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MY TELNOS 1301 AND 1302: US/SOVIET SUMMIT: TRADE AND OTHER ECONOMIC AGREEMENTS  
SUMMARY

1. TRADE AGREEMENT A US POLITICAL CONCESSION SECURED BY STRONG SOVIET LOBBYING. TIMING AND PROSPECTS OF CONGRESSIONAL APPROVAL UNCERTAIN. DETAILS OF OTHER ECONOMIC AGREEMENTS.

DETAIL

2. IN THE EVENT, PRESIDENT BUSH'S DECISION TO SIGN THE TRADE AGREEMENT FOLLOWED THE ADVICE OF THE ECONOMIC AGENCIES IN THE FACE OF DOMESTIC POLITICAL PRESSURE FOR A TOUGH LINE ON SOVIET TREATMENT OF LITHUANIA. THE RUSSIANS MADE A STRONG APPEAL TO THE DESIRE OF MANY AMERICANS TO SUPPORT GORBACHEV IN HIS DOMESTIC ECONOMIC REFORMS. THEY POINTED TO THE INCONGRUOUSNESS OF DENYING THEM MFN TREATMENT WHILE GRANTING IT TO CHINA NEARLY ON THE ANNIVERSARY OF THE BEIJING MASSACRE. THEY APPLIED LAST-MINUTE LINKAGE WITH THE GRAIN AGREEMENT WHICH THE MID-WEST GRAIN PRODUCING STATES WANTED (THOUGH PERHAPS NOT AS MUCH AS SOVIET CONSUMERS).

3. THESE TACTICS PAID OFF BUT A DIFFICULT CONGRESSIONAL BATTLE LIES AHEAD. AS PRESIDENT BUSH MADE CLEAR AT THE JOINT PRESS CONFERENCE, THE ONLY OVERT LINKAGE IS WITH THE NEW SOVIET EMIGRATION LAW. AS SOON AS THAT LAW IS PASSED, THE MOST LIKELY SCENARIO IS THAT THE PRESIDENT WILL SUBMIT THE AGREEMENT TO THE CONGRESS (WHOSE APPROVAL IS REQUIRED), TOGETHER WITH THE JACKSON-VANIK WAIVER (WHICH CONGRESS MAY DISAPPROVE). MFN STATUS FOR THE SOVIET UNION WILL THEN TAKE EFFECT AFTER THE PRESIDENT MAKES A DETERMINATION THAT THE ELEMENTS REQUIRED BY THE 1974 TRADE ACT (TRADE AGREEMENT AND JACKSON-VANIK WAIVER) ARE IN PLACE.

4. WHEN CONGRESS VOTES ON THE TRADE AGREEMENT AND THE WAIVER THE MAIN ISSUE IS LIKELY TO BE LITHUANIA. BUT THE LONGER THE RUSSIANS DELAY THE START OF THE US CONGRESSIONAL PROCESS, BY DELAYING PASSAGE OF THE EMIGRATION LAW, THE GREATER THE RISK THAT SOME OTHER ISSUE MAY ARISE: FOR EXAMPLE ANY CHANGE IN SOVIET POLICY ON JEWISH EMIGRATION, IN RESPONSE TO PRESSURES TO

DO SOMETHING ABOUT SETTLEMENT IN THE OCCUPIED TERRITORIES, COULD VERY QUICKLY TAKE HOSTAGE THE TRADE AGREEMENT AND MFN STATUS.

5. THE TRADE AGREEMENT'S IMPORTANCE IS MOSTLY POLITICAL AND SYMBOLIC. ITS ECONOMIC EFFECT WILL BE FAIRLY LIMITED, CERTAINLY IN THE SHORT TERM. IN 1989 SOVIET EXPORTS TO THE US WERE ABOUT USD 700 MILLION, US EXPORTS IN RETURN ABOUT USD 4.2 BILLION. BUT US OFFICIALS ARGUE THAT OVER FIVE OR TEN YEARS CHANGE IN THE SOVIET ECONOMY COULD GREATLY INCREASE BILATERAL TRADE.

6. THE MAIN COMPONENTS OF THE AGREEMENT ARE:

- RECIPROCAL GRANT OF MFN TARIFF TREATMENT,
- TRADE PROMOTION, PARTICULARLY DEFINITION OF THE RIGHTS OF US BUSINESSES, EG TO HIRE LOCAL AND THIRD COUNTRY STAFF, TO ADVERTISE AND TO CONDUCT MARKET RESEARCH,
- STRENGTHENED INTELLECTUAL PROPERTY PROTECTION PARTICULARLY ON COPYRIGHT INCLUDING SOFTWARE, DATABASES AND SOUND RECORDINGS, ON PRODUCT AND PROCESS PATENT PROTECTION AND ON TRADE SECRETS,
- A RESUMPTION OF SOVIET LEND-LEASE PAYMENTS TO THE US (DLRS 674 MILLION IS STILL OWED FROM THE 1972 US/USSR LEND-LEASE AGREEMENT) BUT ONLY AFTER MFN STATUS IS GRANTED AND CERTAIN CREDIT RESTRICTIONS ARE LIFTED.

7. THE GRAINS AGREEMENT (WHICH DOES NOT DEPEND ON CONGRESSIONAL APPROVAL) TAKES EFFECT WHEN THE PRESENT AGREEMENT ENDS IN JANUARY 1991 AND COMMITS THE USSR TO BUYING 10 MILLION TONS OF GRAIN ANNUALLY FOR FIVE YEARS OF WHICH 4 MILLION TONS MUST BE WHEAT AND 4 MILLION TONS FEED GRAINS. THE RUSSIANS MAY BUY UP TO 14 MILLION TONS ANNUALLY WITHOUT PRIOR CONSULTATION. (THE 10 MILLION AND 14 MILLION TONS ARE SLIGHT INCREASES, FROM 9 AND 12 MILLION RESPECTIVELY, OVER THE PRESENT AGREEMENT). THE US IS COMMITTED TO ENSURING "COMPETITIVE PRICES", IE APPARENTLY WORLD PRICES ON EACH TRANSACTION. THERE IS SOME SPECULATION AMONG CEREALS TRADERS HERE THAT FOLLOWING IMPLEMENTATION OF THE TRADE AGREEMENT THE USSR MIGHT BE OFFERED EXPORT CREDITS FOR WHEAT AND OTHER FARM GOODS. BUT THERE IS NO CONFIRMATION OF THAT YET.

8. A CUSTOMS CO-OPERATION AGREEMENT PROVIDES FOR MUTUAL ASSISTANCE BETWEEN THE TWO CUSTOMS SERVICES TO DETER AND DETECT DRUGS TRAFFIC. THE AGREEMENT ALSO PROVIDES FOR CO-OPERATION IN CUSTOMS LAW ENFORCEMENT, EXPORT CONTROL AND COMMERCIAL FRAUD.

9. THE SHIPPING AND AIR SERVICES AGREEMENTS DESCRIBED IN MY TELNO 1205 WERE SIGNED AS EXPECTED.

10. THE TWO PRESIDENTS ALSO SIGNED A JOINT STATEMENT ON TECHNICAL AND ECONOMIC CO-OPERATION PROVIDING FOR FURTHER EXCHANGES BUILDING ON THOSE SINCE THE MALTA SUMMIT. THE STATEMENT LISTED, AMONG PROJECTS UNDER CONSIDERATION, EXCHANGES

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ON ANTI-TRUST, AND A MOSCOW CONFERENCE ON THE FORMATION OF CAPITAL MARKETS TO BE ORGANISED BY THE NEW YORK STOCK EXCHANGE, SUGGESTING THAT THESE (FROM THE LIST SENT TO THE DEPARTMENT) MAY BE AMONG THE MOST LIKELY TO BE FOLLOWED UP.

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