT SUBSIDIES TO THE SOVIET UNION FROM MOST OECD COUNTRIES IS VIRTUALLY ELIMINATED. THE NEW ARRANGEMENT ALSO FEATURES AUTOMATIC ADJUSTMENT TO AVERAGE MARKET RATES, WHICH WILL HELP PREVENT ANY FUTURE SUBSIDIZATION.

IN THE FUTURE WE WILL CONTINUE TO PRESS FOR THE TIGHTENING OF EXPORT CREDIT TERMS, ESPECIALLY TO CATEGORY I COUNTRIES WHICH INCLUDES THE USSR.

#### NATO STUDIES

IN EARLY 1983, NATO'S ECONOMIC COMMITTEE UNDERTOOK AN EXTENSIVE STUDY OF THE SECURITY IMPLICATIONS OF EAST-WEST ECONOMIC RELATIONS. THE COMMITTEE'S STUDY WAS USED BY THE NATO FOREIGN MINISTERS AS THE BASIS FOR THEIR DISCUSSION OF THE TOPIC DURING THEIR MEETING IN PARIS IN JUNE 1983. IN THEIR COMMUNIQUE, THE MINISTERS STRESSED THAT THE ALLIES' TRADE AND FINANCIAL RELATIONSHIPS WITH THE SOVIET UNION MUST BE CONSISTENT WITH OUR SHARED SECURITY INTERESTS AND THAT WE MUST EXERCISE CAUTION IN THE TRANSFER OF TECHNOLOGY, DEPENDENCY RELATIONSHIPS, AND OTHER ECONOMIC DEALINGS THAT COULD CONTRIBUTE TO THE MILITARY CAPABILITIES OF THE SOVIET UNION. IT WAS EMPHASIZED THAT WHILE

MUTUALLY BENEFICIAL TRADE BASED ON COMMERCIALY SOUND TERMS CONTRIBUTES TO CONSTRUCTIVE RELATIONS, THE ALLIES MUST REMAIN VIGILANT TO AVOID FURTHER USE BY THE USSR OF SOME TRADE RELATIONS TO ENHANCE ITS MILITARY STRENGTH.

NATO IS NOW CARRYING OUT DETAILED ANALYSES OF THOSE ASPECTS OF EAST-WEST ECONOMIC RELATIONS IDENTIFIED IN THE NATO STUDY AS HAVING SIGNIFICANT SECURITY IMPLICATIONS FOR THE ALLIANCE (TRADE, ENERGY, CREDITS). TOPICS EXAMINED BY THE COMMITTEE DURING THE PAST YEAR INCLUDE THE FINANCIAL SITUATION OF THE SOVIET UNION AND EAST EUROPEAN COUNTRIES, SOVIET ECONOMIC RELATIONS WITH LDC'S, WARSAW PACT MILITARY EXPENDITURES, AND SOVIET AND EAST EUROPEAN AGRICULTURAL AND ENERGY POLICIES. THE RESULTS OF THESE STUDIES, WHICH ARE REVIEWED BY THE NATO COUNTRY MINISTERS, PROVIDE THE ALLIED GOVERNMENTS WITH AGREED NATO ANALYSES OF THE SECURITY IMPLICATIONS OF IMPORTANT COMPONENTS OF EAST-WEST ECONOMIC RELATIONS.

#### COCOM CONTROLS

TOGETHER WITH OUR ALLIES IN THE COORDINATING COMMITTEE FOR MULTILATERAL SECURITY EXPORT CONTROLS (COCOM) WE HAVE STUDIED WAYS OF IMPROVING SURVEILLANCE AND CONTROL OVER WESTERN EXPORTS THAT HAVE STRATEGIC OR MILITARY RELEVANCE TO THE WARSAW PACT NATIONS. THERE IS NOW A CONSENSUS THAT ECONOMIC RELATIONS SHOULD NOT BE PERMITTED TO CONTRIBUTE TO SOVIET MILITARY CAPABILITIES.

AT AN APRIL 1983 COCOM HIGH LEVEL MEETING (HLM) WE EXPLORED A NUMBER OF WAYS IN WHICH THE MULTILATERAL SYSTEM OF CONTROLS COULD BE STRENGTHENED. ALTHOUGH THE PROCEEDINGS OF ALL COCOM MEETINGS ARE CONFIDENTIAL, WE ARE HIGHLY PLEASED WITH PROGRESS IN STRENGTHENING THE LIST OF MULTILATERAL CONTROLS AND IN IMPROVING THEIR ENFORCEMENT.

WITHIN AN AD HOC GROUP ON OTHER HIGH TECHNOLOGY, INCLUDING OIL AND GAS, OUR PARTNERS HAVE AGREED THAT SEVERAL CATEGORIES OF OIL AND GAS EQUIPMENT AND TECHNOLOGIES WARRANT CONSIDERATION IN THE CONTEXT OF THE CURRENT LIST REVIEW FOR POSSIBLE INCLUSION IN THE MULTILATERAL EMBARGO. AD REFERENDUM AGREEMENT HAS ALREADY BEEN REACHED FOR ADDITION TO THE COCOM LIST OF SEVERAL OTHER U.S. OIL AND GAS-RELATED PROPOSALS. FINALLY, COCOM HAS AGREED TO THE ESTABLISHMENT OF A U.S. PROPOSED INVENTORY OF EMERGING TECHNOLOGIES TO BE MONITORED FOR THEIR POTENTIAL STRATEGIC APPLICATIONS.

PERHAPS OUR GREATEST SUCCESS IN COCOM HAS BEEN THE SIGNIFICANT HEADWAY IN STRENGTHENING THE EFFECTIVENESS OF THE COCOM EMBARGO. GOVERNMENTS OF OUR COCOM ALLIES ARE NOW GIVING INCREASED ATTENTION TO THE PROBLEMS OF ENFORCEMENT, AND ARE DEVOTING SIGNIFICANTLY INCREASED RESOURCES TO SUCH ACTIVITIES. THESE INITIATIVES ARE BEING CARRIED OUT WITHIN THE COCOM SUBCOMMITTEE ON EXPORT CONTROLS WHICH MEETS TWICE A YEAR.

THE RECENT VAX COMPUTER DIVERSION CASE HIGHLIGHTS THE EXCELLENT COOPERATION NOW UNDERWAY BETWEEN OUR RESPECTIVE NATIONAL ENFORCEMENT AUTHORITIES. IN THAT PARTICULAR CASE WE WERE SUCCESSFUL IN ABORTING THE ATTEMPTED DIVERSION OF THE EQUIPMENT TO THE SOVIET UNION.

AS THE COCOM COUNTRIES HAVE STRENGTHENED ENFORCEMENT EFFORTS WITHIN THEIR NATIONAL TERRITORIES, IT HAS BECOME INCREASINGLY EVIDENT THAT THE SOVIETS ARE ATTEMPTING TO ACQUIRE SOPHISTICATED COCOM-CONTROLLED TECHNOLOGY THROUGH NON-COCOM THIRD COUNTRY SOURCES. CONSEQUENTLY, COOPERATIVE EFFORTS ARE UNDERWAY TO INSURE THAT THIRD COUNTRIES ARE AWARE OF THE RISK OF ILLEGAL DIVERSIONS THROUGH THEIR TERRITORIES. MANY COUNTRIES HAVE EXPRESSED A WILLINGNESS TO COOPERATE, TO THE EXTENT THEIR LAWS PERMIT, IN STEMMING THE FLOW OF SUCH ILLEGAL SHIPMENTS. WE ARE ENCOURAGED BY SUCH COOPERATION, AND PLAN TO DEVOTE SIGNIFICANT RESOURCES TO EFFORTS TO PLUG THESE GAPS.

#### INTERNATIONAL ENERGY AGENCY

AT THE 1982 OTTAWA SUMMIT, PRESIDENT REAGAN ARGUED THAT SERIOUS ENERGY SECURITY RISKS COULD ARISE FROM THE CONSTRUCTION OF THE NEW SOVIET GAS PIPELINE TO WESTERN EUROPE. THE PRESIDENT URGED EUROPEAN COUNTRIES TO CONSIDER THE SECURITY IMPLICATIONS OF THIS PROJECT AND TO EXAMINE INDIGENOUS ALTERNATIVES FOR INCREASED WEST EUROPEAN REQUIREMENTS FOR NATURAL GAS.

OVER THE SUCCEEDING YEAR, THE WESTERN DIALOGUE ON ENERGY SECURITY AND NATURAL GAS DEPENDENCE WAS OFTEN STRAINED BY DIFFERING PERSPECTIVES ON THE SIBERIAN PIPELINE ITSELF AND BY U.S. SANCTIONS ON THE SALE OF OIL AND GAS EQUIPMENT. THESE DIFFERENCES ARE WELL KNOWN. BENEATH THE HEADLINE-MAKING CLASHES, HOWEVER, A SERIOUS DIALOGUE EMERGED ABOUT EUROPEAN NATURAL GAS REQUIREMENTS, THE POTENTIAL OF SUCH ALTERNATIVE SOURCES AS NORWAY, AND THE NEED TO IMPROVE PREPAREDNESS AGAINST GAS SUPPLY DISRUPTIONS. IN LATE 1982, NATO FOREIGN MINISTERS AGREED THAT A SERIES OF STUDIES ON SPECIFIC ASPECTS OF EAST-WEST ECONOMIC RELATIONS INCLUDING SECURITY WOULD BE USEFUL.

ALTHOUGH THE RESULTING "ENERGY REQUIREMENTS AND SECURITY STUDY", CONDUCTED BY THE COMBINED OECD-IEA SECRETARIAT, WAS BROADENED BY THE OECD AND IEA MEMBER STATES TO ENCOMPASS A REVIEW OF FUTURE ENERGY REQUIREMENTS FOR ALL FUELS IN A GLOBAL CONTEXT, THE STUDY'S MOST IMPORTANT ANALYSIS CENTERED ON NATURAL GAS IN WESTERN EUROPE. LAST YEAR IN MAY, IEA AND OECD MINISTERS ENDORSED A SET OF POLICY CONCLUSIONS DRAWN FROM THE COMBINED SECRETARIAT STUDY, INCLUDING A SET OF INTERRELATED PRINCIPLES ON THE SECURE DEVELOPMENT AND USE OF NATURAL GAS.

OVER THE PAST YEAR WE HAVE CONTINUED THIS DIALOGUE ON ENERGY SECURITY ISSUES WITH OUR FRIENDS AND ALLIES. RECENT IEA EFFORTS HAVE INCLUDED SPECIAL EMPHASIS IN RECENT NATIONAL ENERGY POLICY REVIEWS ON NATURAL GAS POLICIES AND PROSPECTS, EXPLORATION OF THE

POTENTIAL FOR COAL AND NUCLEAR POWER TO REPLACE LESS SECURE HYDROCARBONS AND ONGOING REVIEWS OF THE CHANGING ENERGY SUPPLY AND DEMAND PICTURE. IN GENERAL, A BROADER DEFINITION OF SECURITY OF SUPPLY HAS BEEN ACCEPTED AND IS REFLECTED IN RECENT IEA WORK.

THERE HAS BEEN A SIGNIFICANT IMPROVEMENT IN THE OUTLOOK FOR WESTERN ENERGY SECURITY GENERALLY IN THE PAST YEAR, INCLUDING THE EAST-WEST SECURITY ASPECTS. THE IEA STUDY HAD A REAL IMPACT ON THE THINKING OF WESTERN ENERGY POLICYMAKERS WHO ARE PLANNING WESTERN ENERGY SUPPLIES FOR THE 1990'S AND BEYOND. THERE IS A NEW EMPHASIS ON DEVELOPING SECURE ENERGY SOURCES, INCLUDING OECD GAS FIELDS IN OECD MEMBER STATES.

THERE HAVE BEEN A NUMBER OF CONCRETE DEVELOPMENTS WHICH ARE CONTRIBUTING TO THIS IMPROVED SITUATION. ON THE DEMAND SIDE, TOTAL ENERGY DEMAND FORECASTS HAVE BEEN REVISED DOWNWARD OVER THE LAST TWO YEARS, MEANING THAT THERE WILL BE LESS NEED FOR SOVIET GAS IN EUROPE. TO THE EXTENT POSSIBLE, THE PURCHASERS OF SOVIET GAS ARE NOW MINIMIZING THEIR TAKE FROM THE SOVIET UNION. THERE HAVE ALSO BEEN POSITIVE DEVELOPMENTS ON THE SUPPLY SIDE. THE NETHERLANDS IS NOW TRYING TO SELL MORE GAS FOR DELIVERY IN THE EARLY 1990'S. TWO YEARS AGO THEY HAD BEEN PLANNING TO PHASE OUT GAS EXPORTS AT THAT TIME. THE GIANT NORWEGIAN TROLL FIELD HAS BEEN DECLARED COMMERCIAL, THE FIRST STEP IN EVENTUALLY BRINGING ITS HUGE RESERVES TO MARKET IN THE LATE 1990'S.

THERE ARE STILL MANY UNKNOWNNS ABOUT THE ENERGY OUTLOOK FOR THE BALANCE OF THE CENTURY. FORECASTING ENERGY DEVELOPMENTS IS FROUGHT WITH UNCERTAINTY. THERE IS STILL MUCH WORK TO BE DONE TO ENHANCE WESTERN ENERGY SECURITY. WE HAVE MADE GOOD PROGRESS AND OUR ALLIES SHARE OUR DESIRE THAT THIS PROGRESS CONTINUE.

#### CONCLUSION

THE FORMULATION AND IMPLEMENTATION OF U.S. POLICY TOWARD ECONOMIC RELATIONS WITH THE SOVIET UNION AND ITS ALLIES IS, NECESSARILY, A BALANCING ACT. CONSIDER A SPECTRUM. ON ONE EXTREME IS UNRESTRICTIVE ECONOMIC INTERCOURSE WITH THE EAST, NOTHING HELD BACK. ON THE OTHER EXTREME IS A TOTAL EMBARGO, NOTHING TRADED, FINANCED OR EXCHANGED. SCARCELY ANYONE HOLDS TO EITHER EXTREME. THE QUESTION FOR POLICYMAKERS IS WHERE TO DRAW THE LINE. MY TESTIMONY HAS REVIEWED THE REAGAN ADMINISTRATION'S APPROACH TO DRAWING THE LINE. THE ADMINISTRATION'S OBJECTIVE AS CONTAINED IN A RECENT WHITE HOUSE PRESS RELEASE ON ONE ASPECT OF EAST-WEST TRADE IS: "TO INSURE THAT THERE IS AN APPROPRIATE BALANCE BETWEEN NATIONAL SECURITY AND EXPORT INTERESTS."

WE ARE WORKING CONTINUALLY WITH OUR ALLIES TO CARRY OUT THAT OBJECTIVE. THE EXPORT ADMINISTRATION ACT, NOW UNDER CONSIDERATION BY THE CONGRESS IS, OF COURSE, CENTRAL TO THIS PROCESS.

**EASTERN EUROPE: GROSS AND NET HARD CURRENCY DEBT**  
**AT YEAREND**  
**(Million US\$)**

	1980	1981	1982	1983 <sup>a</sup>
<b><u>Eastern Europe</u></b>				
Gross debt	83,477	85,779	80,633	81,850
Commercial debt	61,710	60,402	53,291	48,350
Government-backed debt	18,310	20,330	20,683	25,400
IMF/IBRD/BIS	3,457	4,635	6,246	7,700
CEMA banks	--	412	413	400
Reserves	10,181	10,033	8,321	9,685
Net debt	73,296	75,766	72,312	72,165
<b><u>Bulgaria</u></b>				
Gross debt	3,536	3,065	2,757	2,500
Commercial debt	3,201	2,695	2,292	2,000
Government-backed debt	335	370	465	500
Reserves	779	840	1,014	1,125
Net debt	2,757	2,225	1,743	1,375
<b><u>Czechoslovakia</u></b>				
Gross debt	4,926	4,508	4,028	3,900
Commercial debt	4,066	3,703	3,093	2,900
Government-backed debt	860	805	935	1,000
Reserves	1,256	1,105	742	1,160
Net debt	3,670	3,403	3,286	2,740
<b><u>East Germany</u></b>				
Gross debt	14,098	14,863	13,039	12,300
Commercial debt	11,253	11,583	9,489	8,500
Government-backed debt	2,845	3,280	3,550	3,800
Reserves	2,506	2,596	2,321	3,200
Net debt	11,592	12,267	10,718	9,100
<b><u>Hungary</u></b>				
Gross debt	9,090	8,699	7,715	7,650
Commercial debt	8,790	8,334	6,955	6,450
Government-backed debt	300	365	525	600
IMF/IBRD/BIS	--	--	235	600
Reserves	2,090	1,652	1,154	900
Net debt	7,000	7,047	6,561	6,750
<b><u>Poland</u></b>				
Gross debt	25,000	25,453	24,840	27,500
Commercial debt	14,900	14,188	13,660	12,000
Government-backed debt	10,100	11,265	11,180	15,500
Reserves	650	775	1,045	1,150
Net debt	24,350	24,678	23,795	26,350

**EASTERN EUROPE: HARD CURRENCY TRADE**  
(Million US\$)

	1979	1980	1981	1982	1983	1984
<b>Exports -- Total</b>	33,339	38,830	37,387	36,405	37,981	40,275
Bulgaria	2,335	3,021	3,198	3,195	2,879	3,000
Czechoslovakia	3,734	4,597	4,691	4,099	4,142	4,275
East Germany	4,541	6,565	6,714	7,172	7,500	7,900
Hungary	4,063	4,911	4,877	4,876	4,960	5,100
Poland	6,350	7,506	4,971	4,974	5,600	6,200
Romania	5,522	6,574	7,216	6,235	6,600	7,000
Yugoslavia	6,794	5,656	5,720	5,854	6,300	6,800
<b>Imports -- Total</b>	45,214	47,302	41,065	34,921	34,387	36,200
Bulgaria	1,621	2,035	2,546	2,572	2,415	2,500
Czechoslovakia	4,117	4,590	4,432	3,614	3,372	3,500
East Germany	6,566	8,145	6,654	5,663	6,500	7,300
Hungary	4,230	4,632	4,417	4,111	4,100	4,200
Poland	8,038	8,488	5,404	4,616	4,900	5,000
Romania	6,623	8,091	7,012	4,710	5,000	5,300
Yugoslavia	14,019	11,321	10,600	9,635	8,100	8,400
<b>Balance -- Total</b>	-11,875	-8,472	-3,678	1,484	3,594	4,075
Bulgaria	714	986	623	464	464	500
Czechoslovakia	-383	7	259	485	770	775
East Germany	-2,025	-1,580	60	1,509	1,000	600
Hungary	-167	279	460	765	860	900
Poland	-1,688	-982	-433	358	700	1,200
Romania	-1,101	-1,517	204	1,525	1,600	1,700
Yugoslavia	-7,225	-5,665	-4,880	-3,781	-1,800	-1,600

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Source: Official East European and OECD trade statistics. Totals for 1983 are preliminary estimates based on partial year statistics. Totals for 1984 are projections based upon announced trade plans.

WESTERN BANK CLAIMS BY REGION  
(Million US\$)

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983 <sup>d</sup>
Total bank claims	326,987	441,667	547,569	689,660	902,979	1,110,909	1,321,919	1,549,440	1,687,522	1,707,195
Eastern Europe	11,644	17,521	23,569	29,393	40,108	50,236	55,835	54,322	47,637	43,708
Developing Countries <sup>b</sup>	77,488	124,289	163,707	197,800	243,695	309,315	379,121	464,251	512,563	580,614
Developed Countries	215,268	273,971	323,599	401,614	531,515	652,791	780,518	909,911	996,329	1,002,749
Other	22,587	25,886	36,694	60,853	87,661	98,567	106,405	120,954	130,993	80,614

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<sup>a</sup> January - September

<sup>b</sup> Excludes oil exporting countries

Source: Bank for International Settlements

(Million US\$)

NET FINANCING FLOWS FROM WESTERN BANKS<sup>1</sup>

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983<sup>2</sup></u>
Eastern Europe	5,877	6,048	5,824	10,715	11,252	5,342	-1,513	-6,685	-4,797
Bulgaria	628	407	428	556	-86	-495	-489	-320	-206
Czechoslovakia	5	609	510	485	950	541	-224	-473	-138
East Germany	1,164	1,170	715	1,494	1,760	1,375	805	-1,874	-642
Hungary	892	892	1,413	1,747	1,058	64	-305	-940	-443
Poland	2,427	2,550	1,327	3,167	3,393	339	-890	-1,373	-2,386
Romania	133	-163	470	1,406	1,552	1,362	-707	-826	-436
Yugoslavia	628	583	961	1,860	2,625	2,156	297	-879	-546

1 Net financing flows equal changes in the stock of bank claims as reported in the Bank for International Settlements (BIS) statistics. This reflects new credits less repayments.

2 January - September

(Million US\$)

SYNDICATED LOANS FOR EASTERN EUROPE, 1976-83

	1976	1977	1978	1979	1980	1981	1982	1983 <sup>a</sup>
Total	<u>1,120</u>	<u>1,696</u>	<u>4,549</u>	<u>6,914</u>	<u>5,037</u>	<u>3,025</u>	<u>935</u>	<u>1,740</u>
Poland	425	186	739	901	1,089	106	0	0
Romania	0	50	453	1,100	458	337	0	0
Yugoslavia	100	323	1,415	2,291	1,972	1,371	439	615
East Germany	65	542	916	782	481	627	62	392
Hungary	150	350	600	1,047	550	573	434	683
Czechoslovakia	260	0	150	461	487	4	0	50
Bulgaria	120	245	276	332	0	8	0	0

Sources: Eurooney and World Financial Markets

<sup>a</sup> 1 January to 30 September 1983.

**EASTERN EUROPE: SELECTED FINANCIAL INDICATORS**

	Proportion of Bank Loans with Less than 1 year maturity (Percent)				Reserves as a Share Debt Maturing in One Year (Percent)					
	1979 <sup>a</sup>	1980 <sup>a</sup>	1981 <sup>a</sup>	1982 <sup>a</sup>	1983 <sup>b</sup>	1979 <sup>a</sup>	1980 <sup>a</sup>	1981 <sup>a</sup>	1982 <sup>a</sup>	1983 <sup>c</sup>
Eastern Europe	39.9	36.3	37.0	34.0	33.6	28.8	29.0	28.1	23.1	27.0
Bulgaria <sup>d</sup>	41.1	36.3	48.1	51.7	52.8	31.0	53.5	59.4	90.1	123.2
Czechoslovakia	47.1	43.1	37.6	31.2	32.8	46.8	65.3	67.8	55.8	95.6
East Germany	42.7	38.6	42.6	39.0	38.8	46.7	45.2	42.3	48.2	68.6
Hungary	47.4	42.9	40.4	33.2	36.0	27.2	34.0	25.0	29.0	31.7
Poland	39.1	33.1	36.1	32.8	29.3	14.7	7.5	9.7	9.0	7.2
Romania	50.5	42.7	35.3	38.9	32.8	9.6	9.4	8.9	9.5	16.7
Yugoslavia	22.6	28.1	28.4	26.7	30.0	46.3	36.9	38.3	18.0	23.8

**Undisbursed Bank Commitments as a  
Share of Outstanding Debt (Percent)**

	Debt Service Ratios (Percent) <sup>d</sup>									
	1979 <sup>a</sup>	1980 <sup>a</sup>	1981 <sup>a</sup>	1982 <sup>a</sup>	1983 <sup>b</sup>	1979	1980	1981	1982	1983
Eastern Europe	16.5	17.4	11.7	8.4	7.5	36.7	39.9	48.7	56.7	61.0
Bulgaria	8.4	16.7	24.5	15.5	18.3	33.7	32.5	33.9	26.9	22.1
Czechoslovakia	9.7	8.3	6.7	10.4	9.7	20.6	21.8	20.1	19.4	17.8
East Germany	16.5	15.2	16.2	13.3	11.1	44.6	43.9	51.6	53.2	45.9
Hungary	5.2	8.4	4.6	7.2	5.5	33.1	30.9	32.7	30.7	30.7
Poland	24.6	23.9	11.8	4.8	4.3	86.0	97.1	124.6	214.6	245.7
Romania	18.3	18.2	9.4	9.8	9.0	21.1	25.6	27.4	45.3	31.5
Yugoslavia <sup>e</sup>	23.8	19.0	11.9	7.5	6.7	20.2	22.8	26.4	28.4	33.8

<sup>a</sup> At yearend.

<sup>b</sup> At midyear.

<sup>c</sup> Preliminary estimate at yearend.

<sup>d</sup> Repayments of medium- and long-term debt and interest payments: on gross debt a share of current account earnings.

<sup>e</sup> Reserves held by the National Bank of Yugoslavia.

Source: Bank for International Settlements, International Financial Statistics, Wharton Econometric Forecasting Associates Centrally Planned Economies Service.

RESCHEDULING AGREEMENTS

<u>AGREEMENT</u>	<u>DATE OF SIGNATURE</u>	<u>OBLIGATIONS COVERED</u>	<u>AMOUNT OF DEBT RELIEF</u>	<u>INTEREST RATE</u>	<u>REPAYMENT TERMS</u>	<u>REPAYMENT PERIOD</u>
<u>POLAND</u> 1981 Paris Club Agreement <sup>1</sup>	27 April 1981	90 percent of principal and interest on medium- and long-term loans in arrears and due 1 May - Dec 81.	\$2.2 billion	Varies with creditor.		1986 - 1989
1981 Bank Agreement <sup>1</sup>	6 April 1982	95 percent of payments on medium- and long-term debt due 26 March 1981 - 31 Dec 1981.	\$2.3 billion	LIBOR plus 1.75 percent		1985 - 1988
1982 Bank Agreement <sup>2</sup>	7 November 1982	95 percent of principal on medium and long-term debt due in 1982.	\$2.2 billion	LIBOR plus 1.75 percent		1986 - 1989
1983 Bank Agreement <sup>3</sup>	November 1983	95 percent of principal payments on medium- and long-term debt due in 1983.	\$1.2 billion	LIBOR plus 1.875 percent		1988-1992

ROMANIA						
1982 Bank Agreement <sup>4</sup>	7 Dec 1982	80 percent of payments on all debt, including short-term.	\$1.3 billion	LIBOR plus 1.75 percent	1985-1988	
1982 Paris Club Agreement <sup>4</sup>	28 July 1982	80 percent of payments on long-term debt.	\$400 million	Varies with creditors.	1985-1988	
1983 Bank Agreement <sup>5</sup>	23 June 1983	70 percent of payments due in 1983.	\$601 million	LIBOR plus 1.75 percent		10 percent of rescheduled amount due in 1984; remainder to be paid March 1987 to September 1989.
1983 Paris Club Agreement <sup>6</sup>	18 May 1983	60 percent of principal payments on medium- and long-term debt.	\$148 million	Varies with creditor.		1986 - 1989

## USSR: Estimated Hard Currency Debt to the West

(Million US Dollars, Yearend)

	1975	1976	1977	1978	1979	1980	1981	1982 <sup>a</sup>	1983 <sup>a</sup>
Gross debt	10,577	14,707	15,609	16,375	18,050	17,869	20,100	20,100	20,400
Commercial debt	4,947	9,667	9,858	9,515	10,480	10,015	13,015	11,500	11,000
Government and government-backed debt	3,630	5,045	5,751	6,860	7,570	7,850	7,080	8,600	9,400
Assets in Western banks	3,125	4,735	4,425	5,975	8,809	8,565	8,425	10,000	10,500
Net debt	7,452	9,972	11,184	10,400	9,250	9,300	12,440	10,100	9,900

<sup>a</sup> Provisional estimate.<sup>b</sup> Including additions to short-term debt.<sup>d</sup> Reflects hard currency assistance to other Communist countries; hard currency trade with other Communist countries; hard currency credits to LDCs to finance Soviet sales of machinery and equipment (including military equipment); and credits to developed Western countries to finance sales of oil and other commodities, as well as errors in other line items of the accounts.

This table is Unclassified.

## USSR: Estimated Hard Currency Balance of Payments

	(Millions of current US dollars)				
	1975	1980	1981	1982	1983 <sup>a</sup>
Current account balance	-4,607	1,904	-100	4,206	4,000
Merchandise trade balance	-4,797	1,714	200	4,606	4,200
Exports, f.o.b. of which:	9,780	27,784	27,978	32,052	32,500
Additional military deliveries to LDCs, f.o.b. <sup>b</sup>	1,500	4,200	4,200	5,900	7,000
Imports, f.o.b.	14,577	26,070	27,778	27,446	28,300
Net interest	-570	-710	-1,300	-1,500	-1,300
Other invisibles and transfers	760	900	1,000	1,000	1,100
Capital account balance	6,520	1,630	5,810	-1,240	1,000
Gross drawings <sup>c</sup>	6,371	2,865	6,200	2,650	3,900
Government backed	1,972	2,195	2,000	2,850	3,100
Commercial	4,399	670	4,200	-200	800
Repayments	969	3,050	3,200	3,415	3,600
Government backed	730	1,915	2,000	2,100	2,300
Commercial	239	1,135	1,200	1,315	1,300
Net change in assets held in Western banks	-395	-235	-140	1,575	500
Gold sales	725	1,580	2,700	1,100	1,200
Net errors and omissions <sup>d</sup>	-1,913	-3,534	-5,740	-2,966	-5,000

<sup>a</sup> Preliminary estimate.

<sup>b</sup> These estimates include the value of arms-related commercial exports included in the reporting on Soviet exports to individual LDCs, which we estimate at about \$2 billion in 1982. They are based on the reported export residuals in published Soviet data on trade with LDCs (i.e., the difference between Soviet reported aggregate exports to the LDCs and Soviet reporting on exports to individual LDCs). The export residuals were reduced by the estimated value of Soviet exports of major arm systems to non-hard currency paying LDCs on an f.o.b. basis. The estimates include the value of follow-on services, which may be substantial.

U.S. Exposure (Direct Credits and Guarantees) to Eastern Europe  
As of December 31, 1983  
(Millions of U.S. Dollars)

	Export-Import Bank 1/	Foreign Assistance	Lend-Lease		Total
			Other War Accounts	Surplus Property and	
Czechoslovakia	---	---	3.9 2/	---	3.9
Hungary	5.6	---	---	27.0	32.6
Poland	245.6	47.3	---	1327.5	1620.4
Romania	206.8	---	---	60.8	267.6
USSR	381.9	---	674.0 2/	---	1055.9
TOTAL	839.9	47.3	677.9	1415.3	2980.4
Yugoslavia	829.0	---	---	139.0	968.0
Total + Yugoslavia	1668.9	47.3	677.9	1554.3	3948.4

1/ Includes Direct Loans and Financial Guarantees Only. As of January 31, 1984.

2/ As of September 30, 1983.

Sanctions in Effect Against the USSRPost-Afghanistan (January 1980) Sanctions

1. Visits to the U.S. or USSR by officials of the rank of Assistant Secretary, Deputy Minister or above are reviewed on a case-by-case basis with the presumption that they will not be approved unless there are overriding reasons to proceed.

2. A meeting of the policy-level Joint Commercial Commission scheduled to be held in Washington April 14-15, 1980, was cancelled and has not been rescheduled.

3. All allocations to the USSR to fish within our 200-mile fishery zone were terminated. In order to allow continuation of the joint fishing venture in the Pacific, which is economically beneficial to U.S. fishermen, the Governing International Fisheries Agreement with the USSR was extended for an additional year, until July 1, 1984.

4. No licenses for equipment requiring validated export licenses for the Kama River or ZIL truck plants will be approved.

5. Officially-sponsored U.S. trade promotion activities in the USSR have been suspended.

6. Preparations to open a U.S. consulate in Kiev and a Soviet consulate in New York were suspended, and advance parties were withdrawn from both cities.

Sanctions Announced in December, 1981

1. All Aeroflot service to the U.S. was suspended. After our suspension of Aeroflot flights to New York in early 1980, the Soviet airline continued to operate two weekly flights from Moscow to Washington. In 1980 it carried some 6000 round-trip passengers on this route. Under the US-Soviet Civil Air Transport Agreement, we are no longer obligated to permit any specific number of flights by Aeroflot.

2. The Soviet Purchasing Commission was closed. The Soviet Purchasing Commission (formerly "Kama River Purchasing Commission") was a Soviet commercial organization operating in New York with a staff ceiling of ten, as of January 1, 1982. It placed about one-third of Soviet orders for non-agricultural exports from the US.

3. Negotiation of a new US-USSR Maritime Agreement was suspended and a new regime of port-access controls was put into effect for all Soviet ships when the current agreement expired on December 31, 1981. Under the expired agreement, Soviet merchant vessels were

granted access to 40 US ports on the basis of four days' advance notice. Since that agreement expired, the Soviets have been required to request permission at least 14 days in advance whenever one of their ships calls at a US port. We are making decisions on Soviet requests on a case-by-case basis, but are taking a restrictive stance toward these requests, particularly for ships engaged in "cross trades" (traffic between the United States and third countries).

4. Licenses are now required for export to the Soviet Union of certain categories of oil and gas equipment, and all unpublished technology. Modified licensing regulations, which became effective November 13, 1982, eliminated the requirement for individual validated licenses for oil and gas transmission and refining equipment destined for the USSR, but retained this requirement for oil and gas exploration and production equipment. They permit resumption of licensing on a case-by-case basis. The general licensing policy for exploration and production items is to approve exports of equipment, except manufacturing equipment and equipment multilaterally controlled with our Allies and to deny exports of technology.

5. We are maintaining a low level of activity under the remaining bilateral cooperative agreements in various fields of science and technology, and three cooperative agreements were allowed to lapse. Cooperation continues in areas of clear scientific benefit to the United States. We recently agreed to renew the bilateral Atomic Energy Agreement.

6. The United States continues to follow a "no exceptions" policy in COCOM with respect to exports to the USSR which require full COCOM review.

#### Sanctions Announced in September, 1983

1. The United States did not renew a bilateral agreement with the Soviet Union on cooperation in the field of transportation.

2. At the President's request, the Civil Aeronautics Board suspended Aeroflot's right to sell air transportation in the U.S., precluded U.S. airlines from carrying traffic to, from or within the U.S. if an Aeroflot flight is included on the ticket, prohibited U.S. air carriers from selling tickets in the United States for transportation on Aeroflot, directed U.S. airlines to suspend any interline service arrangements with Aeroflot, and prohibited U.S. air carriers from accepting any tickets or shipping documents issued by Aeroflot for air travel to, from or within the United States. The President ordered Aeroflot to close its offices in New York and Washington, and withdraw its U.S.-based staff.

Fact Sheet on Polish Debt

-- Poland has an external hard currency debt of approximately \$27 billion; government and government-guaranteed debt is some \$19.5 billion; private unguaranteed debt is some \$7.5 billion.

-- Of this amount, roughly \$20 billion is due to 16 Western countries.

-- The precise amount of the banks' guarantee-adjusted exposure in individual countries is reported regularly only for U.S. and U.K. banks (exposure in Poland of \$1.2 billion and \$0.9 billion, respectively, as of year-end 1981). Around 60 U.S. banks account for the \$1.2 billion, most of which report amounts equal to less than 5 percent of their capital, broadly defined.

-- Continental banks have a relatively greater exposure in Poland. The degree of exposure varies among individual banks. Some figures have appeared in the press, but we cannot attest to their authenticity.

-- Polish debt to the U.S. totals some \$3.15 billion, which is 13 percent of the total \$25 billion. The breakdown of this figure is:

Non-guaranteed loans from private creditors (primarily commercial banks)	\$1.197
Direct credits and guarantees by Commodity Credit Corporation	\$1.701
Export-Import Bank loan	\$ .247
AID loan	<u>\$ .006</u>
	<u>\$3.152</u>

Official Creditors

-- Governments of 16 Western countries including the U.S. and U.K., France, West Germany, Japan, Canada, Switzerland and the Netherlands signed a multilateral agreement in April 1981 to reschedule 90 percent of the principal and interest falling due from May 1981 to December 1981. The U.S. share of this was \$381 million. The official rescheduling totaled \$2.3 billion.

-- Repayment terms provided for 4 years grace and 4 years repayment, the latter commencing in 1986.

-- These terms are generally comparable to those of other countries which have found it necessary to reschedule their debts.

-- The U.S. Government rescheduled \$381 million due it in 1981. Of this sum \$3 million was due AID, \$356 million to CCC and \$22 million to the Export-Import Bank. The non-rescheduled debt totaled \$43 million, with \$40 million of it owed to CCC. The U.S. has collected some \$14 million of this \$43 million.

-- In response to the violations of human rights which occurred when the Polish Government imposed martial law in December 1981, the NATO Allies refused to discuss debt rescheduling with the Poles until the situation in Poland moved toward a national reconciliation. NATO governments also agreed to halt all official lending to the Government of Poland except for food related credits.

-- In the wake of the Pope's visit to Poland in July of last year, the formal end to martial law, and subsequent actions by Polish officials, including the release of the vast majority of political prisoners, the U.S. decided to take some limited steps forward in our relations, and in particular, agreed to reopen rescheduling discussions. The U.S. and other major Western creditors met with Polish officials in November. No rescheduling agreement has been reached as of the end of March.

-- The NATO sanctions have resulted in a sharp drop in Western government-backed financing of exports to Poland as existing credit lines have been drawn down and not replaced. The Western embargo on new credits remains broadly observed.

#### Commercial Banks

-- The commercial banks of the 16 Western countries concluded their 1981 debt rescheduling agreement with Poland in April 1982.

-- The terms of this agreement, which provided for the rescheduling of 95 percent of principal only, or \$2.3 billion, appears to be comparable to those provided by Poland's official creditors. Payment of the remaining 5 percent of principal (about \$100 million) was deferred until 1982 and was completely repaid in three equal installments of about \$34 million each, in May, August and November 1982.

-- The Government of Poland paid all interest due to the commercial banks in 1981 as a precondition to signing of the agreement. They also paid the interest due during January-April 1982 on the consolidated 1981 debt.

-- On November 3, 1982 Western banks and the Poles signed an agreement to reschedule 95 percent of the \$2.2 billion in principal payments due to private banks in 1982. Repayment of this sum was deferred until 1986 with repayment over four years.

-- The remaining 5 percent of principal is to be paid in 1983 in two installments, on August 20 and November 20.

-- Interest payments of \$1.1 billion were to be paid in three installments, November 19 and December 20, 1982 and March 20, 1983.

-- An amount at most equal to 50 percent of the interest paid by the Poles (maximum \$550 million) will be made available to finance Polish imports of goods and services which are essential for the production in Poland of exports to generate hard currency.

-- Commercial banks reached agreement in November 1983 on a rescheduling of \$1.3 billion in principal due in 1983. The agreement rescheduled 95 percent of 1983 principal payments until 1988-1992, with the remaining 5 percent due in January 1984.

-- Interest on original loan contracts, some \$270 million, was paid in November and December.

-- The banks agreed to relend Poland 65 percent of the interest payments in the form of short-term trade credits to finance imports.

-- Commercial bank/GOP negotiations began in February on a rescheduling covering all remaining unstructured debt outstanding. No agreement had been reached by the end of March.

#### Poland's 1984 Payments

-- Poland owes creditors \$17.5 billion in 1984 including approximately \$11 billion in arrears and \$6.5 billion on original loan contracts and previously rescheduled debt.

-- Warsaw now owes Paris Club governments \$7.2 billion in principal and interest arrears from unrescheduled 1982 and 1983 debt plus approximately \$400 million in arrears (mainly interest) pursuant to the 1981 government rescheduling agreement. In addition to the foregoing arrears, Warsaw owes Paris Club governments another \$1.8 billion in principal and \$0.9 billion in interest due in 1984 under original loan contracts plus some \$200 million in interest pursuant to the 1981 government rescheduling agreement.

Poland: Amounts Due and Payments  
to Western Governments and Banks, 1981 and 1982  
(Billion Dollars)

	Paris Club Governments			Banks		
	Amounts Due on Original Loan Contracts	Amounts Rescheduled	Payments	Amounts Due on Original Loan Contracts	Amounts Rescheduled	Payments
1981	3.9	2.3	1.5	3.8	2.2	1.5
1982 <sup>2</sup>	4.2	0	0.1	3.2	2.2	1.8 <sup>1</sup> gross 0.2 less short-term credits equal to one-half interest payments received
						1.6 net
1983	3.0	0	0	1.9	1.2	1.8 gross 0.15 less short-term trade credits
						1.65 net

<sup>1</sup> Including payments deferred from 1981 and interest and fees on 1981 and 1982 reschedulings. Poland is believed to be current on principal and interest payments to commercial banks on their 1981 and 1982 reschedulings.

<sup>2</sup> The Poles claim they received \$1.5 billion in official credits in 1982 from the West -- mostly from France and Canada in the form of food/grain related export credits. If this is true, Western governments put \$1.4 billion net into Poland in 1982.

## COORDINATION OF FOREIGN ECONOMIC POLICY WITH ALLIES

Mr. LANTOS. You raised a lot of issues, and there are a lot of issues that I think my colleagues and I would like to raise.

I would like to begin with some broad ones.

In your concluding observation, you said there are basically two extreme hypothetical positions, and no one favors either of those hypothetical positions. And, obviously, we would all agree with that. But I don't think that is really the issue.

If one looks back over 3 years of this administration's foreign economic policy formulation, several major shortcomings and failures and flaws become apparent.

The first one, it seems to me, Mr. Secretary, which I would like you to explore at whatever length you choose, is the apparent inattention or inability of the administration to make up its mind whether it is more concerned with developing a coordinated Western policy, or whether it is more concerned in setting forth its own views and let a public and often bitter debate with our allies hammer out, perhaps later on, a united policy, or result in a stalemate and bitterness and disaffection.

Let me be specific:

One can build a theoretical construct for a more lenient and more restrictive foreign economic policy, vis-a-vis the Soviet bloc.

But one really cannot build a rational policy that expects our friends and allies to carry the burdens while we protect ourselves and shield ourselves from the burdens, and, as you know, as well as I do—and probably better, the first economic policy failure was our expectation that the Europeans will agree to the pipeline restrictions that would cost them economically, while we refuse to continue the wheat embargo that clearly hurt us.

And, as you know, as well as I do, we became the laughing stock of Europe on this issue. We became the laughing stock of Europe because those who wanted the restrictive policy felt that we really wanted them to be restrictive and hurt themselves, while we protected our own agricultural interests, and those who wanted a liberal policy were also and equally critical, for obvious reasons.

My question is: Has the administration made up its mind, Mr. Secretary, as to whether it places a higher priority on prior coordination with our friends and allies, or whether it will continue to try to set forth its policies and hope that others fall in line.

Mr. WALLIS. Well, the administration clearly puts the highest priority on coordinated response by the Western Allies; otherwise, the response is not very effective.

Now, coordinated response has sometimes led to some friction, as you would indicate; but I would not interpret that as charging along without our allies. That has not been the approach at all.

## PROBLEMS OF LEADERSHIP ON ECONOMIC ISSUES

In any group, if you exercise leadership, you are going to find some people who are not inclined to follow instantly. There will be sometimes some friction caused and you have to weigh how far you press, and how far you sit back and just go along with the stream.

When the President first came into office, he made some strong statements, as at the Ottawa and the Versailles summits, on these issues. He raised them, and emphasized the importance of them.

In order to exert some leadership, it became necessary to take some initiative, to go out in front and do some things that were not entirely pleasant and did not lead instantly to favorable responses. This generated a fair amount of friction, as you say.

That happens here in the Congress, in any organization, when anyone attempts to exercise the leadership other than just to sort of move along with the crowd and see afterward where it went.

#### IMPACT OF SANCTIONS AND STUDIES

Now, on the sanctions, I think their net effect has turned out to have been quite productive. They led to the studies that were agreed to in November 1982, but really got underway in January 1983.

Those studies, I am sure you, as I a former academic, are pleased to see a study sometimes have a practical effect, and I will have to admit that I was surprised at the degree to which they had a practical effect.

Now, part of that was because the studies turned up information that was surprising to the general effect that the European countries were not getting as much economic gain out of their trade with the Warsaw bloc as they assumed they were getting. A number of other problems were also revealed in those studies.

Since that episode, I have had two or three different European diplomats with whom I have made personal acquaintance, say something along these lines:

As much as I hate to admit it, and as much as I find it surprising, the net effect of those sanctions, I will have to admit was positive. It has brought about an understanding and a realization of the security risks that can be incurred in trade, of which we either have been unaware or have not been giving sufficient weight or had not been able to get together and work together.

Frequently, one country wants to take the initiative on these things.

Mr. LANTOS. Mr. Secretary—

Mr. WALLIS. So, I think on the whole, turbulent as the period was, that the upshot of those sanctions was a good deal more productive than I personally, not having been in the Government at that time, expected them to be when they were invoked.

#### CRITICISM OF U.S. POLICY TOWARD ALLIES

Mr. LANTOS. Mr. Secretary, last September, the head of the State Department's East-West trade office resigned, Mr. William Root. In his letter of resignation to the President, among other things, he says:

"Since last summer, we have been redoubling our efforts to convey to our allies that their views do not count, that we know best, and that they had better shape up."

What is your comment on Mr. Root's assertion?

He was, after all, the official responsible within the State Department for East-West trade.

Mr. WALLIS. Well, I think that statement is simply erroneous.

Mr. LANTOS. What do you think prompted him to make it?

Mr. WALLIS. I was not personally acquainted with him, and I would not want to speculate on his motivations. I will say that that whole field is one in which people are continually pulled by conflicting principles.

That is characteristic, of course, of Government, and probably other policymaking decisions that—you know, “A stitch in time saves nine” but “Haste makes waste.” You have conflicting principles and you are torn and frustrated and you swing one way sometimes and one way another.

Different people think you ought to be responding to the “Haste makes waste” approach, when other people think that “A stitch in time” approach is relevant on that occasion, so I do not have an explanation for his statement.

#### COORDINATION OF POLICY BETWEEN DEPARTMENTS OF STATE AND DEFENSE

Mr. LANTOS. Well, an additional comment that he makes in his letter of resignation is one that is a matter of general and public knowledge, and maybe he was not wrong on that.

He talks about the lack of any meaningful cooperation between the Departments of Defense and State in this whole field.

What is your candid evaluation, Mr. Secretary, of the extent of which State and Defense cooperate in formulating trade policy, vis-a-vis, the Soviet Union and the bloc?

Mr. WALLIS. Well, let me say, I can understand that comment, but going back to my academic experience, I always remember the students who would come around and say, “Nobody listens.”

Of course, what they meant is we listen all right, but what they say is wrong, and so we don't do what they said we should do. I have to admit that there are often differences not only with the Defense Department, but with every other department we work with in the Government, and we don't always win out.

But I don't think that I would interpret it the way the letter did at all. I think that it is frustrating when your point of view does not prevail, but I think it is a mistake to say that the other side is not listening. It just means that you have not persuaded them.

#### INTERNATIONAL DEBT SITUATION

Mr. LANTOS. Before I turn the Chair over to Congressman Hamilton, I have one final question I would like to raise, on another issue.

The international debt situation is clearly one of the most serious ones that we as a Nation face. And some very thoughtful analysts, Mr. Secretary, take the position that our whole approach to dealing with the international debt crisis is predicated on a faulty assumption; namely, that we pretend to be dealing with a liquidity crisis when, in point of fact, there is an insolvency crisis.

And the longer we pretend that all that Argentina and the others have to contend with is just the lack of liquidity, and if we help them get over this temporary liquidity crisis, things will get back into normal, a more normal pattern, everything will be fine.

When, in point of fact, there is a fundamental insolvency crisis that large numbers of nations have taken on debts that they really have no realistic expectation of repaying either under the most liberal rescheduling agreements in the foreseeable future, and we simply lack the political will to face up to the fact that what we are confronting is an insolvency crisis and not a liquidity crisis.

Would you care to give us your insights on this?

Mr. WALLIS. Those are terms, "insolvency" and "liquidity" that apply to corporations and the private economy. The notion of insolvency for a country is a little hard to define and grasp. They are certainly never insolvent in the sense that a corporation may be.

Mr. LANTOS. Well, but they do default on debts, don't they?

Mr. WALLIS. Some of them default, and not necessarily when they are insolvent in any sense of the word. They simply go back on their debts.

There may be some countries—I am not aware of any, but there may well be some that are not ever going to pay up their debts. But, for the most part, I think they have been suffering from a change in events from those they expected when they entered into the commitments.

Mr. WALLIS. There are a variety of other factors and economic policies that need to be straightened out, but nearly all of them, by improving their economic policies, by the recovery rest—by the industrial world improving the markets for their products, will be able, in due course, to keep the interest up to date.

You do not necessarily expect a government ever to pay off its debts any more than our Government—well, I started to say, ever has—it did about 150 years ago, 1837; it paid off the whole debt and declared a dividend.

Mr. LANTOS. This administration shows no signs of doing the same.

Mr. WALLIS. No administration since 1837, when repayment of the debt was followed by one of the most severe depressions in our history, has been disposed to do that since.

So, I think that the debt problem is a delicate one. We are a good deal less worried now than we were this time a year ago, but nevertheless every time we begin to relax something new happens that gets us alarmed again.

#### ARGENTINA DEBT SITUATION

Mr. LANTOS. You do not think that the Argentina instance is an index of things to come? You believe that it is an isolated example?

Mr. WALLIS. I think Argentina will meet its obligations.

Mr. LANTOS. I'm sorry?

Mr. WALLIS. I think Argentina will meet its obligations. They may—it appears that they may skip their interest payments due day after tomorrow, but I think that eventually they will meet their obligations. They have every intention of doing so. The new Government came in under terrific handicaps. From many points of view, it is a tremendous improvement in the Government situation in Argentina, and we desire to do everything we can to assist them.

Mr. LANTOS. Thank you, Mr. Secretary.

Mr. Chairman.

Mr. HAMILTON [presiding]. Thank you very much, Mr. Lantos, for taking over.

I apologize to you, Mr. Secretary, for my tardy arrival.

Mr. Bereuter, I think, is next.

Mr. BEREUTER. Thank you, Mr. Chairman.

Secretary Wallis, thank you for your testimony.

#### MILITARY SUBCOMMITTEE FOR COCOM

I would like to pick up on a line of questioning started by the gentleman from California, and concentrate my questions on Cocom.

Does the State Department support or oppose the Defense Department's desire for a military subcommittee or unit within Cocom?

Mr. WALLIS. Our approach to that problem has to take into account the attitude of the other countries, although we can see some merit in the Defense Department's proposal.

On the other hand, it is not received favorably by all the other countries, and we can see some hazard in disrupting Cocom by pressing that point too vigorously. Anytime they think we are moving in that direction, and occasionally we do make moves in that direction they get very jumpy.

I should emphasize that Cocom is a rather remarkable organization. It is essentially nonexistent as a formal organization. None of the parties have any formal obligation or commitments. It is totally a voluntary, cooperative organization, where they meet, discuss the issues, under no obligation to make commitments. They go off and each government decides what to do as the result of what transpired in the Cocom meetings.

Mr. BEREUTER. Yes, I understand.

Mr. WALLIS. So, we are always extremely sensitive to things within Cocom that can disrupt it. There have been a number of proposals which in the abstract may have merit, but that we must be careful in supporting for that reason, and the military subcommittee is one of them.

#### DEPARTMENT OF DEFENSE ROLE IN COCOM REVIEW

Mr. BEREUTER. Well, Dr. Wallis, I understand in the last several days, that the Pentagon has put a person on the Cocom review process on a permanent or semipermanent basis. At least that was reported by one of the members of this committee in a speech in the last 2 days.

Mr. WALLIS. Well, I have not heard that.

Mr. BEREUTER. Does the State Department support or oppose it?

Mr. WALLIS. We do not have any position on it, because we had not even heard about it.

#### COMPLETION OF COCOM NEGOTIATIONS

Mr. BEREUTER. According to testimony before the Subcommittee on Europe and the Middle East received from the State Depart-

ment in February, negotiations on roughly 120 of the 140 to 150 categories of products on the Cocom list will be completed by July.

Is there any reason to expect that we will not see that happen by July, on schedule in effect?

Mr. WALLIS. My staff member that follows that in close detail is not in the country now, and I do not know whether anybody else knows the status of that or not.

I will say the reports that I get are that things are doing very well.

#### REQUEST FOR COCOM LIST

Mr. BEREUTER. Could you provide this committee with a list of the categories covered under the Cocom list that are under review?

Mr. WALLIS. I don't know whether we can do that or not.

The reason why I question whether we can do it or not is that we are under an obligation to maintain confidentiality about Cocom considerations, and I don't know whether a list of the categories would be held to break that commitment or not.

We will find out, and if we can we will send it to you.<sup>1</sup>

Mr. BEREUTER. It is pretty hard for this part of the Federal Government to make policy if we don't know what is on the list.

#### IMPORT RESTRICTIONS ON VIOLATORS OF MULTILATERAL NATIONAL SECURITY CONTROLS

Now, the Senate version of the Export Administration Act would empower the President to impose import restrictions on companies which violate multilateral national security controls like Cocom.

Do you believe this to be a correct course to obtain this kind of compliance?

Mr. WALLIS. This is on U.S. companies?

Mr. BEREUTER. Yes.

Mr. WALLIS. Because there was some debate at one time about how broadly it would be extended.

I think it probably would, yes.

Mr. BEREUTER. It is a correct course to take to obtain compliance, to impose sanctions on American companies?

Mr. WALLIS. Obviously, it has advantages and disadvantages, and in the net the administration position has been that the advantages would outweigh the disadvantages.

#### DEPARTMENT OF DEFENSE REVIEW OF HIGH TECHNOLOGY EXPORTS TO NONCOMMUNIST COUNTRIES

Mr. BEREUTER. Last Friday the President gave the Pentagon the power to review exports of critical high technology to 12 non-Communist countries, which are suspected of diverting such goods and technology to the Soviet Union. There is no specific statutory authorization for that.

What has been the reaction of our allies to that proposal, if anything?

<sup>1</sup> No material was submitted.

Can you provide us a list of the 12 non-Communist countries that are affected by this new abrupt policy change?

Mr. WALLIS. No, I am not sure that 12 is even the number. I think they are going by press accounts on that.

#### PRESENCE OF ALLIES ON EXPORT LIST

Mr. BEREUTER. Are any of our allies on that list?

Mr. WALLIS. I don't have the list in mind right now, but I assume not.

I am told that none of the Cocom countries are on it.

Mr. BEREUTER. No, but I am asking are any of our allies on it, and you are answering you don't know?

Mr. WALLIS. I don't know of any being on it.

Mr. BEREUTER. Let's see, if you don't know which 12 or more nations are on it, if you don't know whether our allies are on it, what does that say about coordination between—

Mr. WALLIS. Let me come back to your earlier question. It is clear there are no allies on it.

Mr. BEREUTER. There are no allies on it?

Mr. WALLIS. There couldn't be, because they are all in NATO.

Mr. BEREUTER. Well, is Austria an ally?

Mr. WALLIS. No.

Mr. BEREUTER. Austria is not an ally?

Mr. WALLIS. No.

Mr. BEREUTER. Well, neutrals can be allies, too.

Mr. WALLIS. I would not define a neutral as an ally.

#### NATO STUDY ON EAST-WEST TRADE

Mr. BEREUTER. NATO East-West trade study meetings have occurred in October of last year, and January of this year. The meetings reportedly examined various aspects of East-West trade, such as hard currency or Soviet industry.

Does a binding policy for NATO emerge from these reports, or is it expected that a binding policy for NATO will emerge?

Mr. WALLIS. A binding policy certainly hasn't emerged, and I would not expect one to. I would expect it to be a guidance rather than a binding policy.

Mr. BEREUTER. When will the next NATO meeting on this subject occur?

Mr. WALLIS. The review goes on all the time; they meet continuously at Brussels.

Mr. BEREUTER. It goes on all the time?

Do you expect the continuation of the two previous meetings? I would like very much to have this committee informed about that.

I believe I have probably exhausted my time. I have a floor statement to make and would like to come back for a second round if you are still here, Mr. Chairman.

Mr. HAMILTON. All right.

Mr. BEREUTER. Thank you.

Mr. HAMILTON. Mr. Siljander.

## U.S. POLICY AND ARGENTINE DEBT

Mr. SILJANDER. I would like to ask a little bit of a different question regarding a debt crisis. Obviously, that tends to be a media concern, and a concern of many, especially many, of my constituents, as to what are we going to do with Argentina. Argentina is now in arrears of approximately \$2.7 billion of interest.

What will be done with Argentina? Is there anything being done? Because I remember during the IMF vote, I was called by some of our top officials in the Government, suggesting that Argentina, Brazil, and Mexico are reformulating their fiscal and monetary policies to a point where we can be encouraged for the future. When our economic outlook is good the strength of the dollar, along with lower interest rates, a strong possibility would exist of reasonable solvency on Argentina's part that would create an ability to repay at least the interest that is in arrears. It's important to note that Argentina has announced that they cannot pay the \$2.7 billion in interest now owed.

My question is, what are we doing to resolve the potential spiral snowballing effect this would have on other countries, is this just a beginning? Well if they swallow the \$2.7 billion will the Argentines not only let the interest be in arrears, but also the loans themselves?

Mr. WALLIS. Well, all the Argentines have said, I believe, is that they would not be able to meet the interest payments due on March 31, and they have indicated that they would expect to be able to meet them fairly soon after that.

In general, the Argentine economic situation is turning around, and it is improving, and they are accumulating some reserves, reserves of foreign exchange, which are essential to them, in order to carry on import and export businesses.

The Government there, as you know, has not been in office very long. When they came in they found an extremely difficult situation.

They have improved their economic situation somewhat but they have not been able to give it top priority. They have had so many other problems with introducing democracy where it had not been for a long time, straightening out some of the consequences of a long-term military dictatorship, so that while we wish they had been able to give more priority to economic concerns, I would have to say we are somewhat sympathetic with them.

## VALUE OF THE FUNDING

Mr. SILJANDER. In the course of my interjecting, Brazil is in and out of compliance, and it just seems like there is always a reason, even though there may be very good reasons. The point is we have ordered another \$8.2 billion—at least the Congress did, for more IMF funds, some of us wonder where will it stop? We question if there is hope for the future or are we merely pouring more money down a deep well that likely we will never fill?

Mr. WALLIS. Well, we think with all of the three countries that you mentioned, will almost certainly eventually work their way out of the morass they are in now.

Mr. SILJANDER. Well, we have heard that before.

Mr. WALLIS. And pay up on their accumulated interest.

#### EUROPEAN COMMUNITY AGRICULTURAL POLICY

Mr. SILJANDER. Let me just touch on a different subject, if I may, Mr. Chairman.

We met with the European Parliament in Strasbourg, and the main focus was two things. First, that the European Community would consider or not consider further trade barriers for agricultural goods; and, second, our discussions on their subsidizing their agricultural commodities and basically stealing \$5 billion worth of our foreign markets away last year alone.

As you all know, that translates anywhere from 150,000-175,000 jobs, depending what rule of thumb uses with the trade deficit per billion dollars jobwise.

#### LEGISLATION ON AGRICULTURAL TRADE

I came back and introduced a bill, No. 5198, and I would hope that you would take a look at 5198 as an answer, to the EEC's subsidizing their agricultural commodities, and, as I said, essentially, stealing our markets away.

What the bill attempts to do in a loose form is to encourage and direct the Secretary of Agriculture—Mr. Block—to do four things basically: No. 1, address the markets that we have lost and those that we could potentially gain; and rather than suggesting that we can subsidize the price of the goods, simply offer a payment in kind and CCC items—grain, and wheat, and rice, and dried milk, and the like, which essentially gives them a bonus to buy our products, our markets of CCC items. We would be more than willing to contribute a little more in money—payment in kind, again. This would reduce surpluses and would save the Government money in a surplus storage costs, hopefully garnering those \$5 billion of markets back again. This would put 150,000-175,000 Americans back to work and bolstering the prices to farmers who are very concerned, and that is why we had to pick program in wheat and grain; we have had the set-asides and diversion programs because of oversurplus.

The bill does a second thing. It would direct the Secretary of Agriculture to address markets, and fruits, vegetables, and non-CCC items that could be those losses that we could gain back, and offer CCC items in addition to the purchase of our pork, our beef, our fruit, or vegetables as an incentive to buy ours, as opposed to a foreign market.

In other words, you buy a suit and receive a shirt free. That sort of a concept.

Third, it expands the idea of the Public Law 480 program rather than giving dollars, billions of dollars in aid—why not simply contribute food to Third World nations rather than giving dollars, in which case oftentimes, at least from our research, foreign countries used American dollars for Canadian pork and Australian beef.

And, last, for encouraging through more of a resolution type of language to encourage the Department of Agriculture to consider barter and trade.

We buy strategic ores and minerals from countries who certainly need our food. And it would certainly seem more logical than to pay cash. We ought to consider in certain elements to use our food, our CCC items that are in surplus and storage, that we already own, and have bought, and are again paying the storage costs.

But just to give you a quick summary for the record, those are the four major targets of the bill without getting—it does not get too specific, in how the Secretary ought to do it—simply bring some of these common-sense—I would call them ideas in a comprehensive fashion in a bill, and it is referred, of course, jointly to the agricultural committee and to this Foreign Affairs Committee.

So, I would appreciate sometime, as soon as possible, I would like to hold, to try to get a hearing from the sense of the Foreign Affairs Committee on the bill, and would appreciate your comments on that approach.

Mr. WALLIS. Well, those are some interesting ideas. I am not familiar with the bill. I am sure that people in the Department are, in the Bureau of Economic and Business Affairs, the people in Agriculture will surely be familiar with it.

#### EC COMMON AGRICULTURAL POLICY AND PROTECTIONISM

The European Economic Community is in many ways a major problem because of its protectionist economic policies. The problems you describe on agriculture arise in large part out of their common agricultural policy in which they subsidize the production of agricultural products by paying considerably more than world market prices and accumulate big surpluses, which they then put on the world market at subsidized rates, so that not only do we have a complaint about their keeping our agricultural products out of Europe, but a bigger complaint, as you brought out, about trade with third countries where they subsidize the sale of products which actually cost them far more to produce than ours do.

Now, I say they are keeping our agricultural products out. I have to be careful about that, and that is one of the complications of this sort of measure that you are proposing. The EC, as a whole, is our biggest, single customer for agricultural exports, and consequently any measures we undertake in the way of retribution open us up to retaliation that could be even more devastating than the measures against which we took countermeasures. So, we are somewhat careful there about our movement.

Some of the things, measures you describe, we have undertaken from time to time to make it clear to them that if they really continue to provoke us, there are things we could do, and we have gotten their attention a couple of times, but so far haven't really been able to capitalize on it, and there are some very crucial issues right now, as I am sure you are aware, corn gluten, and fats, and oils, and so on, and what they will decide to do remains to be seen.

One pressure that is working for us, and perhaps will be more effective than any countermeasure that we might take is the effect of all their policies on Europe itself.

In the first place, the budget of the EC is something like 70 percent of its total to these agricultural surpluses, and some countries

put in a lot more than they get out. They are getting more and more unhappy about that, and unwilling to do it.

More important, Europe has been stagnant economically for 10 or 12 years. There are no more people employed in Europe now than there were a dozen years ago; and they are getting more and more concerned about that. We are concerned about that, too.

Some of the difficulty is their lack of any kind of flexibility. As farming improves in efficiency and so on, they don't move the people off the farms, they just subsidize them to stay there. As more attractive opportunities arise, people would normally move out of farming and into manufacturing, but they subsidize them to stay in farming. Then they complain that they are lagging behind us in high technology. They argue that EC Governments spend far more on research on high technology than our Government does, or than the Japanese Government does, but they only get about 10 percent as much out of it.

Well, it is dawning on them that there is a connection and they are beginning to talk about the need for flexibility, and eliminating structural rigidity, of which agriculture—the things that you have described, are only one of the structural rigidities that is handicapping them.

But, at any rate, those factors may do more for us—their attempt to get their own economy in a more dynamic state in order to keep up with the dynamic economies like the United States, Japan, and Korea, and a number of others.

They may come around to the changes that benefit our agricultural problem.

#### CREDIT SUBSIDIES TO SOVIET UNION

Mr. HAMILTON. Mr. Secretary, I would like to talk to you a few minutes about credit matters. You say in your prepared statement that the possibility of credit subsidies to the Soviet Union from most OECD countries is virtually eliminated.

Now, do I understand that we have agreement on a 12.4 percent interest rate on Western Government credits in loans?

Mr. WALLIS. Twelve and three-quarters, I think.

Mr. HAMILTON. 12.45, isn't it?

Mr. WALLIS. You are right.

Mr. HAMILTON. Now, are all of the OECD members holding to the guideline on interest rates?

Mr. WALLIS. I believe they are.

Mr. HAMILTON. Are there—

Mr. WALLIS. You realize, I am sure, that there are complications in determining that, because they will set an interest rate but adjust the price of the product, which in effect, constitutes a subsidy.

Mr. HAMILTON. Well, what do we have?

Do we have a guideline with OECD, which is a voluntary compliance arrangement?

Mr. WALLIS. Voluntary, but, to the best of our knowledge, nobody is violating it.

Mr. HAMILTON. Everybody is following the guideline; there is no violation of it, so far as we know. Is that correct?

Mr. WALLIS. Yes.

Mr. HAMILTON. Is the U.S.S.R. getting any Government credits from the West now at all?

Mr. WALLIS. Do you know, Tom?  
Are they getting any?

**STATEMENT OF THOMAS M. T. NILES, DEPUTY ASSISTANT SECRETARY, BUREAU OF EUROPEAN AND CANADIAN AFFAIRS, DEPARTMENT OF STATE**

Mr. NILES. Mr. Chairman, they are getting some trade-related credits.

Mr. HAMILTON. I am having a little trouble hearing. Maybe—

Mr. NILES. I beg your pardon.

The Soviet Union is getting some trade-related credits tied to specific deals. They were recently able to arrange successfully a placement on the Eurodollar market. I think it was \$200 million untied credit with a consortium of European banks headed by the Dresdner Bank, but there have been no major extensions of credit that we are aware of in the last—

**CIRCUMVENTION OF OECD CREDIT GUIDELINES**

Mr. HAMILTON. We had one report that the French had circumvented the rule by giving the Soviets a loan to purchase some grain at an 8-percent interest, and they did it by using deutsche marks rather than the French franc.

Do you know anything about that?

Mr. NILES. I had not heard that particular report, Mr. Chairman. There is a provision under the arrangement, under the OECD credit consensus, under which the countries which have very low domestic rates of interest—example: Germany and Japan, lending in their own currencies, do not have to go up to the 12.4-percent rate. They have to impose a certain surcharge on their own domestic rates, but it doesn't move it all the way up to the 12.4 percent.

Mr. HAMILTON. Is there any way in which the OECD rule can be circumvented by using a foreign currency? Are you aware of that as any scheme or pattern by which this can be circumvented?

Mr. NILES. I am not aware of any scheme or pattern, Mr. Chairman. It could be done, perhaps if you lent in deutsche marks, for example.

Mr. HAMILTON. If you—

Mr. NILES. Or Japanese yen which are low interest rate currencies, but you, of course, would have to repay in those currencies.

Mr. HAMILTON. If you have any information about that, would you let us have it for the record, please. We would appreciate it.

Mr. NILES. We will.

[The following was subsequently submitted:]

We are not aware of a way to circumvent the OECD Export Credit Arrangement by offering financing in a foreign currency. The Arrangement interest rate matrix sets a minimum interest rate on all participant's currencies. Each participant may offer financing in each other's currencies if the financing is at or above the interest rate permitted. For example, our Export Import Bank can offer financing in Japanese yen at the same interest rate and terms that Japanese Export Import Bank may quote for yen.

UNDER SECRETARY OF STATE,  
Washington, D.C.

Hon. LEE H. HAMILTON,  
House of Representatives.

DEAR CONGRESSMAN HAMILTON: During my appearance before your subcommittee on March 29, you asked whether the French or others may be circumventing the OECD Arrangement on Export Credits by financing Soviet purchases in low interest rate currencies. Here is the additional information I said I would provide.

The OECD Arrangement, which governs credits for manufactured goods, allows countries to extend financing in foreign currencies at market rates prevailing in the country of currency. A low-interest rate loan in a "hard" currency such as the yen or D-mark is not necessarily "easier" than a higher interest rate credit in a weaker currency. By the time the loan is repaid, the weaker currency may have lost value relative to the hard currency, making it more expensive to repay in the latter. The French have recently sold goods to the Soviets with D-mark, yen, and U.S. dollar credits. We do not object as long as market interest rates for these currencies are applied.

You cited a specific case of French grain sales financed by D-marks. As part of the Common Agricultural Policy, French grain sales are actually managed by a body of the European Community. The EC has indeed sold French grain to the Soviets for the past several years; the U.S.G. has not objected to the financing of such sales in another EC member country's currency (D-marks). The OECD Arrangement does not, in any case, apply to agricultural products.

In general, changes in the OECD Arrangement over the past three years have had the effect, inter alia, of making credit more costly to the Soviet Union. The participating countries agreed to "graduate" the Soviets to Category I (relatively rich countries) while raising the interest rates allowed for credits to Category I countries. The combined effect was to raise Arrangement interest rates to the Soviets from 8.5% to 12.4% and virtually eliminate the possibility of direct interest rate subsidies. We continue to work on further tightening credit terms of Category I countries.

Sincerely,

ALLEN WALLIS.

Mr. HAMILTON. Now—

Mr. WALLIS. Could I point out one of the—

Mr. HAMILTON. Surely.

Mr. WALLIS [continuing]. Complications there, which I am pretty confident you are aware of, but just for the record.

When you are borrowing an inflating currency, you are not so unhappy about paying 12.45 percent, because when you repay, the currency will be relatively cheaper, as if you are borrowing a currency that is not inflating.

This makes complications—

Mr. HAMILTON. I understand.

Mr. WALLIS [continuing]. Which currency the Russians borrow in.

Mr. HAMILTON. Sure.

#### SOVIET QUALIFICATIONS FOR CREDIT FROM OECD COUNTRIES

Is it correct that the Soviets are not qualifying for any U.S. Government credit?

Mr. WALLIS. Yes.

Mr. HAMILTON. So that is an accurate statement. Is it also generally true of the OECD countries? Are the Soviets not qualifying for any government credit from the OECD countries?

Mr. NILES. Oh, no, they are. The other OECD countries do make official export credits available to the Soviet Union,—

Mr. HAMILTON. But it is at the—

Mr. NILES. It is at the consensus rate.

Mr. HAMILTON. At the consensus rate?

Mr. NILES. Yes.

Mr. HAMILTON. All right.

#### U.S. CREDIT TO THE SOVIET UNION

Mr. WALLIS. We haven't made any official credits for a long, long time, I think.

Mr. NILES. Since 1974 we have not made any official credits or guarantees available.

Mr. HAMILTON. Was that the last time that we did it? What was the amount of that one?

Mr. NILES. It was the Export-Import credit for the Occidental Petroleum ammonia plants. I think it was \$360 million, Mr. Chairman. I am not sure. It was in the summer of 1974.

[The information follows:]

In 1974 Exim provided a credit of \$180 million to the Soviet Union in support of Occident Petroleum's sale of ammonia plants; this was Exim's last credit to the Soviets. Exim's policy at the time was to put together a financial package to cover 90% of total U.S. exports sales in a deal, but to finance directly only 45%. Total U.S. export sales in the Occidental case were \$400 million; Exim provided \$180 million in direct credits at 6% interest and found sources for \$180 million in commercial credits (not guaranteed by Exim). As was customary in these cases, the commercial credits were repaid from earlier maturities; Soviet repayment of principal to Exim Bank for these credits began recently, and the Soviets are current in all payments.

#### SOVIET REPAYMENT ON U.S. LOANS

Mr. HAMILTON. Now, have the Soviets paid back all the interest and principal on government loans they have received from the United States?

Mr. NILES. Yes, sir. They are current on their Export-Import obligations.

Mr. HAMILTON. They are current.

Mr. WALLIS. Isn't there one exception?

Mr. NILES. There is an exception on the agreement on the repayment of the lend-lease debt which was signed in 1972. The Soviets view that agreement as tied to most-favored-nations status and the ratification of the 1972 Trade Agreement.

After making several payments on that agreement, in 1975 they ceased making the repayment on the Export-Import—I'm sorry, on the lend lease agreement.

Mr. HAMILTON. So, that is the only one?

Mr. NILES. That is the only one.

Mr. WALLIS. Yes.

Mr. HAMILTON. Can you give me some idea of the magnitude of that problem, in terms of dollars?

Mr. WALLIS. We've got it here, if we can find it.

Mr. HAMILTON. Well, if you don't know it offhand.

Mr. NILES. We have it right here. I can read it off to you, if you would like, Mr. Chairman.

Mr. HAMILTON. I just want to get some idea of the magnitude of it.

Mr. NILES. It is in the record, but the Soviet Union also has outstanding obligations to the United States arising from World War

I. These total \$192.6 billion. Interest accrued on these obligations as of September 30, 1981, total \$613.3 million.

The Soviet Union repudiated all of its foreign debts, of course, in 1918, so that is not one that they recognize. But we regard it as a valid obligation.

They have outstanding debts of \$418 million to the Export-Import Bank on loans, and \$674 million resulting from the lend-lease agreement, which was signed in 1972.

The only other loan the U.S. Government has extended to the Soviet Union since 19—since World War II—was \$750 million in short-term credits granted in 1973 by the CCC. The Soviets have repaid this loan in full.

Mr. HAMILTON. Do I understand that the Export-Import debt of \$418 million and the lend lease debt of \$674 million have not been paid?

Mr. NILES. Those are outstanding obligations, but the Soviet Union is repaying its obligations to the Export-Import Bank. They unilaterally suspended repayment on the lend-lease agreement in 1975.

Mr. HAMILTON. Was that done because of the Jackson-Vanik amendment?

Mr. NILES. That is right. The Soviet Union claimed that the repayment of the lend lease—the completion of the lend lease agreement was contingent upon ratification by the United States by the trade agreement.

#### DEFINITIONS OF SUBSIDIZED CREDITS

Mr. HAMILTON. We have had reports that there are differences between the United States and the European countries about what they consider to be subsidized credit. We define it differently than they do.

Is that correct? And if it is correct, what is the difference?

Mr. WALLIS. I think that is difficult to answer because the differences arise out of the fact that we just discussed earlier, such a depreciated currency. The interest rates mean something different. There are these so-called cosmetic interest rates where they adjust the price to offset the interest rate, and to that extent there are differences.

Mr. HAMILTON. Let me put it to you this way, and you let me know if I am off of the mark on it.

We tend to regard subsidized credit as anything that is not determined by the market rate, while the Europeans look at it as a subsidy occurring only when the state incurs a cost.

Is that a fair statement?

Mr. WALLIS. I think that is a fair statement. We could get into some discussion, disagreements even on that.

For example, there is the issue of guaranteeing a loan, to what degree that is a subsidy. It certainly is a subsidy. With us, if the Government were to guarantee a loan, it would be explicit that they guaranteed it; with them, often the bank that makes the loan is a Government bank, and so there is an implicit subsidy.

## REDUCTION OF ITEMS ON COCOM LIST

Mr. HAMILTON. Turning to Cocom list, we have a statement by Secretary Baldrige, who said the United States would be better off to drop at least half of the items on the Cocom list, and concentrate on the most important items.

Now, what has happened?

Is that a Government position? Or was that just an individual statement by Secretary Baldrige?

Mr. WALLIS. In the overall review of the Cocom list, one of the objectives is to eliminate items that have been on there for 20 years or so, and which are absolutely of no consequence from a security point of view any more.

And one of the objectives is to get all of those things out, where it is obsolete. And the second thing is to get out things that are of almost no consequence so that we do focus on the important things.

Mr. HAMILTON. So, it would be beneficial from our standpoint if we got rid of a lot of those things you mentioned; it would simplify the process.

Mr. WALLIS. From everybody's standpoint.

Mr. HAMILTON. All right.

Are you working on that now?

Mr. WALLIS. Yes. Yes. Cocom is working intensively on it.

Mr. HAMILTON. And are you cutting down the number of items? Do you have some kind of a target to achieve that?

Mr. WALLIS. No, I don't believe there is a target date.

Mr. NILES. No, it is targeted to finish this summer.

Mr. WALLIS. I see. He says this summer, so—

Mr. HAMILTON. So, by—

Mr. WALLIS. We expect to finish it by this summer.

Mr. HAMILTON. Within the next few months, then, you would expect to make substantial progress on reducing the Cocom list; is that correct?

Mr. NILES. Yes, sir.

Mr. HAMILTON. I am sorry, I did not hear.

Mr. NILES. The progress which we expect is not simply in reducing the Cocom list but in updating the Cocom list, adding items at the top, new technologies, items which weren't even on the market, say, when the list was last reviewed 2, 3 years ago.

But, of course, Secretary Baldrige was referring to the bottom of the list, cutting off items which are no longer sensitive.

And this is what is also going on right now, sir.

Mr. HAMILTON. OK.

Mr. BERMAN.

Mr. BERMAN. Thank you, Mr. Chairman.

## SANCTIONS ON CHEMICAL EXPORTS TO IRAN AND IRAQ

Since we are discussing the Export Administration Act, and the Cocom list, I wanted to ask you a few questions on—I have been told that there is some possibility that the administration may impose control sanctions regarding shipments of chemicals to Iran and Iraq based on the evidence both the United States has received and that the U.N. study report concludes that some chemicals received have been used in the manufacture of nerve gas.

Do you know the details of this, or are you in a position to comment on this?

Mr. WALLIS. I am not in a position to comment on it, particularly in an open meeting, unfortunately.

#### CONTRACT SANCTITY IN EXPORT ADMINISTRATION ACT

Mr. BERMAN. All right, let's move away from that then. My interest in raising this is to deal with this issue of contract sanctity as that language exists in the Senate version as it relates—of the EAA, as it relates to foreign policy controls.

Does the administration have a position on this issue?

Mr. WALLIS. Yes; we prefer the language in the House bill, your amendment, which allows the President a little more flexibility.

Mr. BERMAN. Right. What can I say? [Laughter.]

Senator Heinz on the floor of the Senate resisting the effort to place the House language, the same language as is, was—as the House version in the Senate bill, indicated that with respect to both military aggression and nuclear testing that we could impose the same kind of controls based on national security grounds as we could for foreign policy reasons. In your opinion, is that an accurate assessment of the situation?

Mr. WALLIS. What is the assertion again?

Mr. BERMAN. The assertion is that whatever controls we might want to impose in that situation including controls which would affect the existing contract, could be imposed for national security reasons, just as easily as on foreign policy grounds.

Mr. WALLIS. That is, he is arguing we could justify it by saying it is a national security situation.

Mr. WALLIS. I imagine there are cases where that is true, but I wonder if there are not cases where it is not true. There certainly are some where it would be awful hard to say. Take the actions on Poland for example. I do not know whether we could have said that for national security reasons, certainly not in the short run.

Mr. BERMAN. Libya threatens to invade Chad.

Mr. WALLIS. Well again, I would think that that is not easy to justify on a national security argument. But it would clearly be a foreign policy ground.

#### FOREIGN POLICY CONTROLS ON KAMA RIVER TRUCK PLANT

Mr. BERMAN. As I understand it, foreign policy control still exists on the Kama River truck plant, shipment of parts for the assembly line there, is that correct?

Mr. WALLIS. I think so.

Mr. NILES. That is correct, yes.

Mr. WALLIS. The answer is yes.

Mr. BERMAN. And as a result of those controls, a contracted shipment of parts for the assembly line in that plant was halted, as I understand it, is that correct?

Mr. NILES. That is my understanding, yes. These were the controls imposed at the time of the Soviet invasion of Afghanistan.

Mr. BERMAN. That is correct.

Mr. NILES. In January 1980, the trucks were used among other things for the invasion of Afghanistan.

Mr. BERMAN. In 1982, there was an expansion of those controls. Could you explain what the nature of that expansion was?

Mr. NILES. As far as the Soviet Union was concerned?

Mr. BERMAN. Right.

Mr. NILES. These were the oil and gas controls which were imposed following the martial law declaration in Poland. That was in December 1981. The controls were further expanded on June 18, 1982. The President removed those particular controls in November 1982.

Mr. BERMAN. Did he remove the controls which expanded coverage to include imports to the ZIL truck plant?

Mr. NILES. No, I beg your pardon. I am talking about only the oil and gas controls.

Mr. BERMAN. Oh, all right. But the original controls were expanded in 1982, as I understand it, by this administration.

Mr. WALLIS. Well, in June, they were extended to the subsidiaries of American companies and their licensees.

Mr. BERMAN. As well as expanding the list of commodities, I believe.

Mr. WALLIS. Yes.

Mr. BERMAN. To cover other commodities. Well, to cover commodities that were particularly useful in the production of trucks.

Mr. NILES. Those sanctions were earlier, sir. I do not believe that there were any 1982 sanctions having to do with the ZIL plant or Kama. That came earlier.

Mr. BERMAN. OK. The existence of those controls is more important than the date.

Mr. NILES. The controls remain.

Mr. BERMAN. That is right.

Mr. NILES. The controls that were adopted following the Afghanistan invasion.

#### IMPACT OF CONTROLS

Mr. BERMAN. What is the administration's assessment of the effectiveness of those controls?

Mr. WALLIS. Well, as I said in my statement earlier, it is very hard to appraise. The evidence that we get is that they have had some effect in handicapping the Soviet production of military equipment, and in particular their trucks.

Of course, at the time, they worked their way around them. But of course, that has a cost, too. They transfer resources from other high-priority activities. Indeed, in some ways, the faster they work their way around something, the more evidence there is that it was really costly to them.

Mr. BERMAN. I am told that the Commerce Department has a report which would indicate the initial prohibition on the export of the second diesel assembly line to the Kama River truck plant has greatly delayed Soviet expansion of engine production, and has probably caused them to forgo planned production of a substantial number of trucks.

That the effectiveness of the controls on designated equipment to both Kama and ZIL plants is limited by the foreign availability of like products from non-U.S. sources. That the controls should delay

modification, updating, or expansion of those plants while alternative sources are developed. And that 4 years later, alternative sources for the Soviet Union have not been developed, as I understand it.

Is that your understanding?

Mr. WALLIS. I do not know about that specific case. But as an economist, I would say that it all sounds pretty reasonable.

Mr. BERMAN. Did you have any comment?

Mr. NILES. I have not seen the Commerce report to which you refer, sir, but it does sound reasonable. There is a foreign availability for most of the things which you mentioned there. Over time, they can find them elsewhere.

#### ORIGIN OF CONTROLS ON OIL AND GAS TECHNOLOGY

Mr. BERMAN. When the controls on the equipment for the production and exploration of oil and gas were promulgated, why were they based on foreign policy rather than national security controls, given the fact that the Soviet Union is one of the countries that is the object of our national security controls?

Mr. WALLIS. Was anybody here involved in that?

[Pause.]

Mr. NILES. The original controls on oil and gas equipment and technology were imposed in 1978 in response to the trial and conviction of Anatoliy Shcharansky. It was felt that under the circumstances given the rationale for the controls that foreign policy rather than national security made more sense. It would seem so today, too.

Mr. BERMAN. I have taken a good deal of time, and I yield back to the Chairman.

Mr. HAMILTON. Mr. Bereuter.

Mr. BEREUTER. Thank you, Mr. Chairman.

#### RESCHEDULING OF ROMANIAN DEBT

Secretary Wallis, I have some questions on Romania that I would like to have you respond to in writing, if you would. I think that you might be a little more detailed than you would want to handle right here.

Mr. WALLIS. All right.

Mr. BEREUTER. I might mention, first of all, that the table following page 19 does not include Romania for some reason.

Mr. WALLIS. All right.

Mr. BEREUTER. Romania recently concluded a debt-rescheduling agreement with the United States. These are the four questions, if we could have some answers on these.

How much was rescheduled in the agreement? Second, what were the terms of the rescheduled agreement? That is to say, were the terms better or worse than would be negotiated by a commercial bank. Three, is Romania current on all of its outstanding interest payments. Four, are we convinced that Romania is seriously addressing its balance-of-payments problems, so that they would be able to meet these debt-service obligations?

Just for the record, and hopefully for a response on those in writing, I put those before you.<sup>1</sup>

#### MOST-FAVORED-NATION STATUS FOR ROMANIA

I am wondering if you can tell me whether or not in granting most-favored-nation status, if there is any formal consideration given to human or civil rights conditions within that nation or to personal freedoms; is that among the criteria that are considered, or is that outside of the consideration when MFN is granted?

Mr. WALLIS. No; it certainly is among the criteria. I think that Mr. Niles can comment. That is within the European Bureau.

Mr. NILES. Well, the question of most-favored-nation treatment for Romania is viewed in the context of the legislation, the 1974 Trade Act. And it has been felt and I think that the Congress has shared the administration's view, which has been the view of several administrations, that, on balance, the interests of human rights and immigration in the case of Romania are best served by the continuation of most-favored-nation status.<sup>1</sup>

We have had a continuing dialog with Romania on the human rights question. We had a human rights roundtable here recently with a senior official of the Romanian Foreign Ministry. We believe that while there are problems in this area which we certainly have spoken of publicly, that the continuation of a United States-Romanian relationship as we now have and the maintenance of MFN does contribute overall to improvement in the human rights situation in Romania.

Mr. BEREUTER. A number of Members of Congress including this Member visited the nations of Eastern Europe, all of the nations except Poland. And I think that we would unanimously agree that the Romania regime is by far the most repressive of all of the nations in Eastern Europe and Central Europe.

#### TRADE RELATIONS WITH EAST EUROPE

Is there an agenda developed already or is an agenda being formulated as to the steps that must be taken to normalize trade relationships with East Germany, Czechoslovakia, and Bulgaria? Is there an agenda of differences or concerns that we would have which would have to be met at least in total or in part by these nations before we could normalize our trade relations with them?

Mr. NILES. Well, each country, of course, is different in terms of our relations with it and the problems that would have to be resolved before we were able to normalize trade relations. Of course, there are the legal requirements, the Jackson-Vanik requirements, which obviously have to be applied in all cases.

#### IMPORTANCE OF JACKSON-VANIK AMENDMENT

Mr. BEREUTER. How predominant is Jackson-Vanik?

Mr. NILES. I do not exactly understand, do you mean how important is it?

Mr. BEREUTER. How predominant a consideration is it?

<sup>1</sup> See app. 1.

Mr. NILES. It is a basic consideration. Without resolution of that particular obstacle or that particular question, it is obviously not feasible to go ahead and normalize trade relations with any of the three countries which you mentioned.

There are problems quite apart from Jackson-Vanik. For example, in the case of the German Democratic Republic, we have outstanding claims issues which would have to be resolved before we would be able to conclude a trade agreement. There are other problems with Czechoslovakia and problems with Bulgaria.

While I would not want to say that there is an agenda of steps or a timetable for normalization, in all three cases we are trying to move ahead as best we can.

#### LEVEL OF CONTACT WITH EAST EUROPEAN OFFICIALS

Mr. BEREUTER. Let me say that the six Members that visited these nations in November and December were quite concerned about the minimal level of high diplomatic contact between the U.S. Ambassador and governmental officials in these nations. The level of contact is very minimal indeed.

We came away with the clear impression that we do not even have enough meetings and discussions to set out our agenda of differences. When our Ambassadors serve for over 1 year in some of these nations and never have any high-level contact, and when it takes intervention of a third nation's Ambassador to get our Ambassador to be able to sit down with top-level people in Bulgaria and East Germany, something is amiss.

And we do not think that we are making any progress, and that the blame falls on both sides. It is a quid pro quo situation. And that somewhere we have to make a breakthrough in that respect.

Mr. NILES. Could I comment on that?

Mr. BEREUTER. Yes, please do.

Mr. NILES. Well, in the case of East Germany [the GDR] and Bulgaria, the Assistant Secretary for European Affairs Richard Burt recently visited both of those countries, and had high-level contacts with the Governments.

He met in East Berlin with the Foreign Minister, Dr. Fischer, with the Central Committee Secretary and Politburo member responsible for foreign relations, Herman Axen, and a number of other senior officials. And this was what I would consider a high-level contact, a high-level dialog with that Government.

Mr. BEREUTER. We are concerned that our Ambassadors to those nations function in isolation. We are concerned that the Ambassadors from those nations to the United States are not treated well and given access to high-level negotiations in this country.

It is a situation which has to be remedied eventually. A lot of time has passed since 1945 or 1948.

Mr. NILES. We are trying in each case, where possible, to enhance the dialog. Ambassador Barry in Sophia was able to have a long, and I think interesting, conversation with the First Secretary, Mr. Zhivkov.

Mr. BEREUTER. But only because of the involvement of a third nation's Ambassador.

Mr. NILES. Well, I am not aware of that particular involvement.

Mr. BEREUTER. Well, that is what he told us.

Mr. WALLIS. Would you clarify one implication of your question. You seem to imply that the fault is with our Ambassadors.

Mr. BEREUTER. No, I am not.

Mr. WALLIS. All right.

Mr. BEREUTER. I am saying that it is a quid pro quo situation. We tend to treat them with disdain in this country, and they treat us comparably in their own. And it is only when a congressional delegation comes around that you have opportunities for ambassadors to meet some of the people that they ought to have routine contact with.

And we are pleased to fill that role. But it is not getting us to an agenda of differences. Our Ambassador in Bulgaria, for example, said that after his meeting with the President, that they established really only four significant areas of differences.

They satisfactorily concluded two of them on the spot in that long session, and made progress on the third. I think that we came away concerned that this kind of discussion is not possible, and that both sides need to try to take a look at the agenda of differences which we are not even exploring at this point.

Mr. WALLIS. And you are suggesting that actions here in Washington could make those go further in those capitals.

Mr. BEREUTER. Yes, I believe that is the case.

Mr. WALLIS. Well, we will follow up on that.

Mr. BEREUTER. And that is certainly true on their side as well. It is a two-sided situation where progress is needed.

Mr. NILES. I can only say that we do support the development, where possible, and improvement of relations with all of the countries you mentioned, and we are doing the best we can here and there to enhance the dialog. I talked recently several times with the GDR Ambassador, for example.

Mr. BEREUTER. Perhaps we can give you some help here. It is the first time that some of these Ambassadors have ever been invited to Capitol Hill after being here more than 2 years. The first time that they have ever had contact with a Member of Congress, apparently.

I have two more quick questions, and then I am supposed to recess the meeting for the chairman.

#### NEW ROUND OF GATT NEGOTIATIONS

The Williamsburg Declaration mentioned possible consultations on a new negotiating round of GATT.

Are preparations for a new GATT round underway in any realm of generality?

Mr. WALLIS. Yes and no. That is to say that the Japanese have proposed that there should be a new round. And we have in informal discussions have indicated that we are very much in favor of that. And two and three other countries have indicated fairly strong sympathy.

And it appears that there is a climate of opinion developing that will lead to that, but it has not actually happened yet. But I personally anticipate that there will be something equivalent to a new round within a year or two.

Mr. BEREUTER. Within a year or two?

Mr. WALLIS. So the answer is yes and no. I think that it will happen, but there is no way that I can assure you that it will.

Mr. BEREUTER. And nothing very concrete is in the works at this moment?

Mr. WALLIS. Well again, there are some things underway. Bill Brock has been meeting, as a result of the Williamsburg Summit, with the Japanese, the Canadians, and the EC representatives. He must have had four or five meetings by this time with them, which they call quadrilateral talks.

They have been discussing what can be done to follow up on the commitments at Williamsburg to roll back, restrictions and what can be done to advance the free-up trade, the free-up access to markets.

And in those discussions, they have discussed this possibility of a new round. So I would not say that nothing has happened formally either. Those meetings have been formally scheduled as a result of the Williamsburg Summit.

#### IMPORTANCE OF EAST-WEST TRADE IN ECONOMIC SUMMITS

Mr. BEREUTER. A final question before we recess. The Williamsburg Declaration mentioned that East-West relations should be compatible with security interests. And last year, the State Department testified that East-West relations had not been a significant topic at the Williamsburg Summit.

Mr. WALLIS. Well, I would not have testified that.

Mr. BEREUTER. OK.

Mr. WALLIS. They were brief but they were very significant.

Mr. BEREUTER. I am sorry, I should have said East-West trade, and I said East-West relations. I should have said East-West trade.

Anyway, whether or not you agree with that, is it going to be a significant topic or likely to be a significant topic at the June London Economic Summit?

Mr. WALLIS. I cannot really comment much on the summit now, at least in a public session. I would be happy again, as I did last year, to appear before Mr. Hamilton's subcommittee in executive session before the summit. In fact, I would like to, when there is still time to get some input from the committee before everything is jelled at the summit.

Mr. BEREUTER. We would appreciate it.

Mr. WALLIS. But let me say when I picked up this point that I would not have said that the discussion at Williamsburg was not significant. It was significant, but it was brief. And that was the significance to it. That is to say that there really was no disagreement in comparison with what there had been the preceding year at Versailles.

And that was largely as a result of the studies that had been started after the November 13, 1982, ending of the sanctions, the studies that I referred to in my testimony at the OECD, the IEA, and NATO, at Cocom. As a result, there was a great convergence of views.

And it was discussed, but it did not generate any sparks of disagreement. So they did not spend any more time on it. And I thought that was very significant.

Mr. BEREUTER. I appreciate your clarification. I would appreciate it if you would include in those discussions Chairman Bonker's Trade Subcommittee as well as the European and Middle East Subcommittee.

And Chairman Hamilton has asked that I recess it, because he has another round of final questions for you. I would do that at this point, understanding that we would come back after the vote. I think that he should be back any moment.

Mr. WALLIS. As I think you know, I have to depart by 12 o'clock to stand in for the Secretary on something he cannot do.

Mr. BEREUTER. You have to leave here by 12 o'clock?

Mr. WALLIS. Leave here by 12 o'clock.

Mr. BEREUTER. Well, he should be back in just a moment.

Mr. WALLIS. Fine.

Mr. BEREUTER. I think he only was a few questions. Thank you.

Mr. WALLIS. Thank you.

[Recess.]

Mr. HAMILTON. The subcommittee will resume its sitting.

#### U.S. SANCTIONS AND POLISH LIVING STANDARDS

Mr. Secretary, I would like to turn to the question of the Polish debt and sanctions for a few minutes. One of the statements in your statement which caught my eye was that there can be no question that our sanctions have imposed a heavy price on the Polish Government for the suppression of human rights.

Do you think that our sanctions have adversely affected the standard of living of the Polish people?

Mr. WALLIS. Well, as you know, we made efforts to try to prevent that. We tried to send in food, for example, and have it under controlled circumstances, so that it would be distributed directly to the population. But it is virtually impossible to isolate those things. And it probably has had or will have some adverse effects.

Mr. HAMILTON. Would you say that the sanctions have imposed a heavy price on the standard of living of the Polish people?

Mr. WALLIS. We do not have any evidence of that. Of course, we would be watching for that, because it certainly would be counterproductive to invoke that kind of sanctions because of the way that the Polish people have been mistreated.

Mr. HAMILTON. In what respect then has it been a heavy burden on the Polish Government, but not on the Polish people?

Mr. WALLIS. Well, I think in terms of maintaining their public projects, their investment projects, and so on.

Mr. HAMILTON. How can you separate that from the standard of living of the Polish people?

Mr. WALLIS. Well, I think that the capital investments if they are productive capital, it would only have a delayed effect by cutting off the capital. If they are government projects, those probably do not contribute particularly to the welfare of the Polish people.

Mr. HAMILTON. As a practical matter, it is very hard, is it not, despite our intentions, which I think are good, to impose economic

sanctions against a government that have any bite without in fact affecting the standard of living of the people against whose government those sanctions are imposed?

Mr. WALLIS. It certainly is. We have to recognize that insofar as there is an impact, the government of the country will try to direct them, so that they have the greatest adverse effect on the people whom we were trying to benefit. So we have to try to watch that very closely.

#### RELAXATION OF POLISH SANCTIONS

Mr. HAMILTON. Do we have at the moment any of the sanctions under review that we think that we might loosen up on?

Mr. WALLIS. Well—

Mr. HAMILTON. We loosened up on a couple, did we not, did we not loosen up on fishing and charter flights?

Mr. WALLIS. The charter flights. And we recently have agreed with our Allies to participate in discussions on rescheduling certain of the government-to-government debts. And that started a week or so ago.

#### IMPACT OF SANCTIONS ON POLISH PEOPLE

Mr. NILES. Mr. Chairman, as far as the question of the impact of sanctions on the standard of living of the Polish people, I think that although doubtless there has been some impact, difficult to quantify as Under Secretary Wallis pointed out, the major reason why the standard of living of the Polish people has declined since 1980 is because of the mistakes in the economic policies followed by a long series of Polish Governments. And this, I think, is the prime reason for that decline.

Mr. HAMILTON. I think that we would accept that. The impact of the sanctions would be secondary.

Mr. NILES. Very definitely, and particularly in the living standards of the Polish people. As Under Secretary Wallis pointed out, we have done all we can to encourage the continued flow of food aid to those segments of the population which are poorest and most liable to suffer under these circumstances.

#### COST OF U.S. GUARANTEES ON POLISH DEBT

Mr. HAMILTON. Now I want to clarify the extent to which the U.S. Government is going to be responsible for certain guarantees with regard to the Polish debt. I think that there are two categories.

One would be the debt that Poland owes to the U.S. Government. And then there are the CCC guaranteed for loans to Poland.

Can you tell me how much impact this will have on the budget of the United States, can you give me some estimate of that?

Mr. WALLIS. I am not sure that I can give you that last specifically. Let me see, do we have that? [Pause.]

As of January 31, the CCC had reimbursed U.S. banks to the extent of \$887 million under the GSM 101 and 102 program.

Mr. HAMILTON. For Poland?

Mr. NILES. That is for Poland, yes.

Mr. HAMILTON. \$887 million?

Mr. WALLIS. \$887 million.

#### COST OF CCC GUARANTEES

Mr. HAMILTON. Does that mean that we are then going to have to pick up all of the CCC guarantees; and if so, how much is that liability?

Mr. WALLIS. Well, I just do not think that that is correct. Some of this presumably will be repaid by the Polish Government. And the difference is now repaid to the U.S. Government, because the Government guaranteed those loans.

Mr. HAMILTON. Let me get it straight.

When did we pay the \$887 million?

Mr. WALLIS. I do not think we did. I think we guaranteed loans to that extent, and the banks paid it. It was our guarantee.

Mr. NILES. There is \$1.6 billion in total of CCC guarantees outstanding, Mr. Chairman, of which this figure represents those which have already come due.

Mr. HAMILTON. The \$887 million?

Mr. NILES. That has already come due. But that does not represent a direct budgetary cost as it falls under the CCC ceiling, debt ceiling.

Mr. HAMILTON. Wait a minute. What I want to know is do we pay it?

Mr. NILES. That is correct. The CCC has reimbursed the banks. But that is not, as I understand it—and I am not an expert on CCC operations—but as I understand it, that does not represent a direct charge on the Federal budget. The CCC has reimbursed the banks to that extent. We assume—

Mr. HAMILTON. But aren't we going to have to make that up in appropriations to the CCC?

Mr. NILES. Well, it is part of the CCC operations. Not all of it will have to be made up, because the CCC is getting paid back on some of its credits, and making money on some of the loans. But some of it will have to be made up.

But the assumption is that in time we will be repaid, the U.S. Government will be repaid by the Poles. We have assumed the obligation or taken the obligation. And this is what the debt rescheduling talks now underway in the Paris Club could eventually resolve.

#### POLISH PAYMENTS TO THE UNITED STATES

Mr. HAMILTON. How much have the Poles paid us in the last couple of years?

Mr. NILES. To the Government?

Mr. HAMILTON. Yes.

Mr. NILES. They have not repaid any of the Government debt, as I understand it, in the last 2 years. They have repaid some of the private bank credit under separate arrangements with the private banks, including U.S. banks.

## REQUEST FOR WRITTEN ANSWERS ON POLISH DEBT

Mr. HAMILTON. Now are you suggesting to me that this \$887 million is not a drain on the American budget?

Mr. WALLIS. Mr. Chairman, could we submit in writing an answer to this question, because I do not think that we are coming to the point, to your point, which is what is the net cost going to be to the U.S. Government on the CCC guarantees. And I really do not think that we have the information here.

Mr. HAMILTON. Yes, I think that is appropriate. We are interested in knowing the status of the Polish debt situation. Now let me say that I was interested in knowing that a year ago, and I am still interested in it. And we have had an awful lot of trouble finding out just what the status of this Polish debt situation is.

We want to know what the arrearages are on interest payments. We want to know what the arrearages are on principal payments. I want to know what they have paid to the private banks. And I certainly want to know about the rescheduling.

And I want to know what the contingent and actual liabilities of the U.S. Government will be on CCC loans as well as other bank loans.

Mr. WALLIS. Well, those are obviously all good questions and relevant. And we have part of the information here, but only part of it. So I would suggest that we try to submit a comprehensive written answer to all of those questions.

## NEGOTIATIONS ON RESCHEDULING POLISH DEBT

Mr. HAMILTON. Now did you say a moment ago that we have entered into rescheduling negotiations for the share of the Polish debt owed to the Government?

Mr. WALLIS. We started conversations with our allies, other governments which have loans looking toward that.

Mr. HAMILTON. But we have not yet talked to the Poles about it?

Mr. WALLIS. Yes, the Poles were present at the meetings in Paris. The way they work is that the creditors get together and meet separately, and then decide on something. And then they meet with the debtor and present it to him.

Mr. HAMILTON. So the U.S. Government is actively discussing with our allies now the question of rescheduling Polish debts to the Western governments?

Mr. WALLIS. Yes.

## PROGRESS IN PARIS CLUB NEGOTIATIONS

Mr. HAMILTON. What kind of progress has been made so far in the Paris Club negotiations; that is what you are referring to, is it?

Mr. WALLIS. Yes.

Mr. HAMILTON. Can you say that any progress has been made?

Mr. WALLIS. They have met, and the meetings are going well. But I have not heard any tangible terms, specific terms quoted. I do not know if you have, Tom, or anybody from EB.

Mr. NILES. Well, Mr. Chairman, there have been two meetings in Paris between the governments involved and the Poles. These negotiations or discussions are in a very early phase. I think that it is

difficult to say whether we expect progress in the near future or not, but the discussions are going on. They are, of course, confidential discussions as far as the talks with the allies are concerned.

Mr. HAMILTON. Well, I hope that you will keep us closely informed about the progress of those discussions over the next few weeks and months. [Pause.] Gentlemen, thank you very much. We will conclude the subcommittee hearing at this point. We will have a number of questions that we would like to submit to you in writing, and we hope that you will have a reasonably prompt response for us.<sup>1</sup>

And then I think that we would like to talk with you just a moment in the chamber here about another matter.

Mr. WALLIS. Could I say, Mr. Chairman, we would like to do that. We know what the matter is, and we want to inform you on that. The Secretary invited a large group of people to a luncheon at Blair House, and he cannot get them there until late. And I am supposed to be there at 12:15 to stand in for him.

I wonder if you would excuse me, but my colleagues here can inform you every bit as fully as I could on the issue.

Mr. HAMILTON. That would be quite satisfactory. We understand. So we will just meet with your colleagues for a few minutes.

Mr. WALLIS. My apologies. And I appreciate your accommodation. Thank you.

Mr. HAMILTON. The subcommittees stand adjourned.

[Whereupon, at 12:05 p.m., the subcommittees adjourned, subject to the call of the Chair.]

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<sup>1</sup> See app. 2.

## APPENDIX 1

### SUPPLEMENTAL QUESTIONS SUBMITTED BY HON. DOUGLAS BEREUTER TO THE DEPARTMENT OF STATE AND RESPONSES THERETO

*Question.* Romania recently concluded a debt rescheduling agreement with the U.S. How much was rescheduled in that agreement?

*Answer.* (1) Paris Club creditors agreed on May 18, 1983 to reschedule principal payments falling due in CY 1983 totalling \$148 million. Of that amount the U.S. share was \$26.6 million covering debts owed to the Commodity Credit Corporation and EXIMBANK.

*Question.* What were the terms of the rescheduled agreement?

*Answer.* (2) Creditors agreed to reschedule 60 percent of principal payments over six years with three years grace.

*Question.* Is Romania current on all of its outstanding interest payments?

*Answer.* (3) To the best of our knowledge, Romania is current on its debt service obligations to USG agencies and the private banks.

*Question.* Are we convinced that Romania is seriously addressing its balance of payments problems, so that they would be able to meet these debt service obligations?

*Answer.* (4) Romania's economy is continuing to recover from the low point it reached in late 1981 when the Romanians were forced to declare a moratorium on debt repayments. In trade and financial terms, Bucharest's turnaround since that time has been one of the most dramatic among all problem debtors. The trade balance and current account have both recorded substantial positive balances in 1982 and 1983, primarily as a result of Romania's drastic curtailment of imports and financial austerity measures. Drastic import restraints have generated the foreign exchange needed to pay the substantial amounts of unrescheduled debt service due in 1982 and 1983. Romania's debt service obligations in 1984 are substantially lower than in previous years, and it is expected that the GOR will take advantage of this respite to proceed with the structural reforms outlined in its latest IMF program so that the economy is put on a sustainable financial footing.

## APPENDIX 2

### SUPPLEMENTAL QUESTIONS SUBMITTED BY THE SUBCOMMITTEE ON EUROPE AND THE MIDDLE EAST TO THE DEPARTMENT OF STATE AND RESPONSES THERETO

#### OIL AND GAS TECHNOLOGY AND THE INTERNATIONAL ENERGY AGENCY STUDY

*Question.* Has COCOM reached final agreement concerning the inclusion or exclusion of oil and gas technology in its list?

*Answer.* No. COCOM still has under consideration the possible inclusion in its list of a number of oil and gas products and technologies.

*Question.* The IEA study which was completed before the Williamsburg Summit reportedly stated that its participants would seek to avoid dependence on Soviet natural gas; this specifically meant that they would not take any more than 30 percent of their natural gas from the Soviet Union.

Is the United States satisfied with this guideline?

During the Yamal pipeline crisis, the United States projected that France, Italy and West Germany might eventually obtain as much as 30 percent of their entire natural gas from the Soviet Union. By agreeing to the findings of the IEA study, hasn't the U.S. accepted the level of dependence on Soviet natural gas that it feared during the pipeline crisis?

Is it likely that France, West Germany, and Italy may be receiving 30 percent of their natural gas from the Soviet Union by the 1990's?

What specific measures are the Europeans taking to attempt to lessen dependence on Soviet natural gas?

Does the Administration still fear, as it did in 1982, that the Soviets could use their natural gas exports to Western Europe to blackmail Western governments?

*Answer.* The United States is satisfied with the IEA study and the policy conclusions drawn from it by IEA and OECD ministers last May. Before the study was undertaken we were concerned that little systematic attention had been given to the potential level of European dependence on Soviet natural gas, or the implications of undue dependence on a single energy supplier. As a result of the study, Ministerial conclusions based on it, and the many discussions we have had on this issue, we believe that there is a shared commitment among IEA members to assure the security of natural gas supplies.

A combination of policy considerations and market developments has already resulted in contracts for Soviet gas which call for significantly lower volumes than anticipated two or three years ago.

In the "Energy Requirements and Security Study," industrial countries and the IEA-OECD Secretariat—in an unprecedented initiative—examined the present and projected energy supply and demand situation, assessed the energy vulnerability of OECD member countries by fuel and by region, and identified policies that could improve energy security. One of the key findings of this analysis was that, although an oil supply interruption remains the major energy security risk to OECD economies, rapidly growing imports of natural gas pose the newest energy security challenge—one that is most evident in Europe.

The Energy Requirements Study shows there will be a growing gap between contracted supply and anticipated demand for gas in the 1990's. If this gap is filled by the Soviet Union, already a large and low-cost supplier, dependence on that single supplier would reach very serious levels and Europe would not be able to cope with an extended interruption without disruptive cuts in supplies to consumers. More secure alternatives exist in Norway, the Netherlands, other OECD countries and elsewhere.

Based on this analysis, OECD members developed a comprehensive and balanced set of policy conclusions which were accepted unanimously by OECD and IEA Ministers in May 1983. On gas, Ministers agreed on a set of four interrelated principles vital to the development and use of natural gas on a secure basis:

First, recognition of the risks associated with high levels of dependence on a single supplier, and a commitment to avoid undue dependence on a single supplier;

Second, an emphasis on the importance of the early development of secure, indigenous alternatives;

Third, agreement to strengthen the ability of countries to deal with gas disruptions that might nonetheless occur; and

Fourth, agreement to hold regular reviews on gas security issues, with special attention given to whether OECD gas imports cause concern about timely development of indigenous resources and the vulnerability of supplies.

During the course of discussions leading up to the May 1983 Ministerial, a number of governments suggested various possible "policy conclusions". The concept of a numerical threshold of dependence such as 30 percent was extensively discussed in that context. The U.S. believed such a quantitative measure could be useful. But a number of other governments pointed out that it was difficult to encompass a wide variety of specific country situations with a single figure, and reminded us of the difficulties we had in trying to set "targets" and ceilings on oil imports in the IEA several years ago.

We accepted these arguments. While France, Germany and Italy may receive 30 percent of their natural gas from the USSR in the 1990's, we are satisfied that the qualitative approach we have adopted, including a continuing review of gas security, will be effective in dealing with potential vulnerabilities and in promoting the development of indigenous energy resources.

The significance of what we agreed upon is that we used the words "undue dependence" in the policy conclusions and then put them in context in the subsequent paragraphs. Undue dependence means, among other things, a degree of dependence that could enable particular suppliers to exercise "monopoly power" over importing countries, that gives rise to concern about the timely development of indigenous resources, or that exceeds the ability of countries to cope with a potential disruption. Moreover, the phrase "undue dependence" does not stand alone. The IEA countries have agreed to avoid undue dependence and to obtain future gas supplies from secure sources, with emphasis on indigenous OECD sources.

Finally, the policy conclusions lay out a procedure for discussing the implications of the four principles for specific supply decisions on a country-by-country basis. Natural gas security issues are to be an integral part of member country energy policy reviews in the IEA and elsewhere, with "special attention" given to whether gas imports from any single source constitute such a proportion of total supplies as to give rise to concern about the timely development of indigenous resources and the vulnerability of supplies.

There have been a number of positive developments in the European gas market since last May. The first portion of Norway's giant Troll gas field has been declared commercial, a necessary first step in developing this major resource. The Netherlands has reevaluated its gas export policy and is now trying to sell more gas in the 1990's than it had previously planned. While energy demand forecasting is difficult, there is a widespread expectation that total gas demand in Europe in the 1990's will be somewhat lower than previously expected, although a large portion of the anticipated demand remains uncovered by current contracts.

European nations have taken a new interest in gas security issues. By focusing attention on the potential problem of undue dependence on any single gas supplier, the OECD analysis has emphasized the value of security and diversity of supply. We expect to see this awareness reflected in negotiations for gas supplies for the 1990's. There is also new interest in gas storage. France, in particular, has embarked on a new program to increase gas storage which will increase gas security and flexibility.

The Administration remains concerned that excessive dependence on Soviet natural gas would create an energy security problem. We also believe that there is greater awareness among our allies of the potential problems and of our concerns than there was two or three years ago. We continue to attach great importance to working with our allies to create the conditions necessary for the development of secure energy sources of all types, especially indigenous OECD gas supplies. Coal and nuclear energy can also make a contribution to increased energy security.

*Question.* On page 15 of Mr. Wallis' submitted testimony he notes "our partners have agreed that several categories of oil and gas equipment and technologies warrant consideration in the context of the current list review for possible inclusion in the multilateral embargo."

What does "warrant consideration" mean in this context?

*Answer.* It means that COCOM has concluded that these particular items would seem to have sufficient strategic justification to be considered for addition to the multilateral embargo list.

*Question.* Are we seeking multilateral oil and gas controls for national security or other reasons?

*Answer.* We are seeking such controls for national security reasons.

*Question.* If we are seeking multilateral oil and gas controls for national security reasons, what is that national security argument you are making?

*Answer.* By agreement of COCOM member countries, the organization's deliberations are confidential. Details of member countries' list review proposals or discussions within COCOM of specific items are necessarily classified. Hence, it is not possible to address the national security arguments for U.S. proposals in an unclassified context.

#### U.S. SANCTIONS AGAINST POLAND AND THE SOVIET UNION AND EASTERN EUROPE DEBT ISSUES

*Question.* Is Aeroflot's banishment from the U.S. under review? Under what circumstances would we be prepared to allow Aeroflot to return to business as usual in the United States?

*Answer.* We have made it clear to the Soviets that there cannot be a major expansion of our bilateral economic relations until they are prepared to exercise restraint on issues of concern to us. The President specifically reaffirmed our sanctions against Aeroflot last September, in the wake of the Soviet shutdown of Korean Airlines flight 007. While we are prepared to review our sanctions policy, including the measures we have taken against Aeroflot, this question is not being actively considered at this time.

*Question.* Are we reviewing the current status of the expired space, energy and science and technology agreements with the Soviet Union?

*Answer.* Since the decision was taken in 1982 to allow these three agreements to lapse, the Department has not undertaken a review of the costs and benefits of the affected programs.

*Question.* Would you agree that these agreements, judged on their individual merits, are of benefit to the United States?

*Answer.* We did not believe that the scientific benefits to the United States of continued cooperation in these areas were sufficient to balance the repugnance felt by the Administration over Soviet actions.

*Question.* What are the drawbacks to renewing these cooperative agreements?

*Answer.* We do not foresee a return to cooperation with the Soviet Union in the areas of these earlier agreements until the political factors that led to their termination improve. If this became possible, we would still want to look very carefully at what level of cooperation was desirable. We do not see this Administration entering cooperation primarily to have the appearance of cooperation, as may have happened in the past. Any agreements entered into in space, energy, or science and technology would have to be scientifically valid, be done in cooperation with the Soviets because they have unique or important capabilities in a given area which would assure mutual benefit, and be carefully designed to control technology transfer.

*Question.* Is national security a problem? Shouldn't it be relatively easy to protect U.S. technologies and still have useful exchange agreements?

*Answer.* With visitors from the Warsaw Pact, national security is always a problem. The greater the number of such officially sponsored visitors, the less the control and knowledge our government can have of their activities. We have concluded, however, that some level of exchange activities is appropriate, when political conditions permit.

*Question.* What is the problem with negotiating new consular and cultural exchange agreements with the Soviet Union?

*Answer.* The U.S. Government has in the past attached great importance to the expansion of contacts with the peoples of the USSR. For that reason, following agreements between the two Governments in 1974, preparations were begun to establish a U.S. Consulate General in Kiev and a Soviet Consulate General in New York. Following the Soviet invasion of Afghanistan in 1979, the Kiev and New York Consulate projects were temporarily suspended. In subsequent years, the resumption of these projects and of negotiations on renewing official cultural relations has been under continuous review and we hope that the overall state of US-Soviet relations will be conducive to progress in the near future.

*Question.* When will formal discussions with the Soviet Union begin on these subjects?

*Answer.* We are committed to exploring with the Soviets those areas in which our countries can cooperate to our mutual benefit, and the opening of Consulates in

Kiev and New York and a cultural agreement are obviously in this category. We hope to be able to move forward soon.

*Question.* Would it not be beneficial for the United States to have a new consulate in Kiev, when the Soviets already have a presence in New York?

*Answer.* An American Consulate in Kiev would provide many advantages. A reporting presence in the heart of Ukraine, expanded contacts with important minority nationality and religious groups, and consular access for our citizens would prove most advantageous to the U.S. Government. It would also respond to the wishes of the U.S. Ukrainian community and many in the U.S. Jewish community who have long stressed the need for a consulate in the area.

*Question.* Aren't cultural exchanges one of the best methods we have for providing more accurate information about the United States, and making it more difficult for Soviet leaders to suppress and distort information about the United States?

*Answer.* The experience of the previous cultural programs has indeed shown that official ties in education, culture, the performing arts, and privately sponsored contacts are a very effective means for accomplishing the goals you have just cited. However, to successfully implement such a program requires a political climate between our two governments more conducive to this type of cooperation. Until our overall relationship improves, we do not foresee a renewal of an official cultural program.

*Question.* When will the Soviet purchasing commission be allowed to reopen its New York office?

*Answer.* The State Department closely monitors the Soviet commercial presence in this country, together with other interested agencies. We consider the current Soviet commercial staffing entirely appropriate for the conduct of U.S.-Soviet trade.

*Question.* What was the annual value of Soviet purchases through this office that it was open?

*Answer.* Between its establishment in 1973 and termination in early 1980, the Soviet Purchasing Commission purchased U.S. machinery, equipment and services valued at some \$1.5 billion. This is approximately one-third of total Soviet orders for U.S. non-agricultural products during that period. The Purchasing Commission provided access to the Soviet market for more than 700 U.S. firms.

*Question.* Did the Soviet Union make routing commercial purchases through this office, or did it attempt to buy strategic goods?

*Answer.* It would be surprising if Soviet officials did not seize every conceivable opportunity to acquire U.S. strategic technologies, as recent events have shown.

*Question.* Is it correct that oil and gas licensing procedures and licensing procedures for the export of high technology electronic and computer goods to the Soviet Union are the same today as they were before December 1981 and the declaration of martial law in Poland?

Are the same criteria used in case-by-case evaluations of export licenses for these categories of goods? In other words, can goods which previously would have received licenses for export to the Soviet Union prior to 1981 still secure the necessary export licenses?

*Answer.* The United States continues to apply the same strict embargo on high-technology electronic exports to the Soviet Union which was put in force because of the USSR invasion of Afghanistan, and tightened controls on materials related to integrated circuit production last year.

Exports of oil and gas equipment were first made subject to validated licensing requirements by the Carter administration in July 1978 in response to the jailing of Soviet dissidents Shcharansky and Ginzburg. These restrictions were tightened in January 1980 after the Soviet military intervention in Afghanistan. In December 1981, the Reagan Administration suspended the processing of license applications of the export of exploration and production equipment to the USSR and Poland and imposed a new foreign policy control that prohibited export to the USSR of oil and gas transmission and refining commodities and technical data. This suspension was lifted and the control on transmission and refining equipment rescinded in November 1982.

The present licensing policy is to approve export license applications for exploration and production equipment, except equipment subject to COCOM control, and equipment for the manufacture of oil and gas exploration and production equipment. As to technical data and high technology equipment, the general policy is to deny applications. This is essentially the licensing policy which existed prior to December 1981, except that the Commodity Control List describing the commodities subject to these controls has been clarified and the licensing policy is now specifically stated in the regulations.

*Question.* Under what circumstances would the United States be prepared to lift its opposition to Poland's membership in the IMF? Opposition to MFN trading status for Poland?

*Answer.* Poland did not comply with its GATT accession agreement, which contained conditions designed to insure a balance of trade advantages. The most that could be said, therefore, is that both trade and political considerations would need to be weighed before any new extension of MFN to Poland.

*Question.* Under what circumstances would the United States be prepared to lift its opposition to Poland's membership in the IMF? Provide new credit?

*Answer.* Our objective is to foster national reconciliation in Poland. To this end, the President has adopted a step-by-step policy toward Poland designed to respond to positive GOP actions on the political/human rights fronts. Thus, the decision to resume debt rescheduling discussions with the Poles reflected the successful Papal visit and the release of the majority of political prisoners last summer. Further actions on our part will depend on the situation within Poland. We will be looking for progress toward the release of the remaining political prisoners, including the Solidarity and KOR activists, continued dialogue with major elements of society, including the Polish Catholic Church, and progress toward meaningful reform and decentralization of the Polish economy.

*Question.* (a) Turning to the question of Poland's debt, is the U.S. government now planning to assume all the Polish loans it had guaranteed?

*Answer.* The USG is obligated by law to reimburse banks under loan guarantee programs when the Poles fail to make requisite payments to the banks. The debt is then owed to the USG, and the GOP is held accountable for these obligations. The aims of the current debt rescheduling discussions are to collect on some of the payments already owed to the USG and reach agreement on Polish arrearages and debt service payments falling due so that the Poles will be in a better position to meet future financial obligations to official creditors.

*Question.* (b) What is the total amount of these guaranteed loans? (about \$1.8 billion)

*Answer.* Total Commodity Credit Corporation loans registered to Poland under the GSM-101 and 102 guarantee programs total \$1,115 million. Together with CCC direct credits and PL-480, CCC's exposure to Poland amounted to \$1.375 billion at the end of 1983.

*Question.* (c & d) Now on Poland's rescheduled 1981 debt, the U.S. government agreed to reschedule 90 percent of principal and interest, and the private banks agreed to reschedule 95 percent of principal and no interest. Did the private banks secure better terms than the U.S. government?

*Answer.* We believe the terms of the 1981 official and private debt reschedulings were broadly comparable. The private banks generally do not reschedule interest payments, but frequently do provide new loans to a debtor country. Thus, in subsequent rescheduling agreements with the GOP, the banks agreed to "recycle" a significant proportion of interest payments in the form of short-term trade related credits. Official creditors, on the other hand, frequently do not have the flexibility to provide new money and therefore typically reschedule both principal and interest if justifiable on balance of payments grounds.

*Question.* (e) Under the terms of 1981 rescheduling, Poland was supposed to pay 10 percent of its principal due, or \$42 million. How much has Poland actually paid?

*Answer.* Poland has paid \$14.5 million of the \$42.9 million due on non-consolidated 1981 debt. Thus, \$28.4 million is in arrears.

*Question.* (f) What are Poland's arrearages on interest payments under this 1981 rescheduling agreement?

*Answer.* As of December 31, 1983, Poland has accumulated interest arrears to the U.S. under the 1981 debt rescheduling agreement totalling \$84.6 million. Interest arrears from 1981 owed to all Paris Club creditors are in excess of \$400 million.

*Question.* (g) What plans do we have to start collecting some of these interest payment arrearages?

*Answer.* The first priority of the Paris Club debt rescheduling discussions now underway is to reach agreement with the Poles on the repayment in full of all principal and interest arrearages under the 1981 rescheduling agreement.

Poland has reached agreement with private banks on its 1981, 1982, and 1983 reschedulings.

*Question.* (a) Is Poland up to date on its interest payments to private banks?

*Answer.* Poland is current on all payments to the banks pursuant to the 1981, 1982 and 1983 rescheduling agreements. Pending an agreement on a multi-year rescheduling of 1984-87 debt, the GOP may be accumulating some principal and interest arrears on current maturities.

*Question.* (b) Is it correct that in net terms Poland has made a substantial net payment to the banks? How much would you estimate this (since 1981) payment to be?

*Answer.* We estimate that for the three years 1981-83, Poland made net payments to all foreign banks totalling \$4.7 billion.

*Question.* (c) Can you tell us why Poland is so anxious to keep current on its loans from commercial banks, and yet has fallen so far behind on its payments to governmental creditors?

*Answer.* The Polish Government clearly has not had the foreign exchange resources to meet payments to both its private and official creditors. In light of official Western sanctions, including the suspension of debt rescheduling discussions and the embargo on new government-backed credits, the GOP has attached greater importance to keeping its commercial banking channels open, even to the extent of making large net payments to the banks in 1981, 1982, and 1983.

In return, the commercial banks have concluded three rescheduling agreements with the Poles (and are in the process of negotiating a new multi-year rescheduling agreement for 1984-87) and have agreed to provide new short-term trade related credits.

*Question.* (d) Is it because the U.S. government from December 1981 to November 1983 refused to negotiate on Poland's debt?

*Answer.* The Allied suspension of debt rescheduling negotiations following the GOP declaration of martial law in December 1981 did provide a pretext for Poland's refusal to meet its payments obligations to Western governments, including those under the official 1981 debt rescheduling agreement. The Poles also claim that the official embargo on new government credits and subsequent constraint on Polish imports resulted in a decline in Polish export earnings and reduce Poland's ability to meet debt service obligations. However, the Poles' own statistics show that they continued to draw heavily in 1982 on existing Western government credit lines to Poland (primarily for food imports). These drawings may have amounted to as much as \$1.5 billion. Still, Poland made no attempt to meet its debt service obligations to official creditors.

*Question.* (e) Isn't a rescheduling very much in our interest so we can start collecting some of the money owned to the U.S.?

*Answer.* The purpose of debt rescheduling is to restructure debt service payments so that they are more in line with the debtor country's ability to pay. To be most effective, debt rescheduling should take place in the context of a general economic stabilization and structural reform program. The GOP has thus far shown little evidence of pursuing a coherent strategy of economic reform. Until it does, the prospect for economic recovery and a long-term solution to Poland's debt problems remains bleak. In the current debt rescheduling negotiations, official creditors including the U.S., will certainly insist that the GOP clean up arrearages under the 1981 rescheduling agreement as part of a rescheduling of 1982-84 debt.

*Question.* (f) Why did the U.S. reverse itself and agree to discussions on Polish debt renegotiations?

*Answer.* In October 1983, the President endorsed several steps forward, including the resumption of debt rescheduling discussions with the Poles. The steps were taken in response to specific GOP actions: the successful conclusion of the Papal visit in June and the release of the majority of political prisoners. Our allies strongly supported the decision to resume debt rescheduling discussions.

*Question.* (a) What kind of progress has been made so far in the Paris Club negotiations on Poland's debt?

*Answer.* Two meetings have now taken place, the first in November and the second on March 21. Progress has been slow, but we hope in the near future to begin a more detailed phase of technical negotiations on debt rescheduling.

*Question.* (b) Does the U.S. actively support these negotiations?

*Answer.* The U.S. supports the debt rescheduling discussions now underway and hopes to achieve a mutually acceptable rescheduling agreement with the Poles.

*Question.* (c) What are the pressures pushing Poland toward a debt rescheduling agreement?

*Answer.* Poland wants to normalize its financial relations with the West, and realizes that the first mandatory step toward normalization is agreement with its official creditors on debt rescheduling.

*Question.* (d) Are we using IMF membership as a bargaining chip at these negotiations to secure Poland's agreement to a debt rescheduling?

*Answer.* No. The official creditors have made it clear to the Poles that the issue of IMF membership cannot be appropriately addressed in a Paris Club context.

*Question.* (e) Other than commercial trade credits directly tied to Poland's repayment of interest arrearages, have the Poles secured any new credits from the West since 1981?

*Answer.* Western governments have not granted any new credits to Poland since December 1981, but the Poles have been able to draw on official credit lines outstanding at the time martial law was declared (chiefly for food imports). According to Polish statistics, the GOP received \$1.5 billion in Western government-backed credits in 1982 and \$565 million in 1983. These credit lines are now largely played out. New Western bank credits have been in the form of "recycled" interest payments; i.e., short-term trade related credits tied to GOP interest payments.

*Question.* (f) Do we approve of a multi-year rescheduling of Poland's debt?

*Answer.* In order to ensure maximum conditionality the Paris Club has traditionally not accorded multi-year debt relief for future maturities. The Paris Club does, however, typically reschedule arrears from previous years in addition to current debt maturities. In the case of Poland, rescheduling would undoubtedly cover 1982 and 1983 arrears as well as 1984 debt. The private banks, on the other hand, are negotiating a multi-year rescheduling agreement that would cover Poland's 1984-87 debt maturities.

7. Yugoslavia has gone through several difficult years, enacting tough economic reforms in exchange for a debt consolidation and the extension of new credits from the West.

*Question.* (a) Are reports accurate that the population has suffered a 25 percent decline in real wages in just the past year?

*Answer.* The Yugoslavs have undertaken austerity measures which have indeed resulted in a significant decline in the standard of living and real wages over the last three years. At the same time the Yugoslav current account balance has made a dramatic recovery, moving from a deficit in 1979 of some \$3.3 billion to a \$300 million surplus in 1983. The GOY has recently reached agreement with the Fund on a structural adjustment program for 1984 which should result in an improvement on all economic indicators. Among these should be lower inflation and thus a halt to further erosion in real wages and the standard of living.

*Question.* (b) Has Yugoslavia been able to undertake these steps without political unrest occurring in their wake?

*Answer.* The Yugoslav populace has recognized the need for a period of austerity and has generally supported government efforts to curb domestic demand and improve the balance of payments. There has thus been little evidence of political unrest. The expectation is that current sacrifices will result in a resumption in economic growth and improved living standards beginning in 1985. The new IMF program for this year, if fully implemented, should contribute significantly to a realization of that objective.

*Question.* (c) Will Yugoslavia require another rescheduling of its debt this year?

*Answer.* The GOY has requested debt relief from both governments and the private banks in 1984 and rescheduling agreements should be concluded in the near future.

*Question.* (d) How much U.S. government debt has been rescheduled?

*Answer.* EXIMBANK agreed to refinance \$155 million in principal payments falling due in 1983 as part of the U.S. contribution to the Friends of Yugoslavia assistance effort that year. Official creditors have now agreed to reschedule 100 percent of principal falling due in CY 1984 as part of a similar assistance effort. For the USG, this should result in the rescheduling of approximately \$124 million in 1984 principal payments on direct credits and guarantees, principally from EXIMBANK.

*Question.* (e) Is Yugoslavia current on its payments to the U.S.?

*Answer.* Yes.

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#### INTERNATIONAL DEBT ISSUES

*Question.* In 1983, the debtor countries were net capital exporters to the western commercial banks. They will, no doubt, again be net capital exporters in 1984.

How can the debtor countries resume economic growth and development if they are net capital exporters?

*Answer.* The debtor countries are currently going through a difficult adjustment process which requires that they reorient their economies so that they may be able to service their debt and resume economic growth. Once they are able to service their current debt obligations, we are hopeful that bank lending to these countries will increase to levels that would be both prudent and capable of financing increased economic growth. In the meantime growth in these countries will depend in

a large part on their ability to increase imports. After the initial adjustment, we are now beginning to see input levels rise in some countries and exports that tend to continue and broaden to more debtor countries in the future.

Can the U.S. become a net capital importer without severely harming the growth potential of developing countries?

Answer. The growth of the developing countries depends not so much on the capital position of the U.S.—much of the inflow comes from the other industrial countries—but on the ability of these countries to import investment goods and mobilize their own resources. Moreover, the U.S. current account deficit continues to provide a stimulus to LDC export growth.

Question. In the disagreement between the banks and Argentina, the banks are demanding that Argentina make current its interest arrears (that is, pay arrears through January 1, 1984 before the end of the first quarter) before it gets any new money; Argentina is insisting that it get the money from the banks before it brings interest payments up to date. Tied up in all this, is the question of an IMF adjustment program for Argentina.

Where do things stand between Argentina, its bankers and the IMF, as of this moment?

What are the implications of the Argentinian statement on March 26th that it will not meet a March 31st deadline for paying overdue interest on its foreign debt?

What is the liability of the US government if this happens?

In designing an adjustment program for Argentina, does the Fund take into account the needs of a government?

Can Alfonsín agree to an adjustment program that cuts real wage increases without endangering his future in office?

Answer. On the eve of the March 31 deadline, the Governments of Mexico, Venezuela, Brazil, Colombia and the United States joined the Government of Argentina in announcing a short-term \$500 million financing package in support of Argentina's economic adjustment efforts.

The package consists of Mexico, Venezuela, Brazil and Colombia providing a total of \$300 million. Of this total, Mexico and Venezuela each provided \$100 million, while Brazil and Colombia provided \$50 million each.

In addition, commercial banks comprising the International Advisory Committee for Argentina provided a total of \$100 million in financing to the Government of Argentina, which drew \$100 million of its own reserves to include in the package.

For its part, the United States committed itself to provide a total of \$300 million in bridge financing to the Government of Argentina after agreement on a new adjustment program is reached by the IMF and Argentina.

The Managing Director of the IMF has issued a progress report on discussions between the Government of Argentina and the management and staff of the IMF. In this connection, Argentina reaffirms its intention to work toward an early agreement with the IMF on a new adjustment program.

The effect of that program on real wages as on other economic considerations will undoubtedly be considered by the Argentine government in the course of these discussions.

This complex financial package and an IMF adjustment program should support the Argentine government in meeting its basic needs, i.e., restoring the basis for sustainable economic growth and in fostering democracy.

Question. Brazil has been in and out of compliance with its IMF adjustment program. Until Argentina recently gained center stage, it was considered the number one debt problem.

What is your assessment of Brazil's ability to cope with its debt burden?

Is the IMF demanding the impossible from Brazil in terms of cutting its inflation rate?

Brazil's exports are not growing as fast as the IMF and some others forecast. Should the Brazilians devalue their currency at a faster rate to spur exports? What does the IMF program require in this regard?

Brazil's money growth in the first quarter of 1984 will far exceed the IMF's target. How will you handle that? Will Brazil once again be out of compliance?

Brazil negotiated a \$6.5 billion loan from the banks for 1984. Some are saying that Brazil will be back to its bankers for more by the summer. What is your assessment?

What do you expect Brazil's GDP to be this year. What about next year?

How is Brazil going to export to service its debt if we raise barriers to its steel, textiles, etc.? Isn't this an example of administration action and words being inconsistent?

Answer. Brazil has made major progress in coping with its sizeable external debt. Agreement was reached with the IMF on a revised adjustment program, maturities owed to or guaranteed by the public sector falling due in 1983-84 was rescheduled through the Paris Club, and a new \$6.5 billion credit facility and a rescheduling of debt due in 1983-84 was secured with the commercial banks.

Although it is not specifically included as one of the targets, Brazil's IMF program requires a number of measures which should reduce inflation. Reducing inflation is a major concern of the authorities and some progress has already been achieved in this regard. The inflation rates for November and December have been reduced from the monthly average of 12.4 percent for the previous five months. The inflation rate rose again in January and February, but declined in March.

Significant progress has been made in the external sector as well. In 1983, Brazil exceeded its \$6 billion trade surplus target by more than \$400 million. The current account deficit closed 1983 at a level of \$6.2 billion, which represents a reduction of \$8.6 billion from a deficit of \$14.8 billion in 1982. A record trade surplus of \$2.4 billion was realized in the first quarter of 1984 which puts Brazil in an excellent position to achieve its target of \$9.0 billion for the year.

Brazil's trade surplus is based on robust exports and continued import restraint made possible through the substantially more realistic exchange rate policies which have been pursued since mid-1983. Few observers see any possibility of a maxi-devaluation occurring.

Brazil is making strides in monetary policy as well. Growth of money supply was held to 92 percent from December, 1982 to December, 1983, and expansion is to be held to only 50 percent in 1984. To the best of our knowledge, the first quarter targets have been met.

As far as the need for credit in 1984 in addition to the \$6.5 billion obtained from the commercial banks, Brazil is not expected to return to the international market although they may begin discussion in late 1984 regarding requirements for 1985. Meanwhile, with the credit already provided, Brazil is expected to eliminate its arrears and accumulate adequate reserves.

In 1984, Brazil's economy is expected to gradually recover and by 1985 economic growth should resume. The Central Bank projects that GDP will reach a level of \$344 billion in 1984, which implies a negative real growth rate of 2.5 percent. They have no projection beyond 1984.

The administration recognizes the need for fair and free markets in order for developing countries to share in the benefits of the economic recovery now underway in the industrialized countries. However, we also believe that the LDC's must use appropriate measures to improve their export performance and reduce export subsidies and unfair trade practices. In the case of Brazil, our market remains open. Their exports to the U.S. went from \$4.1 billion in 1982 to \$4.9 billion in 1983.

Question. The Department of Agriculture reported two weeks ago that it had paid American banks \$431 million since last May to make good on Government guarantees of loan (Commodity Credit Corporation—CCC) to four countries—Brazil, Romania, Peru and Morocco. What payments did these funds cover? Have these loans all been rescheduled? Will payments now be made directly to the U.S. government? Are these countries current on their interest payments to the U.S. government?

Answer. These CCC payments cover rescheduled installments in CCC-guaranteed loans due the banks by the countries above. The original loans were extended by the banks with a CCC guarantee for the purchase of U.S. agricultural exports. Payments on these loans falling due last year were rescheduled as a result of multilateral creditor discussions under the aegis of the Paris Club. The Paris Club rescheduled Brazil's debt to official creditors in November, 1983, Romanian debt in May, Peruvian debt in early July and Moroccan debt in October. The borrower countries will repay the rescheduled debt directly to the United States Government on the basis of terms agreed to by all the Paris Club creditors. These countries are current on interest payments due under their respective rescheduling agreements.

Question. What have U.S. banks been paid by the Department of Agriculture to cover CCC loans to Poland?

Answer. As of January 31, 1984 the Commodity Credit Corporation had paid \$887 million to private banks as reimbursements under the GSM-101/102 program.

Question. It is likely that several other countries—including Egypt, the Philippines, the Dominican Republic, Uganda and the Ivory Coast—will also ask to have their agricultural credits rescheduled?

Answer. Four out of five of the countries listed have requested debt reschedulings from the Paris Club. Egypt has not requested rescheduling from the Paris Club. Such a rescheduling would cover all payments due to or guaranteed by official creditors and would include agricultural credits extended by the CCC.

*Question.* The cost of U.S. government repayments on loan guarantees was estimated last month at \$1.2 billion for FY-85. Do you now expect that cost to go much higher?

*Answer.* There has been no change in the FY-85 budget contingency for repayments—it still stands at \$1.2 billion. There are many imponderables which make it difficult to predict precisely how that may change. For example, we do not yet know to what countries guarantees will be given, nor do we know what financial condition those countries will be in during the repayment period. Given the expected increase in FY-85 CCC guarantees above the initial ceiling of \$3 billion, some reassessment of the contingency level for repayments may be necessary. I should point out that this contingency covers not just the guarantee program (GSM-102), but direct credit (GSM-5) as well.

*Question.* The ceiling for CCC loan guarantees in FY-83 was \$4.6 billion, in FY-84 \$4 billion, and in FY-85 it is our understanding the ceiling will be \$3 billion. Is this correct?

*Answer.* The FY-83 ceiling was set at \$4.8 billion, of which \$4.67 billion was used. The FY-84 ceiling was initially set at \$3 billion, then raised to \$4 billion and again to \$4.5 billion. The FY-85 ceiling was also set initially at \$3 billion and will be raised to \$4.1 billion as a result of the recently passed Farm Bill. Legislation which has passed the Senate and is pending in the House would raise it to \$5 billion.

*Question.* Have ceilings on loan guarantees been reduced because of the terrible repayment record for this program?

*Answer.* As you can see from the figures just cited, this program has not been cut significantly, and remains well above its recent historical levels. In 1982, guarantees stood at \$1.6 billion while in 1981 they were \$1.5 billion. The effort to impose ceilings has not been driven by a deterioration in the repayment record, but rather by dramatic growth in the program itself. Demand for export credit guarantees grew tremendously as a result of the worldwide debt crisis and the retrenchment of commercial banks. Ceilings were imposed in recognition of the fact that the program costs the government money, and in an effort to prevent program growth from getting out of control.

*Question.* Developing countries are pressing for SDR allocation as one means of easing their liquidity problems.

Do you think that an SDR allocation would be a useful tool at this time in easing pressures on debtor countries?

*Answer.* We do not believe an SDR allocation would be a useful tool at this time in easing the pressures on debtor countries. Because SDRs are allocated on the basis of a nation's relative quota in the IMF only a small part of any new allocation would go to those nations which both have debt problems and are taking strong adjustment measures. Much of the SDRs would go to the industrialized nations while another segment would go to nations that might use the SDRs to delay needed adjustment.

*Question.* Getting the IMF quota increase through the Congress was a painful and lengthy process.

Do you foresee the need for another quota increase in the next few years?

*Answer.* At the moment we believe the IMF is adequately funded for the next few years. We believe it unlikely that the Fund would need an additional quota increase before the Ninth Review of Quotas, currently scheduled for 1988.

What is your view of the IMF borrowing in private markets, or using its gold, as an alternative to another round of quota negotiations?

We see no need for the IMF to borrow from private financial markets in the foreseeable future. We would be reluctant to consider such proposals because it would be contrary to the IMF's fundamental character as a cooperative monetary institution. We do not believe the Fund should become a financial intermediary.

If the Fund were to sell a large part of its gold holdings, that action would possibly significantly decrease the price of gold. The result would be less revenues than might be predicted a priori and a fall in the value of gold reserves of member countries. In addition many members would oppose such a move since they view the gold as collateral for the IMF's liabilities.

*Question.* The European Community last week held a summit in Brussels. This meeting appears to have been a repeat of the December summit in Athens in that the EC proved unable to resolve any of the major internal controversies which affect U.S. exporters and farmers.

The summit failed to resolve questions affecting the import of U.S. agricultural products, especially, soybean products, corn gluten and citrus pellets. When might the EC take action on these questions?

**Answer.** As part of the Common Agricultural Policy (CAP) reform exercise, the EC has begun action to restrict imports of Corn Gluten Feed (CGF). After receiving approval of the EC agricultural ministers on March 31, the EC Commission notified the GATT of its intention to renegotiate the zero-duty binding on non-grain feed ingredients, including U.S. corn gluten feed (CGF). Restrictions on citrus pellet imports are no longer under consideration by the EC. The EC's proposed consumption tax on fats and oils, excluding butter, which would affect U.S. soybean exports, is not under active consideration within the EC, but remains on the table.

**Question.** Many members of the European Community charge that the dollar is over valued and that U.S. budget deficits are the cause of high U.S. interest rates. The over valued dollar costs the Europeans on the world oil market, for example, where most transactions are conducted in dollars. High interest rates reportedly attract European capital to U.S. investments rather than European ones.

How serious are these problems in your judgment?

Does the high value of the dollar hurt Europeans more than U.S. exporters?

Do the Europeans believe that strong American economic recovery may provide a growing market for their exports and thereby spark their economic recovery?

What is your response to the European arguments about the over valued dollar and high interest rates?

**Answer.** The commonly held proposition that the U.S. budget deficit accounts for the strong exchange value of the dollar depends on two linkages of dubious validity. First, econometric research has failed to find a clear relationship between budget deficits and interest rates. At the least, the effects are probably relatively small compared to the influence of other factors such as private savings behavior, prospective real rates of return on capital investment, and inflationary expectations. Second, many factors other than interest rates have influenced the net flow of international capital movements and the dollar's strength—in particular foreign confidence in U.S. economic policies and prospects compared to those in other major industrialized countries; and the threat posed by political and economic instability abroad.

The importance of these other factors is illustrated by the experience in 1983 when relative interest rates did not move in favor of the dollar in 1983 (either nominal or real), but the dollar appreciated anyway, even in the face of a widening current account deficit. Moreover, so far in 1984, relative interest rates have moved in favor of the dollar, but its exchange value has weakened somewhat.

It is true that a high exchange value of the dollar increases the domestic currency cost of European imports such as oil which are fixed in dollar terms; however, a strong dollar also tends to encourage moderation or declines in the dollar price of oil. In any case, any such adverse effects are countered by the fact that the strong dollar has also given other countries, in particular those in Europe, a competitive trading edge. This factor has helped them compete more effectively in the U.S. and other markets, has clearly improved their trade performance, and has thus boosted their economies.

Whatever one's view about the relative importance of these influences and effects, any claimed harmful effects on Europe need to be viewed from the perspective of overall U.S. economic policies. Interest rates have not prevented the strong U.S. recovery, which largely reflects our success in dramatically reducing inflation together with the effects of deregulation and strengthening of economic incentives accomplished by the 1981 tax legislation. The U.S. recovery, in turn, is recognized to have ameliorated the international debt situation over the past year and substantially boosted the recovery in other industrialized countries, including Europe. On balance, it is generally recognized that, as stated in the 1983-84 OECD Economic Survey of the United States, "In a context of hesitant recovery elsewhere, strong, non-inflationary growth in the United States has made an important contribution to the stabilization of the world economy."

**Question.** EC Vice President Haverkamp recently stated that the EC was preparing to negotiate through the GATT the question of food grain imports from the United States.

Would EC participation in these talks depend on a decision made at the Brussels EC summit?

**Answer.** We assume that Mr. Haverkamp's comment referred to imports of non-grain feed ingredients from the U.S. On March 31 the EC agricultural ministers approved the EC Commission's mandate to negotiate a restriction on non-grain feed ingredient imports from the U.S. Subsequently, on April 6, the EC Commission notified the GATT of its intention to renegotiate the zero-duty binding on non-grain feed ingredients, including U.S. corn gluten feed (CGF).

*Question.* When will the Administration decide on the Section 201 petitions by Bethlehem Steel and other companies to lower the share of foreign steel imports in the U.S. market from the present level of 26 percent to 14 percent?

Does the State Department support a reduction of foreign steel imports?

*Answer.* The U.S. International Trade Commission must report to the President by July 24 its determination as to whether or not imports of steel have been a significant cause of serious injury, or threat thereof to the domestic steel industry. If the Commission reports affirmatively, the President must decide by September 22 what relief, if any, he will provide.

The Department's position is that the Section 201 case must be allowed to run its course. Like the rest of the Administration, the State Department opposes the steel import quota bill now before the Congress.

*Question.* Is the United States still seriously considering retaliation against wine imports from the EC if it places restrictions on U.S. agricultural imports?

*Answer.* This Administration has, on numerous occasions, informed the EC of its opposition to any action which would further restrict access to the EC market for agricultural products. Nonetheless, the EC recently notified the General Agreement on Tariffs and Trade (GATT) of its desire to start negotiations on modifying its zero tariff binding on corn gluten imports. The U.S. position is clear: We will abide by our GATT obligation to discuss with the EC possible compensation for negotiating the corn gluten binding, but we believe it is highly unlikely that it will be possible to reach agreement on compensation.

If no such agreement is reached and the EC implements the change unilaterally, the U.S. would be forced to protect its trade interests. We are looking at a number of options which could include wine.

*Question.* Did you discuss these trade problems with President Mitterrand during his visit?

*Answer.* Trade problems were discussed at the highest levels during President Mitterrand's recent visit. President Mitterrand provided a tour d'horizon of key issues considered at the recent March 19-20 meeting of the EC Council in Brussels which, of course, included efforts to reform the Common Agricultural Policy, and possible trade implications of reform, as well as Spanish and Portuguese accession and EC financing issues.

## APPENDIX 3

### BIOGRAPHIES OF WITNESSES

#### W. ALLEN WALLIS

Since September 1982, Mr. W. Allen Wallis has been serving as Under Secretary of State for Economic Affairs, having been nominated by the President in July 1982.

A native of Philadelphia, Mr. Wallis' prior career included serving as Chancellor of the University of Rochester (1962 to 1982). From 1946 to 1962 he was at the University of Chicago as Professor of Statistics and Economics, Chairman of the Statistics Department, and Dean of the Graduate School of Business.

Mr. Wallis served in the Federal Government as Special Assistant to President Eisenhower and Executive Vice Chairman of the Cabinet Committee on Price Stability for Economic Growth from 1959 to 1961. He was a member of the President's Commission on an All-Volunteer Force, 1970-74; and the Corporation for Public Broadcasting, 1975-78, serving as Chairman in 1977 and '78. In addition, Mr. Wallis was the Chairman of the President's Commission on Federal Statistics, 1970-71, and Chairman of the Statutory Advisory Council on Social Security, 1974-75.

Mr. Wallis graduated from the University of Minnesota in 1932. In addition, he studied economics on the graduate level at the University of Minnesota, the University of Chicago, and Columbia University from 1932-36. He is the author of some ten books and monographs and has had published numerous scholarly articles on economics and public and international policy.

He is married to the former Anne Armstrong and has two children.

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#### THOMAS M. T. NILES, DEPUTY ASSISTANT SECRETARY FOR EUROPEAN AFFAIRS

##### PERSONAL

Born September 22, 1939, Lexington, Kentucky.

Married to Carroll Ehringhaus, born Charlotte, North Carolina.

Two children ages 12 and 9.

##### EDUCATION

BA at Harvard 1960; MA at University of Kentucky 1962.

##### FOREIGN SERVICE EXPERIENCE

Entered February 1962.

Jan 1963-Apr 1965—Junior Officer at Embassy Belgrade.

Apr 1965-Jun 1967—Economic Officer, Office of Soviet Union Affairs, Department of State.

Jul 1967-Jun 1968—Russian Language Training.

Jul 1968-Jul 1971—Economic/Commercial Officer, Embassy Moscow.

Aug 1971-Oct 1973—Political Officer, US Mission NATO, Brussels.

Nov 1973-Jul 1976—Director of Commercial Affairs, Embassy Moscow.

Aug 1976-Jun 1977—National War College.

Jul 1977-May 1979—Deputy Director, United Nations Affairs, Bureau of International Organizations, Department of State.

May 1979-May 1981—Director, Office of Central European Affairs, Department of State.

Jun 1981-Present—Deputy Assistant Secretary for European Affairs, Department of State.

##### LANGUAGES

French, Russian, German, Serbo-Croatian.