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OBSERVATIONS ON EAST-WEST ECONOMIC
RELATIONS: U.S.S.R. AND POLAND

A TRIP REPORT

NOVEMBER-DECEMBER 1972

SUBMITTED TO THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES



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LETTERS OF TRANSMITTAL

FEBRUARY 14, 1973.

To the Members of the Joint Economic Committee:

Transmitted herewith for the use of the members of the Joint Economic Committee and other Members of Congress is a report submitted by Senator Hubert H. Humphrey and Congressman Henry S. Reuss summarizing findings and conclusions reached in the course of their joint trip to the Soviet Union in 1972. The document makes available to the Joint Economic Committee the firsthand experience of the authors and should prove helpful in connection with the Committee's periodic studies of the economy of the Soviet Union.

WRIGHT PATMAN,
Chairman, Joint Economic Committee.

FEBRUARY 12, 1973.

HON. WRIGHT PATMAN,
*Chairman, Joint Economic Committee,
Washington, D.C.*

DEAR MR. CHAIRMAN: Transmitted herewith for use of the Joint Economic Committee, the Congress, and the interested public is a report on our recent trip to the Soviet Union and Poland, entitled "Observations on East-West Economic Relations: U.S.S.R. and Poland." Senator Bellmon was also a member of this Delegation; his views are expressed in a Report for the Senate Agriculture and Forestry Committee, entitled "Observations on Soviet and Polish Agriculture, November-December 1972," with Senator Humphrey.

There has been a great deal of discussion on the Western prospects of trade with the Communist countries, especially as it relates to the United States. It was our intent to go there, talk to key officials, and make our own assessments. This is what we have done. Although we feel fairly confident on some of our judgments, we have also raised many broader questions. Some of these may be deemed appropriate for further investigation in Committee Hearings.

Accompanying Senator Humphrey, attending the meetings, and assisting with the substantive proceedings of the Delegation was Daniel Spiegel of Senator Humphrey's office. Dr. John P. Hardt, Senior Specialist in Soviet Economics in Congressional Research Service of the Library of Congress, served as a technical adviser to the delegation.

HUBERT H. HUMPHREY,
HENRY S. REUSS,
Members of the Joint Economic Committee.

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I. PURPOSE OF CONGRESSIONAL TRIP

Senator Hubert H. Humphrey (D-Minn.), Senator Henry Bellmon (R-Okla.) and Congressman Henry S. Reuss (D-Wis.) visited the Soviet Union from November 27 to December 1, 1972. Mr. Humphrey and Mr. Reuss spent an additional three days in Poland. (See Appendix A.) Senator Humphrey and Mr. Reuss are members of the Joint Economic Committee, for which this report has been prepared. Senators Humphrey and Bellmon are members of the Senate Agriculture and Forestry Committee, for which a separate report was prepared.

A primary purpose of the trip was to assess the current and future status of commercial relations with the countries of Eastern Europe, with particular concern for the prospects of United States commercial relations. Another primary concern was the broader prospects for improved United States-Soviet relations since the Summit meetings.

Legislative Agenda

The consideration of prospective commercial relations between the Soviet Union, Eastern Europe, and the United States is of general interest to the Joint Economic Committee and subject of possible future Hearings. Prospects of large-scale credit through the Export-Import Bank and U.S. commercial banks, and granting Most-Favored-Nation (MFN) status to the U.S.S.R., were topics of specific interest. Moreover, the whole range of new prospects and problems opened by the Summit agreements and the subsequent Commercial Agreement were very much in the delegation's mind. A check list of topics was developed prior to the arrival of the delegation in Moscow and followed throughout the interviews in the Soviet Union and Poland. (Appendix B.) From these actions might come legislative recommendations to the U.S. Congress as a whole.

The delegation, while praising the initiatives of President Nixon and Secretary Brezhnev, noted that several problems stand in the way of improved United States-Soviet commercial relations:

1. The Most-Favored-Nation Status and its relationship to the Soviet exit fee. It was stressed that the "Jackson Amendment" was quite serious and widely supported.

2. Improvement in commercial relations, including availability of large-scale United States governmental and private credit, required more access in the U.S.S.R. to information and economic intercourse at the plant and construction site between Soviet and American counterparts than the Soviets were accustomed to permit.

Role of Congress—Executive

Soviet officials did not fully appreciate the separation of powers, or of they did, somehow assumed that the Executive spoke for the Congress as well. The specific authority and responsibility of Congressional

Committees and the U.S. Congress as a whole had to be explained to the Soviet officials. Specifically, the responsibility and authority of the U.S. Congress in the regulation of trade and commercial relations were articulated. Moreover, the possible impression that the Executive agreement had settled all issues in future commercial relations was clarified by reference to the upcoming legislative agenda of the 93rd Congress.

Findings

The delegation found the discussions cordial, businesslike, and promising. At no time in the past fifteen years has the opportunity for improvement in relations, including commercial relations, been more promising. But the delegation recognized that future progress was not assured and the likely benefits to United States interests were not, at this point, totally clear. In the development of commercial relations the problems ahead would focus on MFN status, workable commercial relationships for United States business in the U.S.S.R., and acceptable conditions for approving large-scale U.S. governmental and private credit to Soviet-United States joint projects. On each of these major points lack of progress might mean the useful and promising beginning of a new relationship was not to be translated into a substantive and meaningful new commercial partnership.

Soviet and Polish officials did not have a full appreciation of the role of Congress in foreign commercial relations. Specifically the responsibility and authority of the U.S. Congress in trade legislation and government credit to foreign governments were not appreciated.

Recommendations

Members of the U.S. Congress should be directly involved in commercial negotiations with Communist countries such as the Soviet Union and Poland. Official and informal Congressional representation on the Joint Soviet-United States and Polish-United States Commercial Commissions should be arranged in order to allow the Congress to be better informed. Specifically, the proceedings of the joint Soviet-United States and Polish-United States Commissions should include an observer from Congress and appropriate Committees of Congress should receive transcripts of proceedings and other documents as soon as they are available within the Executive Department.

Congressional debate on trade regulation, commercial practices, and credit procedures within appropriate Committees, including the Joint Economic Committee, is in order to assess the opportunities and risks inherent in the developing Soviet-United States commercial relations.

II. PROSPECTIVE GROWTH OF SOVIET-UNITED STATES AND POLISH-UNITED STATES COMMERCIAL RELATIONS

Economies Complementary in Trade; Non-Complementary in Systems

The Soviet leadership stressed the high prospects of large-scale, joint ventures between the United States and the Soviet Union. They added, in response to delegation's queries, that if the economic benefits were sufficient, the rigidities and differences in the Soviet system from comparable operations of Western systems might be relaxed. This proposition was a central focus of the commercial discussions of the delegation. To continue the promising beginning of the Summit agreements, the implementation of the commercial agreements involved specific understandings on commercial and financial arrangements minimally acceptable to Western-type operations. Moreover, even though it was felt that the economic benefits would accrue to the United States via supplies of scarce gas and oil, the *net economic* benefits would tend to favor the Soviet Union. Therefore, only if political benefits to the United States from flexibility in the Soviet system and the shift away from Soviet military programs were added to the equation did it appear that the long-term costs and benefits of large-scale joint ventures tended to equal out for both sides.

The Soviet leaders stressed the importance of the Summit meetings as a necessary precondition for economic progress. All in the delegation commended President Nixon and General Secretary Brezhnev highly for their initiatives in removing old barriers to fruitful progress. The Soviet Union was commended for agreeing to settle the long-standing Lend Lease debts. The United States, for its part, has taken steps to modify old criteria on Export Control.

But those are first steps to clear the barriers. With fruitful concrete arrangements for large-scale joint ventures, it was argued by Soviet leaders that more significant, enduring political progress was possible. Indeed, basic agreements on large-scale mutual undertakings such as in natural gas and oil, Soviet leaders argued, could insulate our relationship against minor future disagreements and setbacks. The precondition for pragmatic, "businesslike" relations would then be set.

At the same time, both sides recognized that failure to move ahead at this time might set Soviet-United States relations back much behind the pre-Summit relationships and possibly exercise a profound destabilizing effect on the international community of nations. Thus as the U.S. Congress reviews its position on trade, including Most-Favored-Nation Treatment to the U.S.S.R., credits in the context of likely changes in the Export-Import Bank Act of 1945, and a myriad of lesser questions in East-West relations, the risks of moving forward are high, as are the costs of falling backward.

Change—profound change—and acceptance of risk on both sides will be necessary. So an assessment of the pros and cons for each nation, based on the delegation's observations, may be in order.

What are involved in the joint ventures discussed by Soviet leaders are large-scale commercial, credit, and supply arrangements involving the United States Government and private U.S. interests directly in the Soviet economy. The large-scale commitment of resources envisaged by United States, and involvement of U.S. commercial and financial interests in the Soviet economy, are unprecedented. Thus the net assessment of economic benefits and political risks to the Soviet Union is as open to question as the comparable balance of economic risks and political benefits to the United States. Symbolizing, as well as representing, the current first-order consideration in these developments is the proposed joint venture in the natural gas development—the so-called North Star project of Northern Tyumen province in West Siberia. A consortium of American companies (Texas Eastern Transmission Corp., Tenneco Inc., and Brown and Root) would be involved in a complex process of transporting gas to the ice-free port of Murmansk, liquifying the gas, then transporting it by container ships to East Coast ports for use in the United States market. It appears that the \$5-6 billion dollars effort over about eight years would be shared by the governmental Export-Import Bank and U.S. commercial banks. Recoupment for this massive investment would follow in the period from about 1980 to the turn of the century in kind, i.e. the supply of natural gas. Other natural gas projects in Eastern Siberia involving Japan and projects in other raw material efforts such as oil and ores might follow. Many of the delegation's questions involved critical probing to assess the extent of economic risks and political gain to the United States of this venture, so that from the discussions a more balanced picture of Soviet and United States net benefits could be ascertained.

Although private negotiations between the consortium of United States companies with Soviet officials were apparently in progress when the Delegation was in Moscow, no direct contact with the United States team was established by the delegation. Moreover, some relevant Soviet officials, e.g. in the Ministry of Oil and Gas Construction, did not respond to repeated requests for interviews. However, in discussion with available Soviet officials in the Ministry of Foreign Trade, the State Bank, and the Bank of Foreign Trade, the general information provided in the United States press was accepted as a basis of discussion (see Appendix C). From this the following assessments emerged from the interviews:

1. Soviet Economic Benefits of Joint Ventures

Western, especially United States technology, is apparently needed for exploiting many of the rich, inaccessible Soviet raw material resources in Siberia, e.g. natural gas, oil, and ores. In natural gas development the capital resources in transmission pipe, liquifying equipment, and container ships appear beyond present Soviet industrial capabilities, within existing priorities. Moreover, the technology for development in permafrost appears more advanced by United States technicians than their Soviet counterparts. Finally, only large-scale

U.S. governmental and private financial credits can put the necessary credit arrangements together. Therefore, without U.S. capital resources, technology, and credit, the Soviet natural gas in Siberia would probably largely stay in the ground for many more decades, perhaps into the next century.

The installations built using Western technology would not only be taken over by the Soviet Union in the long run, after the repayment of credit, but the spin-offs to Soviet technical knowledge en route might be substantial. Moreover, the managerial techniques employed by U.S. firms may be closely observed by Soviet managerial officials and used to assist them in their slow progress toward economic efficiency.

2. Soviet Political Risks From Joint Ventures

It does not seem likely or prudent, in the view of the delegation, for United States firms or banks to deal with the Soviet Union under the terms of limited access traditional in past Soviet practice. To ensure adequate control of installation and construction of projects using U.S. equipment; to underwrite the quality of output based on the transfer of U.S. equipment to Soviet plants; to finance large-scale, long-term projects with adequate insurance of repayment—all would appear to require access to the internal workings of the Soviet economy. Questions such as “How can our banks underwrite large undertakings such as the Tyumen natural gas project without an independent survey to ensure the quality and quantity of gas deposits?” were asked time and again by the delegation. The general answer that “The Soviet State would guarantee the agreed schedule of natural gas supply would be followed,” was not satisfactory to the delegation. After some persistence another answer was provided “That whatever was necessary to ensure the success of agreements that the Soviet Union feels are to their advantage would be agreed to.” Some evidence of such implied flexibility is available, but not enough to provide assurance at this time. Specific questions followed by the delegation but were not reassuring.

However, the Soviet flexibility required would have important political side effects. Were the Soviets to allow foreign (e.g. American) engineers, bankers and businessmen into the decision-making process of Soviet construction and industry, the prospects for Soviet domestic change would be greatly enhanced, but the economic improvement in efficiency might not be insulated from political side effects. For a nation that still feels it is important to limit general information from outside sources to allow foreign commercial interests into their decision process in priority sectors of their economy would seem to be most provocative. In this regard it should be recalled that the moderate success of Soviet economic reform has been credited by Western observers to the official reluctance to accept any political threat from domestic, professional reformers to the primacy of the Communist Party. If the reformers were also foreigners the threat to the Party's monopoly of power would be compounded. Of course the foreign influences in joint ventures might conceivably be insulated from the domestic economy. But insulating, effectively, the minimum involvement likely to be necessary for U.S. credit and commercial arrangements would be difficult. Thus agreement to joint ventures on acceptable terms might pose serious political risks to the Party.

The prospects of joint ventures with Poland do not offer the same large-scale economic prospects or political risks. The joint ventures in meat processing, for example, are small scale as contrasted with the potential U.S.-Soviet joint venture in natural gas. Moreover, the political risk to the traditionally Western-oriented Polish society are apparently not as great as those perceived in the more isolated and insulated Soviet economy.

3. Economic Benefits to the United States

Trade between the United States, Canada, Western Europe, and Japan will continue to far outweigh potential economic gains in employment and output from increased Soviet and East-European trade. Indeed, developments in the EEC and GATT in the near future may well far outweigh the economic importance of East-West trade. Moreover, as much of the East-West trade will still be in terms of barter, little gain in our adverse balance of payments picture is likely.

Still, Soviet natural gas and oil may be helpful in resolving our potential national energy crisis. The extent of assistance depends on our national energy policy, specifically the price policy for energy and our concern with balancing our reliance on foreign sources such as those in the Middle East with those in other areas. American farmers may also benefit from the Soviet and East European agricultural market if reasonable prices for assured demand can be worked out.

4. Political Benefits to the United States

The most tenuous thesis, and the most difficult to test by the delegation, is that the United States will politically gain substantially from improved commercial relations with the Soviet Union in the wake of the Summit agreements. Soviet leaders suggest this in their assessment of "the new historic relationship." President Nixon, Dr. Kissinger and Mr. Peterson seem to feel that tangible political gains will come from improvement in the commercial relationships. (See Appendix D.) From expanded commercial relations we seem to be told to expect the Soviet Union to be more constrained in providing a threat to our security for a number of reasons:

1. Mutual constraint from joint ventures.
2. Redirection of Soviet natural energy and resources from military to civilian programs.
3. Trend toward a common international commercial and financial community.

Perhaps these are not the best statements of the political benefits. If not, then what are they?

Soviet leaders stressed to the delegation the importance of the two super powers' dealing amicably with each other. The two giants might keep the world peace and cooperate economically, the delegation was told, but no direct reference to mutual constraint, change in priorities, or blending of the world commercial and financial systems were explicitly forthcoming. Although slogans such as peace and friendship were restated, no specific indication of shift in priorities was made, in spite of specific reference by the delegation to the importance of the SALT talks, MBFR, and the European Security talks in this context. Likewise, discussion at all levels of the prospect of the Soviet Union's joining the International Monetary Fund (IMF) and World Bank met generally silent response.

In contrast the Polish discussions, especially relating to the European Security Conference and the International Monetary Fund,

brought forth clear and affirmative responses. Polish leaders seemed to be willing to move toward a rapprochement with the United States, but mutual constraint and defense priority has less relevance to them. Joining the international community was a positive step they seemed willing to take. Availability of Special Drawing Rights from the IMF would greatly increase the liquidity of Communist nations. Moreover, more credit opportunities at favorably low interest would be another attraction. Judging by Yugoslav experience and Romanian interest in joining, it is little wonder the Poles show interest, especially since IMF rules seem to be rather flexible on issues such as convertibility and quotas. Perhaps the Soviet reservation goes back to their failure to join in 1945 after going through all the preparatory meetings—presumably for political reasons. In the wake of the political rapprochement of the Summit this may change. (For a critical view of the effect of IMF membership on the interests of the United States, see Appendix E.)

Findings

Soviet-United States commercial relations which have begun to expand rapidly will level off again or be set back unless large-scale joint ventures in gas, oil and other raw materials are worked out. Although logical, due to the economically complementary character of the two economies, the changes in financial and commercial arrangements required to provide a businesslike relationship are not likely to come easily.

Credits for large-scale joint United States-Soviet projects, requiring concessions on their part in terms of access, interest rates and other factors, may be satisfactorily negotiated, but not without long, hard bargaining.

The mutual benefit inherent in expanding commercial relations between the Soviet Union and the United States involves economic and political costs and benefits to both sides. On balance, the net advantage to the Soviets is likely to be economic, to the United States, political.

Recommendations

The United States government and business enterprises should prepare for a long, complex process of bargaining to obtain acceptable financial and commercial relations with the Soviet Union. "Acceptable relations" will involve an unprecedented foreign involvement and influence over economic affairs of joint interest to the two countries within the Soviet Union in order to justify Export-Import Bank and commercial credits.

The United States should avoid appearance and substance of a trade and credit conflict with Japan and West-European countries over the potentially expanding Eastern market. A European move for a common Eastern economic policy within the EEC has something to recommend it as a precedent for broader Western policy to the East. Perhaps the United States should consider a common Western policy toward the East.

As East-West political relations improve, vigorous commercial initiatives are in order to take advantage of the new climate. Better transportation, housing, and office facilities are necessary for U.S. businessmen. The opening of the Polish Trade Center is encouraging. But progress on the Moscow Trade Center is slow.

III. ISSUES IN SOVIET-UNITED STATES COMMERCIAL RELATIONS

Most-Favored-Nation Status (MFN)

Soviet officials at all levels were concerned with the attitude of the U.S. Congress on Most-Favored Nation Status for the Soviet Union. Specifically, the link between the Jackson Amendment to the East-West Trade Relations Act linking exit fees to MFN status was very much in their minds. The delegation made it clear that the Congressional concern was not an election issue or one related to any particular group in U.S. society.

The Soviets indicated that the exit fee was an internal matter and MFN status far transcended the importance of tariff improvements. In fact, the vehemence of Soviet reference suggested that the approval of MFN may be a test case or a turning point in progress not only of commercial but of Soviet-United States relations as a whole.

Credit Arrangements

Several immediate issues are apparent. The proposed West-Siberian natural gas arrangement serves to focus the problems.

1. *On-Site Exploration.*—Without an independent survey, the precise location, feasibility of extraction, assurances that supply will be guaranteed to American consumers, etc., cannot be ascertained. Implied agreement to on-site exploitation, if necessary, to complete an arrangement clearly advantageous to the U.S.S.R., are in the right direction. But more specific, firm commitments are probably more necessary than those given orally to the delegation.

2. *Interest Charges.*—Lower interest charges than customary for other development purposes has often been a sticking point in past credit discussions. An indication to the delegation by one Soviet source that credit rates of a commercial nature, i.e. 8 percent or thereabouts, would be acceptable, suggests some flexibility.

3. *Accreditation and Financial Access.*—Certainly the arrangement such as the Soviet Moscow Narodny Bank has in London—chartered under British law—is more than United States banks may expect or need. However, adequate facilities in the U.S.S.R., direct access to Soviet commercial installations, and a greater availability of required information is necessary.

Continuation of Political Detente

The Senior member of the delegation, Senator Humphrey, found the discussions the most cordial and fruitful of his many visits, including the eight-hour session with Nikita Khrushchev in 1958. Indeed, the delegation agreed with some references in a *U.S. News and World*

Report issue whose availability coincided with the stay of the delegation in Moscow (see Appendix F).

Reports one American:

Negotiations in the last few months have been unexpectedly businesslike, with a new kind of Russian who doesn't pick political arguments when he talks about health, science, environment or such other common problems.

Always in the past, until a few months ago, the Soviet would argue, preach, start political debates. Now they are much less difficult, much more interested in getting work done.

At the same time, in discussing the current arms talks, the delegation agrees with the closing note:

Even with the best will in the world on both sides, experts emphasize this: Long, tough, exceedingly complex negotiations are inevitable.

Progress on commercial relations is interactive with the whole range of other issues, as all the agreements and progress on implementation depend on each other and the overall political climate.

The Polish-United States rapprochement is likely to proceed at least as fast as the Soviet-United States relations. The impression of the Delegation throughout the Polish visit was that sentiment was strong and widespread in Polish officialdom and society toward improved relations with the United States.

Findings

The improvement in Soviet-United States relations is significant and unprecedented in recent years. How enduring the new relationship is yet to be determined. Affairs in Vietnam, possible disagreements on financial and commercial negotiations, and other divergencies in policy matters between the Soviet Union and the United States will all put the post-Summit "detente" to test.

Soviet-United States commercial relations which have begun to expand rapidly will level off again or be set back unless large-scale joint ventures in gas, oil and other raw materials are worked out. Although logical, due to the economically complementary character of the two economies, the changes in financial and commercial arrangements required to provide a businesslike relationship are not likely to come easily.

The securing of Most-Favored Nation (MFN) status for trading with the United States is a major goal for Soviet leadership. An obstacle to attaining that goal is the exit visa or diploma tax. Soviet leadership did not seem to sense the concern of the U.S. Congress on this matter. The Soviet policy on the exit fee represents a serious road block to the expansion of Soviet-United States commercial relations.

In a number of conferences the delegation expressed in firm and deliberate manner that the Soviet government must significantly alter its exit visa policy before the Congress would be willing to grant Most-Favored-Nation status to the Soviet Union.

Credits for large-scale joint United States-Soviet projects, requiring concessions on their part in terms of access, interest rates and other factors, may be satisfactorily negotiated, but not without long, hard bargaining.

Exchanges and Cooperation

The Agreement Between the United States and the Soviet Union of April 11, 1972 on Exchanges and Cooperation in Scientific, Technical, Educational, Cultural and Other Fields in 1972-1973 opens prospects for useful intercourse between the United States and the Soviet Union. Similar agreements with Poland provide parallel prospects. If the arrangements indicated involve cooperation between nations, and if funding problems do not reduce the effectiveness of projected exchanges, then the significant prospects may be realized. Some of the exchanges that came specifically to the attention of the Delegation included the following:

1. Agricultural Exchanges

In 1973 preparations are being made for the celebration of the centennial of the first use of Ukrainian hard winter wheat in Kansas—an immigrant brought Ukrainian "Turkey Red" from Russia to the Western Plain States, upgrading, at that time, the quality of wheat. Other areas in which the Soviet agricultural progress would benefit U.S. agriculture by exchanges agreements include sugar beets, sunflower seeds, and stone fruit. It may be recalled that stone fruit originated in Soviet Central Asia. Among the areas on which the United States is especially interested in encouraging joint progress is the agricultural statistics system and data exchange, as noted in this delegation's report to the Senate Agricultural Committee.

2. Exhibits

The United States is especially interested in encouraging more exhibits through our United States Information Service in the field. We seem to be more interested in promoting them than the Soviet Union. Perhaps encouragement of exhibits of United States activities may be balanced with exchanges in activities the Soviet Union feels more important to include than the United States. Senator Bellmon visited the United States exhibit on Research and Development in Leningrad at the end of the delegation's stay in the Soviet Union, in lieu of continuing to Poland with Senator Humphrey and Congressman Reuss.

In Poland the delegation noted an incipient problem of environmental pollution symbolized by the factory smoke of the giant Polish steel mill at Nova Huta near Crakow. The delegation was told that an exhibit on environmental problems is planned for Spring, 1973. It is expected that the exhibit will be supported by a high level seminar based on the environmental crises problems. In four Polish cities top Polish experts, official and educational, will join forces with some of the America's finest specialists in the given area of each seminar. They will spend about five days together and will have access to the latest publications on their subject areas. The seminar format is the major reason for the exhibit. The exhibit is expected to complement

the high level seminar meetings, and reach a broader cross section of its audience.

The co-sponsoring national organization is the Polish Ministry of Regional Economy and Environmental Protection. In addition, local institutions will co-sponsor or cooperate in the individual city arrangements.

3. Parliamentary Exchanges

The delegation visited the respective parliaments in the U.S.S.R. and Poland, the Supreme Soviet in Moscow and the Sejm in Warsaw. In each case general invitations were extended to visit the United States. The Summit agreements deal specifically with parliamentary exchanges, but no specific machinery is set up for implementing them, and funding questions are left for specific arrangements by both sides at a later date. Although the Soviet and Polish legislators do not appear to perform the same political function as the U.S. Congress does, many important Party figures are also members of their legislatures. This proved a basis for useful exchanges with the delegation, and for prospectively fruitful future exchanges.

At present each country finances its own delegation. The Communist nations would prefer to have the host country supply the funding.

The machinery set up for handling other scientific and technical delegations in the United States appears to have no counterpart for parliamentary exchanges. The term "render assistance" in the Agreement appears to have no substantive meaning at this point in time.

4. Medical Exchanges and Cooperation

The delegation attended the American Children's Hospital in Crakow. The Hospital was originally funded through legislation sponsored by Senator Humphrey and Congressman Clement J. Zablocki (D-Wis.). Senator Humphrey was not at the earlier dedication, so his visit in December 1972 was in lieu of attending the earlier occasion.

The 320-bed pediatric hospital in Crakow was dedicated in December 1965. It was built with a U.S. Government grant of the equivalent of \$10,350,000 of PL-480 zlotys and \$2,375,000 in dollars. It is one of the most modern institutions of its kind in Europe. A research wing, referred to as Phase II of the project, is presently under construction with a PL-480 zloty appropriation in the amount of \$2,100,000. Phase II is expected to be completed in late spring 1974. The U.S. firm responsible for design and construction of Phases I and II is the American Research Hospital in Poland, Inc. (Mr. W. O. Biernacki-Poray, President).

The hospital, officially called the Pediatric Clinic Medical Academy of Crakow, is located just outside the city. Directed by Assistant Professor Barbara Kanska-Nawrocka, it includes five divisions and a research laboratory. This research facility, which will be expanded at the completion of Phase II, is one of the finest medical research facilities in Eastern Europe. Members of the staff have studied in the United States. Dr. Kanska has established a program (with partial U.S. funding) to continue the advanced training of her most highly-qualified medical personnel. As part of this program, the Crakow hospital has established a "sister" relationship with the Philadelphia Chil-

dren's Hospital and six other contacts with other large U.S. medical facilities.

Several staff members perform, or have worked in cooperative U.S.-Polish medical research programs sponsored by HEW.

5. Copernicus Celebration

The delegation visited Jagiellonian University in Crakow and saw the original instruments used by Copernicus in establishing his astronomical theses. The anniversary of Copernicus' discoveries this year will be an event celebrated in both Poland and the United States.

6. Funding Problems

Funding problems may arise in Poland if the P.L. 480 funds, so central to future exchanges, run out. In view of the crisis caused by apparent exhaustion of P.L. 480 funds in Yugoslavia with little forewarning, the delegation asked for an assessment of uses of U.S.-owned Polish zlotys (P.L. 480) with the following result:

Between 1957 and 1964 the United States provided Poland with credits totaling \$599 million for the purchase of agricultural commodities, equipment, and medical supplies. Of this, \$538 million were in the form of surplus agricultural products sold under Public Law 480. The terms of the PL-480 sales (dollar denominated) provided for immediate deposit of zloty equivalents in Polish banks. At the beginning of FY 1973, the balance of U.S.-owned Polish zlotys stood at the dollar equivalent of \$342.2 million.

Poland, among "Excess Foreign Currency" countries, is unique, in that the total foreign currency owned by the United States Government, if not used, is repurchased *for dollars* by the Polish Government according to an agreed payment schedule.

In the past, U.S.-owned zlotys have been used primarily for Embassy operations and similar program expenses of other U.S. agencies; payments to Social Security beneficiaries and other annuitants resident in Poland; assistance to schools and hospitals (approximately \$12 million in zlotys and \$2.4 million in dollars for the Crakow Children's Hospital); and scientific research and exchange programs. While expenditures for Embassy operations should remain stable, expenditures for research are expected to increase from \$9,992 million in Fiscal Year 1972 to about \$17,683 million in FY 1973, a growth of approximately 77% in the past year. Further increases are anticipated in FY 1974. Adding scheduled Polish repurchases of \$15,517 million, the total estimated zloty use for Fiscal Year 1973 comes to \$42,362 million.

At this rate of use, the supply of U.S.-owned Polish zlotys will be exhausted perhaps as early as FY 1977. Poland has requested that a portion of the scheduled repurchases be deferred, and the matter is currently under negotiations.¹

Findings

The agreements on Exchanges and Cooperation reached at the Summit in May 1972 in Moscow and at the mini-Summit in Warsaw

¹The chart in Appendix G is the work of the Embassy's Science Attache, Nuel L. Pazdral. The source for the figures on agency expenditures for science and research is Mr. Russell Whitener, the Department of State's foreign currency officer.

provide a general basis for the expansion of fruitful intercourse between the Communist nations and the United States. But hard bargaining will be needed to work out the specific details of the exchanges and cooperation agreement since the United States prefers exhibits that show the American way of life and individual contact of professionals and the Communist countries generally prefer technical exchanges in their areas of need.

Funding from PL-480 funds might run out for Poland prior to FY-1977. Affected would be excellent programs, such as the Children's hospital in Crakow, and many of the programs and exhibits being negotiated in the Exchange and Cooperation agreement between Poland and the United States. Immediate action is therefore needed.

Recommendations

Careful planning and continuous attention should be given to the exchanges with the Soviet Union and Poland to make them most useful and serve U.S. interests. Where possible, the fuller communication of actual U.S. life and individual contact of professionals from the respective countries should be encouraged.

Immediate attention should be given to the potential constraints funding may place on future exchanges and cooperation. Specifically, a detailed assessment of available PL-480 funds should be made with a clear establishment of priorities in spending and attendant allocation of funds.

United States tourism to the Soviet Union and Eastern Europe should be encouraged and facilitated, as it is likely to be reflected in increased exports of U.S. products to those countries.

IV. BALANCE OF PAYMENTS PROBLEMS

Raw materials for industrial and agricultural products in Soviet-United States trade and meat products for agricultural and industrial products in Polish-American trade has limitations. Credit may help in the short run, but in the long run the East must improve its ability to earn dollars and other hard currency. Tourism, exports, and shipping all play their roles. Also consideration should be given to the prospects of multilateral trade deficits with the United States against trade surpluses with other hard-currency nations. Likewise, gold sales policy should be considered in future balance of payment projections.

Tourism

As noted in Congressman Reuss's letter to Mr. Peterson of August 4, 1972, tourism to the Soviet Union and Eastern Europe falls well below its potential (Appendix H). An increase in tourism might be accomplished by an aggressive program of attracting and satisfying Western tourists. Already the Soviet Union and Poland have been taking steps to increase the number of foreign visitors, especially from the United States, Aeroflot and LOT may fly directly from Moscow and Warsaw, respectively, to the United States and West-European capitals (as may the Western airlines on a reciprocal basis). Hotel facilities and packaged tours have been expanded and improved. Yet Poland appears to be closer to a quantum jump in tourism, in part as a result of proximity, but perhaps more because of joint ventures with Western tourist enterprises: an Intercontinental Hotel tied into the global reservation system will soon open in Warsaw. Five French-built hotels are under construction outside Warsaw. The delegation was told that Polish leaders would welcome United States participation in hotel development in Poland.

But the Orbis and Intourist monopoly in Warsaw and Moscow still dampens Western travel opportunities. Perhaps the mixture of tourism and security diminishes the effectiveness of the Communist state-controlled tourist agencies.

Export Potential of Communist Countries

The export of Soviet grain, when available, and Polish meat are very professionally handled. However, the export of industrial products—producer and consumer goods—is not well developed. The delegation asked a number of relevant Soviet officials what industrial products they could sell. After some persistence one official suggested the YAK 40—a none too competitive aircraft.

Shipping

Increasing tonnage in the Soviet merchant fleet and the opening of U.S. ports to Soviet-flag vessels reduce the drain on hard currency

of Soviet shipping requirements. It does not appear that shipping will become a net earner in the near future.

Multilateral Trade and Deficits With the United States

The massive grain purchases from the United States due to the catastrophic weather year in Soviet agriculture raised questions on the future of Soviet-United States trade. The delegation asked Mr. Kosygin in his September, 1972, speech, calling for austerity in economic planning, was correctly interpreted by the New York Times editorial predicting an adverse effect on projected Soviet-United States trade from difficult decisions made in preparing the Plan for 1972. (See Appendix J.) His answer was "absolutely not" and prospects for Soviet-United States trade were still "very favorable."

Soviet leaders were most reluctant to discuss gold stocks or gold sales. But in the short run, gold sales, use of hard currency stocks, reduction in imports from other hard-currency nations might have to carry the Soviet Union over the 1972 rough spot. In any case, these are limited, short-run solutions. In the long run, more earnings from exports, tourism, or other sources must support imports. And credit is a key to financing short-term deficits.

The staff tabulations shows the debt service (repayments plus interest) implicit in the three projections, together with projections of exports through 1977 at 7.4% (the upper limit of export growth estimated). As the tabulations indicate, debt service reached 20% of exports in 1971 and may exceed 25% by 1973. Soviet credit in the West is good, and Soviet control over the economy and over the use of foreign exchange resources insures that debt obligations can be met. However, the Soviet government probably wishes to avoid the reduction in flexibility which a high debt service ratio would produce. For the USSR a ratio of over 25% will serve as an important constraint on the expansion of Soviet imports from the West. See Appendix H for projections of Soviet debt with Western creditors.

	Exports (millions)	Projection A	Ratio (percent)	Projection B	Ratio (percent)	Projection C	Ratio (percent)
1970.....	\$2,345	405	17	405	17	405	17
1971.....	2,519	510	20	510	20	510	20
1972.....	2,705	614	23	645	24	645	24
1973.....	2,905	773	27	835	29	867	30
1974.....	3,120	858	28	945	30	1,053	34
1975.....	3,350	934	28	1,045	31	1,240	37
1976.....	3,599	982	27	1,114	31	1,392	39
1977.....	3,865	1,012	26	1,167	30	1,525	39

Currently the Polish-United States trade is surplus. The average United States deficit since 1965 termination of PL-480 sales of agricultural commodities has been \$30 million. (See Appendix I.)

Findings

Soviet and Polish imports, if limited by expansion in exports, will not grow much above current levels. Their ability to identify and expand competitively in non-traditional areas, i.e. industrial products in contrast to raw materials and agricultural products,

appear limited. Joint ventures which provide Western technology, managerial efficiency, and market assessment can break this pattern, but are more likely in Poland than the U.S.S.R. Joint ventures with the Soviet Union, if successfully arranged, are likely to be the large scale (barter type—capital on credit for oil and gas output arrangements—which do not affect the balance of payments. Tourism to Eastern Europe might also reduce the dollar drain to West-European nations.

Recommendations

United States tourism to the Soviet Union and Eastern Europe and industrial marketing for Soviet and Polish industries should be encouraged and facilitated as it is likely to be reflected in increased exports of U.S. products to those countries.

APPENDIX A

LIST OF OFFICIALS WITH WHOM THE DELEGATION MET

SOVIET UNION November 27–December 1, 1972:

His Excellency A. N. Kosygin, Chairman of the Council of Ministers of the U.S.S.R.

Minister of Foreign Trade N.S. Patolichev.

Minister of Agriculture V.V. Matskevich.

Minister of Merchant Marine T.B. Guzhenko.

Chairman of the House of the Union of the Supreme Soviet of the U.S.S.R.

A. P. Shitikov.

Mr. G.L. Trusevich, Deputy Chairman, Bank for Foreign Trade.

Mr. G.A. Arbatov, Director, U.S.A. Institute (Senator Humphrey only).

Academician N.N. Inozemtsev, Director, Institute of World Economics and International Relations.

Mr. V.I. Ushakov, Deputy Chairman, State Bank (Congressman Reuss only).

Mr. B.D. Zavil'gel'skiy, Director, Moscow Stud Farm (Senator Bellmon only).

POLAND December 1–December 5, 1972 (Senator Humphrey and Congressman Reuss composed delegation):

Prime Minister Piotr Jaroszewicz.

Foreign Minister Stefan Olszowski.

Vice Minister of Foreign Affairs Spasowski.

Mr. Ryszard Frelek, Member of the Sejm and Secretary of the Central Committee of the Polish United Workers Party.

A delegation of the Sejm (Polish Parliament) led by Mr. Eugeniusz Mazurkiewicz, Member Sejm Agricultural Commission and Director of the Agricultural Department of the Central Committee of the Polish United Workers Party.

Minister of Health and Social Welfare H.E. Marian Sliwinski.

Vice Marshal of Sejm Mr. Andrzej Werblan.

APPENDIX B

GENERAL APPROACH

PURPOSE OF DELEGATION

Legislative :

Agricultural acreage and price policy.

Commercial tariff (MFN) and credit policy.

Public Policy : SUMMIT Agreement Implementation.

AGRICULTURE

Prospects of Future Soviet Market: Cereal grains, feed grains, other agricultural products.

Needs: Better crop information, longer term commitments, and expanded exchanges.

COMMERCIAL AGREEMENT

Prospects of Future Soviet Market: Machinery, computers, agricultural products, and technical services.

Problems: Stability of market, credits and American firm access to site and market, and tariffs (MFN), Soviet Export Capability, and Related Public Policy Issues (exit fees).

NEW UNITED STATES-SOVIET RELATIONS

Progress on Agreements.

Concrete Changes following Atmospheric Changes :

Commercial trade increases.

Scientific exchanges.

Information improvement.

Current Soviet Priorities :

Consumption : Meat and Cars.

Investment : Natural gas, oil, computers.

AGRICULTURE

PROSPECTS FOR FUTURE SOVIET MARKET

Cereal grain

Information :

More reporting to international agencies, data release on a timely basis.

More travel by car by Attache on timely basis to open areas.

United States Competitive Position :

Shipping.

Quality problems.

Price.

Other factors.

Feed grains

Priorities :

Livestock improvement.

Feed conversion ratio: corn, soybeans, sorghum. High energy vs. high protein.

Agricultural equipment and products

For animal husbandry.

For grain.

SCIENTIFIC EXCHANGES IN AGRICULTURE

United States needs :

Historic : 100 years Ukrainian Turkey Red to Kansas.
 Sunflower Seeds.
 Stone fruit.
 Biological control of insects.

Soviet needs :

Informational systems.
 Insecticides.

COMMERCIAL RELATIONS

PROSPECTS FOR EXPANDED RELATIONS

Priorities :

Oil and Natural Gas.
 Computers.
 Machinery, e.g. Kama.
 Agricultural products.

Financing Soviet imports from United States :

Export Potential :
 Machinery—effect of MFN.
 Oil export policy.
 Tourism.

Credit :

Modification of Ex-Im Bank.
 Credit Risk and Coproduction : On site exploration, access to construction-production site, and access to market.

Stability of Soviet Market :

Longer term commitments.
 Coproduction.
 Long term credits.

United States Export Control and Trade :

Influence on market.
 Competitive position of United States vis-a-vis Europe-Japan.

Scientific and Commercial Exchanges.

Soviet patents and licenses.
 Soviet interests :
 Management science.
 Petroleum and natural gas technology.

APPENDIX C

[Reprinted from the Washington Post, Nov. 3, 1972]

SOVIETS, U.S. NEAR GAS DEAL

\$45.6 BILLION PACT WOULD BE LARGEST EVER

(By Nick Kotz and Thomas O'Toole)

The United States is on the verge of negotiating the largest trade agreement in history, a deal to buy \$45.6 billion of natural gas from the Soviet Union.

The agreement would also involve an expenditure of as much as \$10 billion in pipelines to carry the gas from Siberia to two Soviet ports, plants to liquefy the gas in these ports and tankers to transport the gas out of the Soviet Union. The \$10 billion would be put up by the United States, Japan (which will take some of the gas), the Soviet Union and by the American companies getting distribution rights for the gas.

Details of the deal must still be worked out, but one combine of American firms seems sure to get the largest share of the Soviet gas.

A high-ranking Nixon administration official said that a triumvirate of Tenneco, Inc., Texas Eastern Transmission Corp. and Brown and Root, Inc., are the only bidders on a plan to bring gas from Murmansk on the Barents Sea to the East Coast of the United States.

The administration official said that New York lawyer Herbert Brownell, attorney general in the Eisenhower administration and a close friend of President Nixon, has been negotiating for the combine with the United States and the Soviet Union. The Tenneco group is urging Soviet and U.S. approval of a detailed development plan drawn up after 10 months of study in the Soviet Union.

The Nixon administration official said the Tenneco triumvirate has also bid to bring gas from another region of Siberia to the West Coast of the United States. In this bid, the Tenneco group is competing with a second combine made up of El Paso Natural Gas Co., Bechtel Corp. and Occidental Petroleum Corp.

"Nothing has been decided in this competition," the Nixon administration official said. "The deal is so big that all six companies might have to be drawn into it."

Feasibility studies for the giant project should be completed by both combines within a week, the administration official said. The studies will be circulated through the United States and Soviet governments, which will comment and decide on them together.

"I don't think you can say an agreement is imminent," the official said, "but I also don't think it's any more than six months away."

Gas is abundant in the Soviet Union and scarce in the United States, the world's largest consumer of natural gas. The Soviet Union has an estimated 800 trillion cubic feet of proven gas reserves, enough to supply itself and the United States for 30 years.

The most complex phase of the negotiations is the financing, partly because the project is so large and partly because it involves three countries, the United States, the Soviet Union and Japan. Two 56-inch pipelines will have to be built through some of the coldest parts of Siberia, projects that could take as long as seven years and as much as \$4 billion each.

One pipeline would run 2,500 miles from Yakutsk to Nahodka near Vladivostok on the Pacific Ocean. This line would carry two billion cubic feet of gas a day to Nahodka, where a \$750 million plant would convert the gas to liquid form and pump it aboard a fleet of 10 liquefied natural gas tankers that would move the gas out of the Soviet Union.

Half this gas would be sold to Japan, the other half to the United States. The gas would move into the West Coast of the United States, most probably Long Beach or Los Angeles.

A second pipeline would run 1,800 miles from the Tyumen gas fields near the Ob River to Murmansk. This pipeline would move three billion cubic feet of gas a day into a liquefaction plant which would pass the gas to a fleet of 20 tankers.

All this gas would go to the East Coast of the United States, where it would be dropped off at Boston, New York City, Cove Point, Md., and Savannah, where natural gas terminals are either located or planned.

The pipelines and liquefaction plants would be built by U.S. companies and owned by the Soviet Union. The Export-Import Bank would finance some of the construction, and the rest would be financed by commercial banks and by the companies getting the gas.

Gas would start to flow out of the Soviet Union by 1980 under an agreement that would run for 25 years. An estimated five billion cubic feet of gas a day would be involved, four-fifths of it bound for the United States. This would be anywhere from 5 to 7 percent of U.S. gas consumption by that time and be worth more than \$40 billion over the life of the contract.

The Nixon administration views the gas deal as one of the biggest coups of its rapprochement with the Soviet Union, both economically and politically. It sees Soviet gas as being a more reliable supply than Middle East oil, partly because the Soviet Union needs U.S. dollars and technology and partly because the Soviets have nowhere else to go to sell the gas.

One reason the administration has broken the gas deal into two parts (East and West Coasts) is to lessen the impact on the United States if the Soviets ever interrupt the gas flow. Japan is being brought into the deal for the same reason, to put political pressure on the Soviets to keep the gas flowing.

The gas deal has already touched off some controversy inside the Nixon administration. One official said the Tenneco triumvirate caused the United States some concern early this spring when Brownell and Tenneco officials assured the Soviets that the United States would supply the credits to assure the venture's success.

"They (Brownell and his clients) had the notion that the U.S. government would take care of everything," the official said. "They were making representations to Kosygin and others, and we just had to step in and say their remarks were premature."

Another possible point of controversy might be the campaign contributions made by the vying participants.

Stephen D. Bechtel Jr., president of Bechtel Corp., gave \$10,000 to the Nixon campaign, and eight to 10 Bechtel executives contributed \$1,000 apiece. John R. Harbin, president of the Halliburton Corp. (Brown and Root is a Halliburton subsidiary) said he gave \$1,000 to the Nixon campaign, and Tenneco (\$11,500) and Texas Eastern (\$10,000) bought ads in the program of the Republican National Convention.

A final source of controversy could be the fleet of 30 tankers that will be needed to move the gas out of the Soviet Union. These ships cost \$90 million apiece, and if they're built in the United States, shipyards will require an estimated subsidy of \$550 million.

APPENDIX D

[Reprinted from Congressional Record, June 19, 1972]

CONGRESSIONAL BRIEFING BY DR. HENRY A. KISSINGER

Dr. KISSINGER. Gentlemen, the President has asked me to present to you the White House perspective on these agreements, and the general background, with the technical information and some more of the details to be supplied by the formal witnesses before your various committees.

I will read a statement to you which we will distribute. It is still in the process of being typed.

In considering the two agreements before the Congress, the treaty on the limitation of available missile systems and the interim agreement on the limitation of offensive arms, the overriding questions are these: Do these agreements permit the United States to maintain a defense posture that guarantees our security and protects our vital interests? Second, will they lead to a more enduring structure of peace?

In the course of the formal hearings over the coming days and weeks, the Administration will demonstrate conclusively that they serve both of these goals. I will begin that process this morning by offering some general remarks on the agreement, after which I will be happy to take your questions.

UNITED STATES-SOVIET RELATIONS IN THE 1970'S

The first part of my remarks will deal with U.S.-Soviet relations as they affect these agreements. The agreement which was signed 46 minutes before midnight in Moscow on the evening of May 26th by President Nixon and General Secretary Brezhnev is without precedent in the nuclear age; indeed, in all relevant modern history.

Never before have the world's two most powerful nations, divided by ideology and conflicting interests, placed their central armaments under formally agreed limitation and restraint. It is fair to ask: What new conditions now prevail to have made this step commend itself to the calculated self-interests of both of the so-called superpowers, as it so clearly must have done for both willingly to undertake it?

Let me start, therefore, with a sketch of the broad design of what the President has been trying to achieve in this country's relations with the Soviet Union, since at each important turning point in the SALT negotiations we were guided not so much by the tactical solution that seemed most equitable or prudent, important as it was, but by an underlying philosophy and a specific perception of international reality.

The international situation has been undergoing a profound structural change since at least the mid-1960s. The post-World War II pattern of relations among the great powers had been altered to the point that when this Administration took office, a major reassessment was clearly in order.

The nations that had been prostrate in 1945 had regained their economic strength and their political vitality. The Communist bloc was divided into contending factions, and nationalistic forces and social and economic pressures were reasserting themselves within the individual Communist states.

Perhaps most important for the United States, our undisputed strategic predominance was declining just at a time when there was rising domestic resistance to military programs, and impatience for redistribution of resources from national defense to social demands.

Amidst all of this profound change, however, there was one important constant—the continuing dependence of most of the world's hopes for stability and peace upon the ability to reduce the tensions between the United States and the Soviet Union.

The factors which perpetuated that rivalry remain real and deep.

We are ideological adversaries, and we will in all likelihood remain so for the foreseeable future.

We are political and military competitors, and neither can be indifferent to advances by the other in either of these fields.

We each have allies whose association we value and whose interests and activities of each impinge on those of the other at numerous points.

We each possess an awesome nuclear force created and designed to meet the threat implicit in the other's strength and aims.

Each of us has thus come into possession of power singlehandedly capable of exterminating the human race. Paradoxically, this very fact, and the global interests of both sides, create a certain commonality of outlook, a sort of interdependence for survival between the two of us.

Although we compete, the conflict will not admit of resolution by victory in the classical sense. We are compelled to coexist. We have an inescapable obligation to build jointly a structure for peace. Recognition of this reality is the beginning of wisdom for a sane and effective foreign policy today.

President Nixon has made it the starting point of the United States policy since 1969. This Administration's policy is occasionally characterized as being based on the principles of the classical balance of power. To the extent that that term implies a belief that security requires a measure of equilibrium, it has a certain validity. No national leader has the right to mortgage the survival of his people to the good will of another state. We must seek firmer restraints on the actions of potentially hostile states than a sanguine appeal to their good nature.

But to the extent that balance of power means constant jockeying for marginal advantages over an opponent, it no longer applies. The reason is that the determination of national power has changed fundamentally in the nuclear age. Throughout history, the primary concern of most national leaders has been to accumulate geopolitical and military power. It would have seemed inconceivable even a generation ago that such power once gained could not be translated directly into advantage over one's opponent. But now both we and the Soviet Union have begun to find that each increment of power does not necessarily represent an increment of usable political strength.

With modern weapons, a potentially decisive advantage requires a change of such magnitude that the mere effort to obtain it can produce disaster. The simple tit-for-tat reaction to each other's programs of a decade ago is in danger of being overtaken by a more or less simultaneous and continuous process of technology advance, which opens more and more temptations for seeking a decisive advantage.

A premium is put on striking first and on creating a defense to blunt the other side's retaliatory capability. In other words, marginal additions of power cannot be decisive. Potentially decisive additions are extremely dangerous, and the quest for them are destabilizing. The argument that arms races produce war has often been exaggerated. The nuclear age is overshadowed by its peril.

All of this was in the President's mind as he mapped the new directions of American policy at the outset of this Administration. There was reason to believe that the Soviet leadership might also be thinking along similar lines as the repeated failure of their attempts to gain marginal advantage in local crises or in military competition underlined the limitation of old policy approaches.

The President, therefore, decided that the United States should work to create a set of circumstances which would offer the Soviet leaders an opportunity to move away from confrontation through the carefully prepared negotiations. From the first, we rejected the notion that what was lacking was a cordial climate for conducting negotiations.

Past experience has amply shown that much heralded changes in atmospherics, but not buttressed by concrete progress, will revert to previous patterns, at the first subsequent clash of interests.

We have, instead, sought to move forward across a broad range of issues so that progress in one area would add momentum to the progress of other areas.

We hoped that the Soviet Union would acquire a stake in a wide spectrum of negotiations and that it would become convinced that its interests would be best served if the entire process unfolded. We have sought, in short, to create a vested interest in mutual restraint.

At the same time, we were acutely conscious of the contradictory tendencies at work in Soviet policy. Some factors—such as the fear of nuclear war; the emerging consumer economy, and the increased pressures of a technological, administrative society—have encouraged the Soviet leaders to seek a more stable relationship with the United States. Other factors—such as ideology,

bureaucratic inertia, and the catalytic effect of turmoil in peripheral areas—have prompted pressures for tactical gains.

The President has met each of these manifestations on its own terms, demonstrating receptivity to constructive Soviet initiatives and firmness in the face of provocations or adventurism. He has kept open a private channel through which the two sides could communicate candidly and settle matters rapidly. The President was convinced that agreements dealing with questions of armaments in isolation do not, in fact, produce lasting inhibitions on military competition because they contribute little to the kind of stability that makes crises less likely. In recent months, major progress was achieved in moving toward a broadly-based accommodation of interests with the USSR, in which an arms limitation agreement could be a central element.

This approach was called linkage, not by the administration, and became the object of considerable debate in 1969. Now, three years later, the SALT agreement does not stand alone, isolated and incongruous in the relationship of hostility, vulnerable at any moment to the shock of some sudden crisis. It stands, rather, linked organically, to a chain of agreements and to a broad understanding about international conduct appropriate to the dangers of the nuclear age.

The agreements on the limitations of strategic arms is, thus, not merely a technical accomplishment, although it is that in part, but it must be seen as a political event of some magnitude. This is relevant to the question of whether the agreements will be easily breached or circumvented. Given the past, no one can answer that question with certainty, but it can be said with some assurance that any country which contemplates a rupture of the agreement or a circumvention of its letter and spirit must now face the fact that it will be placing in jeopardy not only a limited arms control agreement, but broad political relationship.

PREPARATIONS FOR THE ARMS TALKS

Let me turn now to the more specific decisions we had to make about what the agreement should do and how it could be achieved.

We knew that any negotiations on arms control, especially ones involving those central weapons systems which guarantee each side's security, were found to be sensitive and complicated, requiring frequent high-level decisions.

The possibility of a deadlock would be ever present, and the repercussions of a deadlock could not help but affect U.S.-Soviet relations across the board. We had to begin, therefore, by assessing what the situation was in terms of armaments in place and under construction; what realistic alternatives we had at the negotiating table; and how a tentative or partial agreement would compare with no agreement at all.

For various reasons during the 1960s, the United States had, as you know, made the strategic decision to terminate its building programs in major offensive systems and to rely instead on qualitative improvements. By 1969, therefore, we had no active or planned programs for deploying additional ICBMs, submarine-launched ballistic missiles or bombers. The Soviet Union, on the other hand, had dynamic and accelerated deployment programs in both land-based and sea-based missiles. You know, too, that the interval between conception and deployment of strategic weapons systems is generally five to ten years.

At the same time, both sides were in the initial stage of strategic defense programs, each approaching the anti-missile problem from a different standpoint. The Soviets wanted to protect their capital. The United States' program concentrated on protecting our retaliatory forces. Both sides also possessed weapons which, although not central to the strategic balance, were nevertheless relevant to it. We have aircraft deployed at forward bases and on carriers. The Soviet Union has a sizable arsenal of intermediate-range missiles able to attack our forward bases and devastate the territory of our allies.

A further complication was that the composition of forces on the two sides was not symmetrical. The Soviet Union had given priority to systems controlled within its own territory while the United States had turned increasingly to sea-based systems.

The result was that they had a panoply of different ICBM's while we essentially had one general class of ICBM's, the Minuteman, together with a more effective and modern submarine force operating from bases overseas and equipped with longer-ranged missiles.

All of this meant that even arriving at a basic definition of strategic equivalency would be technically demanding and politically intricate.

Looking beyond to the desired limitations, it appeared that neither side was going to make major unilateral concessions. When the national survival is at stake, such a step could not contribute to stability. The final outcome would have to be equitable and to offer a more reliable prospect for maintaining security than could be achieved without the agreements.

With these facts in view, the President, in the spring of 1969, established a group of senior officials responsible for preparing and conducting the SALT negotiations.

I acted as Chairman, and the other members included the Under Secretary of State, the Deputy Secretary of Defense, the Chairman of the Joint Chiefs of Staff, the Director of the Central Intelligence Agency, and the Director of the Arms Control and Disarmament Agency.

This group, called the Verification Panel, has the task of analyzing the issues and factors and submitting for the President's decisions those options which commanded support in the various departments and agencies.

The Verification Panel analyzed each of the weapons systems which could conceivably be involved in an agreement. It compared the effect of different limitations on our program and on the Soviet programs, and weighed the resulting balance. It analyzed the possibilities of verification, and the precise risk of evasion, seeking to determine at what point evasion could be detected and what measures would be available for a response. This was done in various combinations so that if one piece of the equation changed, say the ABM level, the Government would be able to determine the effect of that change upon the other components of a particular negotiating package.

Our aim was to be in a position to give the negotiations a momentum. We wanted to be sure that when stalemates developed, the point at issue would not be largely tactical, and that the alternative solutions would be analyzed ahead of time and ready for immediate decision by the President.

SUMMARY OF THE NEGOTIATIONS

In the first round of the talks, which began in November of 1969, the two sides established a work program and reached some tentative understanding of strategic principles.

For example, both sides more or less agreed at the outset that a very heavy ABM system could be a destabilizing factor, but that the precise level of ABM limitations would have to be set according to our success in agreeing on offensive limitations.

In the spring and summer of 1970, each country put forward more concrete proposals, translating some of the agreed principles into negotiating packages. During this period, we, on the American side, had hopes of reaching a comprehensive limitation. However, the initial search for a comprehensive solution gradually broke down over the question of defining the scope of the forces to be included.

The Soviets believed that strategic meant any weapons system capable of reaching the Soviet Union or the United States. This would have included our forward-based aircraft and carrier forces, but excluded Soviet intermediate range rockets aimed at Europe and other areas.

We opposed this approach, since it would have prejudiced our alliance commitments and raised a distinction between our own security and that of our European allies.

We offered a verifiable ban on the deployment and testing of Multiple Independent Reentry Vehicles. The Soviets countered by offering a totally unverifiable production ban, while insisting on the freedom to test, thus placing the control of MIRV's effectively out of reach.

At this juncture, early in 1971, with the stalemate threatening, the President took a major new initiative by opening direct contact with the Soviet leaders to stimulate the SALT discussions and for that matter, the Berlin negotiations, and providing progress could be achieved on these two issues, to explore the feasibility of a summit meeting.

The Soviet leaders' first response was to insist that only the ABM's should be limited, and that offensive systems should be left aside. But as far as we were concerned, the still incipient ABM systems on both sides were far from the most dynamic or dangerous factors in the strategic equation. It was the Soviet offensive programs, moving ahead at the average rate of over 200 land-based and 100 sea-based missiles a year, which we felt constituted the most urgent issue. To

limit our option of developing the ABM system without at the same time checking the growth of the Soviet offensive threat was unacceptable.

Exchanges between the President and the Soviet leaders embodying these views produced the understanding of May 20, 1971. As any workable compromise in the field must do, that understanding met each side's essential concerns. Since the offensive systems were complex and since agreement with respect to all of them had proved impossible, it was agreed that the initial offensive settlement would be an interim agreement and not a permanent treaty, and that it would freeze only selected categories at agreed levels.

On the defensive side, the understanding called for negotiations towards a permanent ABM solution with talks on both issues to proceed simultaneously to a common conclusion.

This left two major issues for the negotiators, the precise level of the allowed ABM's, and the scope of the interim agreement, specifically what weapons would be included in the freeze.

Devising an equitable agreement on ABM's proved extremely difficult. The United States had virtually completed its ABM site at Grand Forks, and we were working on the second site at Malmstrom. Hence, we proposed freezing deployments at levels operational or under construction, that is to say, two ICBM sites on our side, and the Moscow defense on the other.

The Soviets objected this would deny them the right to have any protection for their ICBM's, a new formula was then devised allowing each side to choose two sites, one each for national capital and ICBM defense or both for ICBM defense. The resolution of the ABM issue was completed after our Chiefs of Staff, supported by the Secretary of Defense, decided that a site in Washington to defend the National Command Authority was to be preferred over the second ICBM-protective site at Malmstrom. They reasoned that while a limited defense would not assure the ultimate survival of the National Command Authority, it would buy time against a major attack while the radars in both the NCA defense and the defense of ICBM's would provide valuable warning. Moreover, an NCA defense would protect the National Command Authority in the event of a small attack by some third country or even an accidental or unauthorized launch of a weapon toward the United States.

The President accepted their recommendation.

What about the offensive weapons freeze? Early in the discussions about the implementation of this portion of the May 20 understanding between the President and the Soviet leaders, it was decided to exclude from the freeze bombers and so-called forward-based systems. To exclude, that is, the weapons in which this country holds an advantage.

We urged the Congress to keep this fact in mind, while assessing the numerical ratios of weapons which are subject to the offensive freeze.

There was also relatively rapid agreement following the May 20 breakthrough that intercontinental ballistic missiles would be covered. This left the issue of the inclusion of submarines.

With respect to ICBM's in submarines, the situation was as follows: The Soviet Union had been deploying at the average annual rate of 200 intercontinental ballistic missiles and 100 sea-based ballistic missiles a year. The U.S. had completed deployments of Minuteman and the 41 Polaris submarines in 1967. Of course, as you know, we are engaged in increasing the number of warheads on both our ICBM's and submarine-launched missiles. We were, and are, developing a new submarine system, although it cannot be deployed until 1978 or until after the end of the freeze. In other words, as a result of decisions made in the 1960's, and not reversible with the time-frame of the protected agreement, there would be a numerical gap against us in the two categories of land- and sea-based missile systems whether or not there was an agreement. Without an agreement, the gap would steadily widen.

The agreement would not create the gap. It would prevent its enlargement to our disadvantage. In short, a freeze of ICBM's and sea-based systems would be overwhelmingly in the United States' interest.

These basic considerations undoubtedly implied the recommendation of the Joint Chiefs of Staff that any freeze which was to command their support must include the submarine-based system. The only possible alternative was a crash program for building additional missile-launching submarines. The President explored this idea with the Secretary of Defense, the Chairman of the Joint Chiefs of Staff, and the Chief of Naval Operations. Their firm judgment was that such a program was undesirable. It could not produce results before 1976—that is,

toward the very end of a projected freeze—and only by building a type of submarine similar to our current fleet, and without many of the features most needed for the 1980's and beyond.

The President once again used his direct channel to the Soviet leaders, this time to urge the inclusion of missile-launching submarines in the offensive agreement.

After a long period of hesitation, the Soviet leaders agreed in principle at the end of April. Final details were worked out in Moscow between the President and the Soviet leaders.

My purpose in dwelling at such length upon the details of our internal deliberations and negotiations has been to make one crucial point: Neither the freeze of ICBMs nor the freeze of submarine-launched missiles was a Soviet idea, and hence, it is not an American concession. On the contrary, in both cases it was the Soviet Union which reluctantly acceded to American proposals after long and painful deliberation.

PROVISIONS OF THE AGREEMENT

I will not spend this group's time in further review of the frequently arduous negotiations in Vienna, Helsinki, and during the summit in Moscow leading to the final agreement. I do want to pay tribute on behalf of the President to Ambassador Smith and his delegation, whose dedication, negotiating skill and patience contributed decisively to the outcome.

Let me summarize the principal provisions of the documents as signed. The ABM treaty allows each side to have one ABM site for defense of its national command authority and another for the defense of intercontinental ballistic missiles.

The two must be at least 1,300 kilometers, or 800 miles apart in order to prevent the development of a territorial defense. Each ABM site can have 100 ABM interceptors.

The treaty contains additional provisions which effectively prohibit either the establishment of a radar base for the defense of populated areas or the attainment of capabilities to intercept ballistic missiles by conversion of air defense missiles to antiballistic missiles.

It provides for withdrawal by either party on six months' notice, if supreme national interests are judged to have been jeopardized by extraordinary events. By setting a limit to ABM defenses the treaty not only eliminates one area of potentially dangerous offensive competition, but it reduces the incentive for continuing deployment of offensive systems.

As long as it lasts, offensive missile forces have, in effect, a free ride to their targets. Beyond a certain level of sufficiently, differences in numbers are therefore not conclusive.

The interim agreement on offensive arms is to run for five years, unless replaced by a more comprehensive permanent agreement which will be the subject of further negotiations, or unless terminated by notification similar to that for the treaty.

In essence this agreement will freeze the numbers of strategic offensive missiles on both sides at approximately the levels currently operational and under construction. For ICBM's this is 1054 for the United States and 1618 for the Soviet Union. Within this overall limitation, the Soviet Union has accepted a freeze of its heavy ICBM launchers, the weapons most threatening to our strategic forces.

There is also a prohibition on conversion of light ICBM's into heavy missiles. These provisions are buttressed by verifiable provisions and criteria, specifically the prohibition against any significant enlargement of missile silos.

The submarine limitations are more complicated. In brief, the Soviets are frozen to their claimed current level, operational and under construction, of about 740 missiles, some of them on an older type nuclear submarine. They are permitted to build to a ceiling of 62 boats and 950 missiles, but only if they dismantle older ICBM's or submarine-based missiles to offset the new construction.

This would mean dismantling 210 ICBM's and some 30 missiles on some nine older nuclear submarines. Bombers and other aircraft are not included in this agreement.

In sum, the interim offensive agreement will keep the overall number of strategic ballistic missile launchers both on land and at sea within an agreed ceiling which is essentially the current level, operational or under construction.

It will not prohibit the United States from continuing current and planned strategic offensive programs, since neither the multiple-warhead conversion, nor the B-1 is within the purview of the freeze and since the ULMS submarine system is not, or never was planned for deployment until after 1977. The agreement will stop the Soviet Union from increasing the existing numerical gap in missile launchers.

Finally, there are a number of interpretative statements which were provided to the Congress along with the agreements. These interpretations are in several forms: Agreed statements initialed by the delegations, agreed interpretations or common understandings which were not set down formally and initialed, unilateral interpretations to make our position clear in instances where we could not get total agreement.

In any negotiation of this complexity, there will inevitably be details upon which the parties cannot agree. We made certain unilateral statements in order to insure that our positions on these details was included in the negotiating record and understood by the other side.

The agreed interpretations and common understandings for the most part deal with detailed technical aspects of limitations on ABM systems and offensive weapons. For example, it was agreed that the size of missile silos could not be significantly increased and that "significantly" meant not more than 10 to 15 percent.

In the more important unilateral declarations we made clear to the Soviets that the introduction of land mobile ICBM's would be inconsistent with the agreement. Since the publication of the various unilateral interpretative statements, suggestions have been heard that the language of the treaty and agreement in fact hide deep-seated disagreements. But it must be recognized that in any limited agreements, which are between old time adversaries, there are bound to be certain gaps.

In this case the gaps relate not so much to the terms themselves, but rather to what it was impossible to include. The interpretations do not vitiate these agreements, but they expand and add to the agreements.

WHAT DO THE AGREEMENTS MEAN?

Taking the longer perspective, what can we say has been accomplished?

First, it is clear that the agreement will enhance the security of both sides. No agreement which fails to do so could have been signed in the first place or stood any chance of lasting after it was signed. An attempt to gain a unilateral advantage in the strategic field must be self-defeating.

The President has given the most careful consideration to the final terms. He has asked me to reiterate most emphatically this morning his conviction that the agreements fully protect our national security and our vital interests.

Secondly, the President is determined that our security and vital interests shall remain fully protected. If the Senate consents to ratification of the treaty and if the Congress approves the interim agreement, the Administration will, therefore, pursue two parallel courses.

On the one hand, we shall push the next phase of the Strategic Arms Limitation Talks with the same energy and conviction that have produced these initial agreements.

On the other hand, until further Arms limits are negotiated, we shall push research and development and the production capacity to remain in a fully protected strategic posture should follow-on agreements prove unattainable and so as to avoid giving the other side a temptation to break out of the agreement.

Third, the President believes that these agreements, embedded as they are in the fabric of an emerging new relationship, can hold tremendous political and historical significance in the coming decades. For the first time, two great powers, deeply divided by their divergent values, philosophies, and social systems, have agreed to restrain the very armaments on which their national survival depends. No decision of this magnitude could have been taken unless it had been part of a larger decision to place relations on a new foundation of restraint, cooperation and steadily evolving confidence. A spectrum of agreements on joint efforts with regard to the environment, space, health, and promising negotiations on economic relations provides a prospect for avoiding the failure of the Washington Naval Treaty and the Kellogg-Briand pact outlawing war which collapsed in part for lack of an adequate political foundation.

The final verdict must wait on events, but there is at least reason to hope that these accords represent a major break in the pattern of suspicion, hostility, and

confrontation which has dominated U.S.-Soviet relations for a generation. The two great nuclear powers must not let this opportunity slip away by jockeying for marginal advantages.

Inevitably an agreement of such consequence raises serious questions on the part of concerned individuals of quite different persuasions. I cannot do justice to all of them here. Let me deal with some of the most frequently asked since the agreements were signed three weeks ago.

Who won?

The President has already answered this question. He has stressed that it is inappropriate to pose the question in terms of victory or defeat. In an agreement of this kind, either both sides win or both sides lose. This will either be a serious attempt to turn the world away from time-worn practices of jockeying for power, or there will be endless, wasteful and purposeless competition in the acquisition of armaments.

Does the agreement perpetuate a U.S. strategic disadvantage?

We reject the premise of that question on two grounds. First, the present situation is on balance advantageous to the United States. Second, the Interim Agreement perpetuates nothing which did not already exist in fact and which could only have gotten worse without an agreement.

Our present strategic military situation is sound. Much of the criticism has focused on the imbalance in number of missiles between the U.S. and the Soviet Union. But, this only examines one aspect of the problem. To assess the overall balance it is necessary to consider those forces not in the agreement; our bomber force which is substantially larger and more effective than the Soviet bomber force, and our forward base systems.

The quality of the weapons must also be weighed. We are confident we have a major advantage in nuclear weapons technology and in warhead accuracy. Also, with our MIRV's we have a two-to-one lead today in numbers of warheads and this lead will be maintained during the period of the agreement, even if the Soviets develop and deploy MIRV's of their own.

Then there are such factors as deployment characteristics. For example, because of the difference in geography and basing, it has been estimated that the Soviet Union requires three submarines for two of ours to be able to keep an equal number on station.

When the total picture is viewed, our strategic forces are seen to be completely sufficient.

The Soviets have more missile launchers, but when other relevant systems such as bombers are counted there are roughly the same number of launchers on each side. We have a big advantage on warheads. The Soviets have an advantage on megatonnage.

What is disadvantageous to us, though, is the trend of new weapons deployment by the Soviet Union and the projected imbalance five years hence based on that trend. The relevant question to ask, therefore, is what the freeze prevents; where would we be by 1977 without a freeze? Considering the current momentum by the Soviet Union, in both ICBM's and submarine launched ballistic missiles, the ceiling set in the Interim Agreement can only be interpreted as a sound arrangement that makes a major contribution to our national security.

Does the agreement jeopardize our security in the future?

The current arms race compounds numbers by technology. The Soviet Union has proved that it can best compete in sheer numbers. This is the area which is limited by the agreement.

Thus the agreement confines the competition with the Soviets to the area of technology? And, heretofore, we have had a significant advantage.

The follow-on negotiations will attempt to bring the technological race under control. Until these negotiations succeed, we must take care not to anticipate their outcome by unilateral decisions.

Can we trust the Soviets?

The possibility always exists that the Soviets will treat the Moscow agreements as they have sometimes treated earlier ones, as just another tactical opportunity in the protracted conflict. If this happens, the United States will have to respond. This we shall plan to prepare to do psychologically and strategically and provided the Congress accepts the strategic programs on which the acceptance of the agreements was predicated.

I have said enough to indicate we advocate these agreements not on the basis of trust, but on the basis of the enlightened self-interests of both sides. This self-interest is reinforced by the carefully drafted verification provisions in the

agreement. Beyond the legal obligations, both sides have a stake in all of the agreements that have been signed, and a large stake in the broad process of improvement in relations that has begun. The Soviet leaders are serious men, and we are confident that they will not lightly abandon the course that has led to the summit meeting and to these initial agreements. For our own part, we will not abandon this course without major provocation, because it is in the interest of this country and in the interest of mankind to pursue it.

PROSPECTS FOR THE FUTURE

At the conclusion of the Moscow summit, the President and General Secretary Brezhnev signed a Declaration of Principles to govern the future relationship between the United States and the Soviet Union. These principles state that there is no alternative to peaceful coexistence in the nuclear age. They commit both sides to avoid direct armed confrontation, to use restraint in local conflicts, to assert no special claims in derogation of the sovereign equality of all nations, to stress cooperation and negotiation at all points of our relationship.

At this point, these principles reflect an aspiration and an attitude. This Administration will spare no effort to translate the aspiration into reality. We shall strive with determination to overcome further the miasma of suspicion and self-confirming preemptive actions which have characterized the Cold War.

Of course the temptation is to continue along well worn paths. The status quo has the advantage of reality, but history is strewn with the wreckage of nations which sought their future in their past. Catastrophe has resulted far less often from conscious decisions than from the fear of breaking loose from established patterns through the inexorable march towards cataclysm because nobody knew what else to do. The paralysis of policy which destroyed Europe in 1914 would surely destroy the world if we let it happen again in the nuclear age.

Thus the deepest question we ask is not whether we can trust the Soviets, but whether we can trust ourselves. Some have expressed concern about the agreements not because they object to their terms, but because they are afraid of the euphoria that these agreements might produce.

But surely we cannot be asked to maintain unavoidable tension just to carry out programs which our national survival should dictate in any event. We must not develop a national psychology by which we can act only on the basis of what we are against and not on what we are for.

Our challenges then are: Can we chart a new course with hope but without illusion, with large purposes but without sentimentality? Can we be both generous and strong? It is not often that a country has the opportunity to answer such questions meaningfully. We are now at such a juncture where peace and progress depend on our faith and our fortitude.

It is in this spirit that the President has negotiated the agreements. It is in this spirit that he asks the approval of the treaty and the Interim Agreement and that I now stand ready to answer your questions.

QUESTION AND ANSWER SESSION AFTER A BRIEFING BY DR. HENRY KISSINGER

Mr. MacGREGOR. Gentlemen, as the President indicated in his report to the Joint Session of Congress two weeks ago tonight, he places the highest importance on executive-legislative partnership in the further carrying forward of the constitutional process with respect to the treaty and the agreement.

This session this morning is designed to further that commitment on the President's part and to give to you and through you the American people, an opportunity for the fullest possible debate and the fullest range of questions.

The President has asked me, and I would like to do so, to recognize the Chairman of the Senate Committee on Foreign Relations, Senator Fulbright.

Senator FULBRIGHT. Thank you, Mr. MacGregor.

Dr. Kissinger, first, may I say I think that was an extraordinary thorough and enlightening statement. The only regret I have is that he didn't make it public so all the country could have heard it, because I think it is a very great description, I think, of what these agreements mean.

I am thoroughly in accord with the spirit with which you have given them and the way the President has presented this agreement for our country. I have only one serious question about it.

There does appear to me to be an inherent inconsistency in the attitude as expressed by the Secretary of Defense the other day. For background, I will read one sentence. This is a quote from his testimony before the Armed Services Committee: "I could not support the agreements if the Congress fails to act on movement forward of the Trident system, the B-1 bombers or other programs that we have outlined to improve our strategic offensive systems during this five-year period."

Now, the explanation that Mr. Kissinger has made about maintaining our security during the five-year period I accept as a general statement, but in view of the fact that we know the Soviets have no aircraft carriers whatever, they have a very small and not very modern bomber force, they have no forward bases similar to ours, unless you consider Cuba perhaps a forward base.

But so far, we have no evidence that it is being so prepared. They are not planning a Trident system that I know of. Their system of submarines is traditional and similar to the ones they already have.

In view of this, it seems to me to couple the approval of the ABM and the interim agreement with Congressional approval of these vastly expensive programs raises a serious question about our determination to accept this agreement in the spirit in which I think it was negotiated and the spirit which you have stated. That is a gradual relaxation of the tensions, and not to use these agreements as an excuse for a greatly enlarged arms system of our own.

This is the only thing that has bothered me about them. I, of course, am personally extremely pleased with the overall agreements with the sole exception, do we mean it, as I have said, and you yourself so offer, put yourself in the place of the Russians, if we proceed immediately to a very large expansion of our weapons system, would this not leave in the mind of General Grechko and his colleagues a question about our sincerity in really moving toward a reduction in the arms race.

This is the only question I have and it is the one which bothers me and I wish you would enlarge upon the necessity of proceeding at once and tying these agreements with the approval of programs about which there were serious questions even before this agreement was made, there were very serious questions about the A-14 and B-1 before these negotiations were agreed on.

Now, we seem to be put in the position of being pressured into that in order to get an agreement with which I am thoroughly in accord.

Dr. KISSINGER. As the President pointed out, and as I also said in my statement, Mr. Chairman, we intend to move on two tracks: One, we hope to start the second round of SALT negotiations as soon as the Senate ratifies the treaty and the Congress approves the interim agreement.

If the schedule that was tentatively suggested to you by the President were met, that is to say, approval by the end of August, we would hope to have the first session of the second round of SALT sometime during October and then to begin the process again. We will pursue those negotiations with the attitude towards bringing about a change in the international climate that I have described.

At the same time, the question arises of what we should do in our national defense posture while we engage in these negotiations. It has been the judgment of this Administration that we must continue these programs which preserve our strategic position. I do not, in this setting, want to go into each individual weapon system because I believe that the appropriate committees will examine the Secretary of Defense and the Chairman of the Joint Chiefs of Staff with respect to them.

Our view, however, is that we must continue those strategic programs which are permitted by the agreement and those research and development efforts in areas that are covered by the agreement in case the follow-on agreement cannot be negotiated.

Our experience has been that an on-going program is no obstacle to an agreement and, on the contrary may accelerate it. That was certainly the case with respect to Safeguard. We are in the position with respect to various categories of weapons that the Soviet Union has an accelerated program, and we have none. Therefore, our position is that we are presenting both of these programs on their merits. We are not making them conditional. We are saying that the treaty is justified on its merits, but we are also saying that the requirements of national security impel us in the direction of the strategic programs, and we hope that the Congress will approve both of these programs as it examines each of them on its merits.

Mr. MACGREGOR. I am sure if the President were here, he would like to have recognized the Chairman of the House Foreign Affairs Committee, Chairman Morgan.

Congressman MORGAN. Thank you, Clark, and I want to thank Dr. Kissinger in inviting us to brief us on it.

When the President appeared here in the short appearance he made before this group, he spelled out the reason why this had to be done in Moscow at such a high level, because it crossed over so many agencies and because of the form of government of the Soviet Union.

He also ended up by saying that you would not be available for testimony on Capitol Hill, in which I agree. But I just wondered, with the five committees who are represented here today, who are going to consider over in the Senate side the Treaty of the ABM's and over on the House side this, the limitation that has been set by you and the President, of September 1, whether you would be available by these committees for consultation as we go along.

Dr. KISSINGER. I would be delighted to meet with members of these committees in groups, on an individual basis, or in the kind of setting that we have worked out before, in which I will meet with the committees at the invitation of the Chairman in some setting that maintains the position of Executive privilege.

But I will be fully available to answer any questions and we are prepared to go as far as is humanly possible with respect to Executive privilege.

Certainly, to make available to the Congress any answers that we can.

Congressman MORGAN. I want to assure you that the Committee on Foreign Affairs will go to work on this as soon as we get back from the Democratic Convention.

Mr. MACGREGOR. I am sure we would like to hear from the Chairman of the Senate Committee on Armed Services, the Honorable John Stennis.

Senator STENNIS. Well, Mr. Chairman, and colleagues of the Congress, I certainly didn't come here to make a statement. I came to listen and to learn. I did respond when I walked in, to a request that I would say just a word.

Gentlemen and ladies here in the Congress, I have been on the Armed Services Committee since before we had ICBM's and I have thought many times the growing realization I had of what these could mean and now what they do mean in our hands and then this same weapon in the hands of our adversaries.

So, I have been driven into a corner of wanting very much to have some kind of an agreement that would be the germ, perhaps, or something that would relieve the tensions and assure our safety.

I do have one major reservation about this situation I am going to mention, but I do believe if we can approve it, it is a start, maybe not much of a start, but it is a start. That is the biggest thing I see about it.

May I just respond one moment to the very major point that the Senator from Arkansas made, about if we get these agreements, why go on with the ULM's, I remember so well the ABM debate that we had in the Senate. The most outstanding point in my mind, I was convinced that the great probability was that by putting in the ABM for whatever it was worth, it might increase the chances of getting some kind of a start on agreements.

Not that I have any perception, but as I have understood, from the President at other briefings, they thought that was a major point in getting this.

This same reasoning applies, I think. I am going to support the B-1 and the ULM's and frankly, I am going all of the way on ULM's now, even though I had in mind supporting it only for a limited amount this year, and not on an all-out program.

I have in mind now, the statement you made, Dr. Kissinger, but I am not under its impact exactly, and I have said these things because they were old thoughts. But it is quite helpful.

By the way, is this an open meeting, is the press here? Anyway, the reservation I have is on this surveillance, our power to detect any cheating. That hadn't been gone into here and it hasn't been gone into in other briefings that I have been to, and I don't insist on any question being answered on it, but I raise that point.

If you want to comment on it, you may. I want to make this observation. I think that we are more than doers out there in the Congress. We are not going to say just Yes or No. We have to actively make up our mind on this, and take a position for future generations.

I believe that will help us approach it. Do you want to comment on that detection and surveillance?

Dr. KISSINGER. Well, I am sure that when Mr. Holms testifies in executive sessions, that he can go into more detail than I can. In fact, all I can do is to make the statement that we are confident that national means of verification are sufficient to monitor the numerical limitations of this agreement.

We studied this problem in great detail before we entered negotiations, and determined for each category of weapon the margin of error that we thought our collection systems had and what we could do to react once we found out that there had been a violation.

In each of these cases, we found that the margin was well within tolerable limits. In this case, however, where we are dealing with numbers, we are confident that the national means of verification are sufficient to give us the highest degree of confidence that this agreement will be lived up to, or that we will know it almost immediately if it is not lived up to.

Mr. MACGREGOR. The President is aware that the members of the Joint Committee on Atomic Energy have developed a tremendous expertise which applies directly to the Strategic Arms Limitation Treaty and to the interim agreement and we are delighted to see the Chairman of the Joint Committee on Atomic Energy, the Honorable John Pastore, from Rhode Island.

Senator Pastore, do you have a question?

Senator PASTORE. Not exactly a question for the moment because I have asked it before and I think it has been answered. I think the one dominant question here is whether or not in these agreements we have reserved to ourselves the military potential that will constitute a deterrent against an attack upon us, and also whether or not in consultation with the Joint Chiefs of Staff they are all unanimous that this is a good agreement.

Dr. KISSINGER. Mr. Chairman, we would not have entered into this agreement if we thought it impaired our capacity for deterrence. As was pointed out in my statement, we believe that it maintains the capacity of deterrence and at the same time, enables the world to start toward turning away from the arms race as well as improving the whole international climate.

Secondly, at every stage of this agreement we consulted in the greatest detail with the Joint Chiefs of Staff. This has been pointed out, both in my statement, but it was done throughout the work of the Verification Panel in which the Chairman of the Joint Chiefs of Staff is represented and at every decision that the President made, the International Security Council.

I do not know of any significant decision—I don't know of any decision with respect to this agreement that was made which the Joint Chiefs of Staff have not unanimously supported.

During the final stages of the negotiation in Moscow, we were in direct touch with the Joint Chiefs of Staff as the various proposals unfolded, and, of course, you will be calling Admiral Moorer yourself, but I am certain that he will confirm the unanimous support of the Joint Chiefs of Staff for this agreement.

Mr. MACGREGOR. Yes, Congressman.

Congressman NEDZI. Dr. Kissinger, on March 14, the President gave as a rationale for the broad safeguard system, part of his rationale, was the defense of the American people against the kind of nuclear attack which the People's Republic of China is likely to be able to mount within the decade.

Has anything happened to that threat, and in that connection, are you able to tell us anything about your forthcoming visit to China?

Dr. KISSINGER. Our estimate of the Chinese nuclear capability is still approximately what it was at the time that Safeguard was developed. Our estimate of the likelihood of our being involved in any nuclear conflict with the People's Republic of China is considerably less than it was at the time that the Safeguard program was submitted to the Congress, because of the political developments that have happened since then, specifically the opening toward China.

Therefore, we accept now that in the overall context of the contribution that this agreement could make toward world peace and toward improving general relationships, and in the light, also, of improvement of relations with the People's Republic of China, that we could pay this price of foregoing the additional protection that the President requested in his original statement.

We could do this all the more so because if our estimates turn out to be incorrect, we have such an overwhelming retaliatory capability vis-a-vis any other country other than the Soviet Union, that the idea of a third nuclear country attacking the United States is a rather remote possibility.

Congressman NEDZI. Didn't we have it three months ago?

Dr. KISSINGER. I was talking about the justification which the President gave when he started the Safeguard Program. I don't know what March 14th statement you are talking about. It must have been March 14, 1969.

Congressman NEDZI. My apologies.

Dr. KISSINGER. It was not March 14th of this year.

Congressman NEDZI. I stand corrected.

Dr. KISSINGER. That was 1969. Then with respect to my visit to the Peoples Republic of China, it was foreseen in the Shanghai Communiqué. It was tentatively agreed to at the time of the President's visit to Peking that sometime during the course of the summer we would send a senior representative to the Peoples Republic. We intend to review the whole range of international problems as they affect American-Chinese relationships.

Mr. MACGREGOR. When I recognized Congressman Nedzi, I was looking unsuccessfully for the Chairman of the House Committee on Armed Services, Congressman Hebert of Louisiana. I don't see Eddie, but I do see the ranking majority Member of the Committee, and the Vice Chairman of the Committee on Atomic Energy. I would like to recognize Congressman Mel Price.

Congressman PRICE. Mr. MacGregor, Mr. Hebert has important business in Louisiana today and could not be here. But I would like to advise the group that the committee will mark up the Procurement Bill and all the items in there are going to be approved this afternoon.

Senator BENNETT. My question is partly a request for additional clarification. Do I understand that Mr. Kissinger's statement will be available to us as well as that of the President?

Dr. KISSINGER. That is correct.

Congressman HANSON. Dr. Kissinger, as I understand the ABM Treaty, it anticipates the construction of an ABM site at the capital of each of the two countries, plus one other site.

Dr. KISSINGER. That is correct.

Congressman HANSON. With respect to an ABM system to protect our Nation's Capital, is it the intention of the Administration to push forward for authorization and construction of this system around Washington and how important is it to the credible defense to which reference was made that we do proceed to authorize and construct this protection for the Nation's Capital? Will our position be significantly weakened in terms of future negotiations if we fail to take this step?

Dr. KISSINGER. First of all, we will request this authorization. Secondly, it was the judgment of our senior military leaders that a second site in the Capital area would be more useful than a second site in Malstrom. It would give additional warning time in case of a major attack and it would give protection against an attack by a third country. It is for this reason that we are recommending to the Congress and requesting the Congress to authorize its construction.

Senator JACKSON. Dr. Kissinger, first I want to compliment you on a very fine statement. I think we all want to see an end to the arms race, but I think we all should agree that if you are going to have an agreement it should be one that will stabilize and not destabilize. When you have a number of ambiguities such as we have in the present arrangement, I think it is fraught with some trouble.

For example, I just want to illustrate a couple: There are a lot of them. But we do have, for example, a bilateral understanding on the number of advanced strategic type submarines, the Y Class Polaris. That is defined specifically. But there is no specific limitation other than our unilateral statement as to the number of land-based missiles, intercontinental, that are permitted.

Would you comment? The same is true of "What is a heavy missile?"

Dr. KISSINGER. With respect to the numbers of missiles actually being deployed, the Soviet Union has been extremely reluctant to specify precise numbers, that is true. We have operated with a number of 1618. There is absolutely no question that if our intelligence should reveal that the Soviet numbers significantly exceed that figure that the whole premise of the agreement will be in question.

Now, what will maintain this agreement is not the fact that we can waive these provisions and take it to court at any particular moment, but what will maintain this agreement is the consequences the other side will face if it turns out that it has turned into a scrap of paper and that it is being circumvented.

If, this agreement were being circumvented, obviously we would have to take compensatory steps in the strategic field. But beyond that, as is pointed out in my statement, the two countries have a unique opportunity right now to move into an entirely different relationship of building additional trust.

If it turns out that through legalistic interpretations of provisions of the agreement or through failing to specify numbers about which we have left absolutely no doubt as to our interpretation and where are hereby reaffirmed, if it should turn out that those numbers are being challenged in any significant way at all, then this would cast a doubt. It would not only threaten disagreement, but it would threaten the whole basis of this new relationship which I have described.

We are very confident that our national means of detection give us the highest degree of confidence that these numbers cannot be exceeded without our knowing and that if they are exceeded that the consequences I describe will follow.

Now, with respect to the definition of heavy missiles, this was the subject of extensive discussions at Vienna and Helsinki, and finally Moscow. No doubt, one of the reasons for the Soviet reluctance to specify a precise characteristic is because undoubtedly they are planning to modernize within the existing framework some of the weapons they now possess.

The agreement specifically permits the modernization of weapons. There are, however, a number of safeguards. First there is the safeguard that no missile larger than the heaviest light missile that now exists can be substituted.

Secondly, there is the provision that the silo configuration cannot be changed in a significant way and then the agreed interpretive statement or the interpretive statement which we made, which the other side stated reflected its views also, that this meant that it could not be increased by more than 10 to 15 percent.

We believe that these two statements, taken in conjunction, give us an adequate safeguard against a substantial substitution of heavy missiles for light missiles. So, we think we have adequate safeguards with respect to that issue.

It is, however, true, Senator Jackson, that within these limitations, improvements, qualitative improvements, are possible which will increase the capabilities of each of these missiles and this is one of the reasons why we have advocated qualitative improvements in our strategic forces. But as far as the break between the light and the heavy missiles is concerned, we believe that we have assurances through the two safeguards that I have mentioned to you.

Congressman STRATTON. Dr. Kissinger, I have one question with regard to one of the unilateral statements that was published the other day. Under the agreement, as I understand it, we have 41 Polaris submarines and we could go to 44 if we turned in our Titans. But the Soviets say that they are considering the British and the French Polaris submarines to be part of our force and that if the total goes over 50 they will consider the agreement breached. The British have four. The French have one and three others in construction, which means that if the French ones are completed, then we could only have 42 without putting it over the total of 50.

Could you comment on how we can hold down the British and French as part of this agreement?

Dr. KISSINGER. First of all, the Soviet Union has not said that they would consider the agreement breached. The Soviet Union has said that they would then reserve the right to ask for additional compensation.

Secondly, we have emphatically rejected that interpretive recitation and have written our rejection of that into the record. So, we do not consider that we have agreed to this Soviet interpretation. You have to remember the interpretive statements are in a number of categories. There are those that are agreed and initialed. There are those orally agreed. There are those that are unilateral and not challenged and then there are those that are unilateral and challenged.

I would think that a unilateral statement that was challenged at the time it was made would not be the most determining feature in our own policy with respect to this.

But, finally, the provisions that permit the trading in of one type of missile for another do not have to be implemented. We have the right, but we don't have the obligation, to trade in the Titans for additional submarines and given our construction program at this moment, with no additional submarines of the Polaris type being built, we may well decide not to exercise the option and keep the Titans, in which case your question will be moot.

But in any event, we have not accepted this Soviet interpretation.

Congressman PIKE. Dr. Kissinger, if I understand the philosophy whereby one of these agreements requires a treaty and the other is an executive agreement, it has to do with the fact that the executive agreement is limited to a term of years. As we look ahead to SALT II, I would like to ask this question: For how long a period of years could an executive agreement be made which was not required to be a treaty? Could it be for 25 years, for example?

I would also like to ask a question in this regard: the tentative agreement was fairly well leaked or publicized in some manner before the President went to Moscow. I would simply like to ask whether there were any substantive changes made at Moscow.

Dr. KISSINGER. The first question is an important Constitutional question: At what point does an executive agreement achieve character of such permanence that it should really more properly be in the form of a treaty?

There were two reasons why the executive agreement was put into that form. One was because of its limited duration and secondly because of its limited scope. That is to say, here we had an agreement, the major categories of which were going to be included again in a more comprehensive negotiation leading to a more permanent arrangement.

For example, the disparity which is involved for a limited period of time might not prove acceptable for a more permanent arrangement.

For this reason, that is to say, the limited duration and the limited scope, it was decided that an Executive Agreement which, however, is submitted to the entire Congress, was more appropriate.

If you got to the point where you made a 25-year agreement. I don't want to prejudice that issue, but as a political scientist and not as a presidential assistant, it would look more like a treaty to me. But I don't want to get into that.

Now, with respect to the second question, the general outlines of the agreement were shaped, really, in three ways. One was by negotiations in Helsinki and Vienna, which did most of the detail. But the policy decisions that were brought about through direct contact between the President and the Soviet leaders which led to the May 20, 1971 breakthrough and then, again, to the formula which led to the inclusion of the submarines—which we were in Moscow there were four major issues that had not been resolved in Helsinki, which were known as issues, but the solution of which could not have been leaked because it hadn't been achieved. Those were the subjects that were most intensively discussed between the President and the General Secretary, primarily the issue of how you calculate the submarine limits, and at what point the replacement of submarines has to start, and which submarines had to be counted for replacement purposes, and questions of this type.

There were subsidiary issues having to do with the silos, I mentioned interpretative statements, and matters of this kind, none of which had been settled in Helsinki, and had to be settled in very extensive conversations between the president and the General Secretary and between members of our delegation in Moscow and their Soviet colleagues.

Mr. MCGREGOR. Senator Javits?

Senator JAVITS. I would like to revert to the question asked by Senator Fulbright and Senator Stennis, because they raise some, to my mind, very serious points.

On the assumption that the treaty can be denounced in six months, but the agreement cannot be denounced at all, it is breached, either party can treat it as an end. What do you advise us to about the September 1 date the President names, if by then we have not determined that we wish to authorize any additional weapons systems in view of the fact that the President has made it clear that he made this agreement on the assumption that we, too, would press forward with our weapons plans as the Russians are?

And the second part of that question is: Is this the total bill or are there more weapons systems to come within the next five years that we are going to have to authorize because we have made this deal?

Dr. KISSINGER. First, I think it is not correct to say that you have been asked to authorize weapons because we have made this deal. All of the weapons that you are being asked to authorize had been requested prior to the deal and were judge to be necessary before the deal. The question is not whether the deal impels them, but whether the deal makes them dispensable.

This is the shape of the debate.

Secondly, I am frankly not sure about the withdrawal provisions of the defensive agreement. I thought it had the same withdrawal provisions.

It is my impression that the offensive agreement has exactly the same withdrawal provisions of the defensive treaty, so that we are protected.

Thirdly, as I have said, we are requesting both of these programs on their own merit, and, therefore, it is up to the Congress to decide how to deal with them.

Senator PERCY. Dr. Kissinger, I would like to first express that in dealing with our two major adversaries, you will always be as skillful and successful as you have in skirting around the Executive privilege question.

I think in the case of the treaty and the agreements, you have been, and the President has been, and Secretary Rogers.

My question pertains to the second allowable site that each party can have. Neither one of us has even begun the preparation of those two sites. Neither one of us have either site in our original defense strategy plan. Is it possible that we could reach an agreement that neither one of us go ahead with those two sites and would we take the initiative in suggesting that might be a possibility?

Dr. KISSINGER. The question of the deferral of the second site had been considered and had been rejected by both sides. The Soviet Union had taken the position that it could not agree to an ABM limitation that did not give it the right as long as we were in a position to defend ICBM's in which they could not also defend some ICBM's of their own.

So, therefore, our failure to go ahead with our second site would, in effect, give them two sites to our one. The only possibility for us would have been to scrap the site we had and build an entirely new one in Washington, and it seemed to us not a good policy to begin a disarmament agreement by which we had to scrap everything that we had done in order to build something entirely different from what we started out to do.

Mr. MACGREGOR. If you have any complaint about this progress, I am the one to complain to, but I have not identified to date the following hands, and I would like to recognize you in this order, if I may. Senator Ervin, Congressman Gubser, Congressman FASCELL, Congressman Leggett, and Congressman Frelinghuysen, and then we will go on from there.

Senator ERVIN. I would like to ask this question. I think we had the wisest of all Americans in Benjamin Franklin, and he said "Beware of being lulled into dangerous security." My question is this: Wouldn't a ratification of the treaty and the approval of the Limited Arms Agreement make it all the more imperative for us to go forward with the Trident and with the B-1 bomber, and other programs to keep from being lulled into a dangerous sense of security?

Dr. KISSINGER. That is the position of the Administration.

Congressman GUBSER. I seem to get from your remarks that we do, under the treaty, have the option of going ahead with Malmstrom instead of the protection of the National Capital. Is that correct or was that possible at one time?

Dr. KISSINGER. This was considered at one time, and then when we reached a point where we were talking about two sites, the Secretary of Defense and the Joint Chiefs of Staff concluded that if there were to be two sites, they would rather have the second site around the National Command Authority than in Malmstrom. Whether we could have obtained Soviet acquiescence in two ICBM sites rather than having the second site in Washington, we cannot judge today, because we accepted the recommendations of our military leaders that if there were to be a second site, that second site should be in Washington.

Congressman FASCELL. Dr. Kissinger, what does the protocol address itself to, and what were the circumstances which brought it about; and, secondly, we know what is excluded from the Interim Agreement and we know what we can proceed with in terms of, qualitative improvements because they won't be deployed until 1975. What is it that the Russians have excluded from the Interim Agreement and what is it that the Russians can proceed with in terms of qualitative improvement that might not be employed until after 1975?

Dr. KISSINGER. The protocol came about because the submarine question could have been an extraordinarily complicated one, and the complications arose from this fact. We do not have a program for building missile-carrying submarines until 1978 at the earliest. The Soviet Union had been producing over the last few years at the rate of eight missile-carrying submarines a year. It has built additional facilities which would enable it nearly to double this production rate, although up to now they have used it mostly for the conversion of older submarines into more modern types. But they do have a very substantial production capability.

Therefore, a freeze on submarine construction was bound to stop a very dynamic Soviet program, and it was not affecting any on-going American program. Therefore, a formula had to be found which at one and the same time met our needs for some equivalent, and took account of the reality that the Soviet Union without this agreement could have produced at the rate at least of eight to nine a year, so that over the period of the freeze, the Soviet Union could have built up

to eighty to ninety submarines, that is an additional 40 to 45 to something like 43 to 44 they now have under construction.

This was the situation we faced. So we developed a formula which enabled the Soviet Union, if it wished, to go beyond their present level up to 62, which is well short of their capacity, but only at the price of trading in some of the older ICBMs and some of the older missiles on earlier nuclear submarines, so that the Soviet Union has to trade in 240 missiles in order to be able to build up to this agreed level.

So the submarine agreement has the dual advantage of stopping the Soviet program on construction well short of its capacity; and secondly, retiring for the first time by international agreement a substantial number of other missiles that we, in our annual statements, had been carrying as part of the Soviet missile force.

So we needed a protocol to determine those things.

Then there was the second question of at what level does the process of trading-in start? That is to say, at what point do you determine that the Soviet Union must trade in these ICBMs and older submarine missiles for newer ones. The ambiguity here arose from the fact that while our intelligence is adequate to tell us when they are putting submarines at sea, and how many submarines are under construction in the sheds at any given moment, there is some difficulty in defining the term "under construction."

If you start the process of "under construction" when the hull sections are being built before they are moved into the sheds you get a different figure than if you get the figure in the sheds. Therefore this was a subject of some complicated negotiation to determine the level at which the trade-in would start, which is, as expressed in the communiqué, at the level of 740 ballistic missiles on submarines, which includes 30 older ones, which is to say, therefore, at the level of 704 to 710 of the newer submarines.

This is the explanation for this rather complex calculation of the protocol.

Now as far as the Soviet Union is concerned their bombers are outside of this system and theoretically they could start building up their bomber force without being limited by this agreement.

Historically the Soviet Union has not put the emphasis on its bomber force that we have. Its operating procedures and experience is far below the level of our Air Force. We do not consider it probable that they will make a major effort in that field but this is one field in which they could make progress.

The field in which it is most likely that they will make progress is in the modernization of the missiles that are permitted under the agreement. That is, they will not violate the numbers of the agreement, but they will improve the quality, accuracy, number of warheads and this is what will represent a threat to our strategic forces.

Congressman LEGGETT. Doctor I want to commend you and the Administration on the negotiation of what I think is an extremely remarkable agreement. I have my reservations that perhaps the Department of Defense is stampeding in the opposite direction though of the spirit of the negotiations.

I am concerned that in the bill that we marked up yesterday in the Armed Services Committee we increased the hard site Sprint nuclear program clearly outlawed as far as deployment 100 percent.

We accepted the budget figures which had a 900 percent increase in the ULMS or Trident program. Of course the answer you originally gave was that we needed this as a bargaining chip perhaps for Phase 2 or 3 however it seems to me we have successfully negotiated the limitation on the number of land-based missiles without an accelerated program limited the submarine tubes without an accelerated program.

We perhaps have wasted several million dollars in the ABM program in making that a bargaining chip and aren't we perhaps doing the same thing in developing the big bargaining things which obviously will never be deployed if you are successful in your negotiating program?

Dr. KRASSINGER. Let me say two things: One it is not easy to prove the motivations of the other side in making an agreement. I would think it probable however that we could not have negotiated the limitations on offensive weapons if it had not been linked to the limitations on defensive weapons and to their desire of stopping the deployment of the ABM system.

So what drove these negotiations for the first year was their desire to limit our ABM deployment. And it was not until we insisted that we could not agree

to an ABM treaty without offensive limitations that they reluctantly included the offensive limitations.

Secondly I think we will deploy even if we are successful in the negotiations that it is very likely we will deploy ULMS and Trident and then retire a similar number of the older submarines, use them for replacement purposes rather than additions to the current submarine fleet.

So, I cannot fully accept the assumption that they will not be deployed. What would almost certainly happen though if an agreement were successful is a substantial replacement of the older Polaris boats.

Congressman LEGGETT. Of course those older Polaris are a quarter billion dollars a piece, zero defects and a third of a mile CPI. It is hard to conceive that they are obsolete or will be.

Dr. KISSINGER. I don't want to go into the technical weapons characteristics. I think you will get more competent witnesses than me on that subject.

Congressman FREYLINGHUYSEN. I am sure we all appreciate both your presentation and the question and answer period which you have given us. I would like to congratulate you on a masterful presentation. I think Clark is to be congratulated on the music that he has provided to supplement the high points.

My question gets back to this level of defense spending. The President and you both said you hoped for an earlier resumption of the SALT talks. Assuming ratification of the treaty you didn't really answer Senator Fulbright's question as to whether the Soviets might not consider defense spending an indication of our sincerity or insincerity. Do you think that there is any chance that there is not an expectation on the part of the Soviets with respect to defense spending that might jeopardize successful talks following the ratification of the treaty?

In other words does the other side hook our spending and our attitude towards defense to further talks?

Dr. KISSINGER. First of all this last round of talks took nearly 2½ years. So, even if the talks start again this fall, they are likely to be prolonged. We would expect that the first session will deal with general principles rather than with detailed negotiating packages.

All the more so in the next round, we are getting into the more complicated issues of how to control technological change where national means of inspection are not as reliable as they are with respect to sheer numbers.

Now, there is no question that the Soviet Union will judge our intentions in part by the level of our defense spending, for good or evil, and that we cannot take the position that our defense spending is irrelevant to our general political relationship.

The question is: If we spend too little on defense, if we create such a unilateral weakness then we destroy their incentive to negotiate seriously. If we spend too much and give them the idea that we are gearing up simply for getting a tremendous spurt to get ahead of them, then we create the other problem.

So our problem is to get our defense expenditures at a level that does not create a unilateral weakness and give them pressure for agreement but does not get us into an area where it had the counter-productive tendency of generating a new round on their side.

We believe that we are navigating that course. But it is a serious question and it is a serious problem and we have to be alert to both of these dangers.

Mr. MACGREGOR. John Hunt wishes to make a statement in explanation for the departure of a number of members of Congress.

Congressman HUNT. Let me thank you for the clear and concise explanation of your mission this morning. On behalf of the Armed Services Committee, you will notice some of us are leaving. It is not because of any discourtesy to you, sir, or because we are not interested.

The fact is we have a conflicting schedule of subcommittees that are getting ready for an important mark-up of the legislation this afternoon in the absence of Mr. Hébert.

So, if you permit me for a moment to explain, that is the reason they are leaving.

Dr. KISSINGER. Thank you. I thought they were like my Harvard students. (Laughter.)

Congressman HARRINGTON. At the risk of being repetitive, to follow on Congressman Freylinghusen's question and Senator Fulbright's question, I am puzzled that this year and last year we saw a \$6 billion increase in defense spending requested and if the estimates given us by the Assistant Secretary of Defense Moot are correct we can expect a \$5 billion increase in Southeast Asia.

I have seen before the tide was even out, before our committee, hundreds of millions of dollars sought for additional spending in the procurement bill for the betterment of systems that were not part of your agreement in Russia.

On three levels I am puzzled, one, sound economic policy which appeared to be both centered in the White House as a concern prior to the present occupancy in the White House looking toward the era of 1964 and 1968 public confidence that has been led to believe that somehow out of this whole business will come a reduction, not an increase, in the overall spending in the defense area and in general, whether or not in going to these talks you didn't have enough of an outline of questions in coming before Congressional committee and members of the Executive Branch did to be able to live this year with the procurement and appropriations bill as they were without adding to them in the way and with the timing I think has been chosen to do it.

I would like to have you address yourself to some of those considerations, particularly as a constituent might say to me, "What do you mean it is going to cost more for defense? I thought you fellows were negotiating for reductions in tensions and costs." I think that is the problem most of us have.

Dr. KISSINGER. It is our intention and conviction that as these talks proceed into other areas that we will be able to bring about a substantial reduction in defense expenditures as a result of these talks.

There are, of course, certain savings in the ABM program. What we are finding out is that the combination of certain trends has produced requirements which are not themselves the cause of the agreement but which have come to a head at about the same time by accident as the agreement.

One of these problems is that for a number of years we had significantly slowed down the modernization of our strategic programs so that our strategic weapons now were essentially designed in the early 60s while those of the Soviet Union were designed in the late 60s and this has created a certain technological requirement.

This is the reason for this additional expenditure. This other figure for Southeast Asia that you mentioned is a projection forward of current rates and may or may not be necessary, depending on how long current rate sare being sustained.

Congressman HARRINGTON. I am quoting Assistant Secretary Moot.

Dr. KISSINGER. I know and he projected them forward over a period of months which may or may not be necessary because he was being proper with the Congress by giving his best estimate, but he was projecting current expenditure rates.

If there were negotiations, for example, if the offensive slows down, there are many factors that could affect this. I am just trying to give you an idea.

Thirdly, the increase in the defense spending has been caused to a considerable extent also by military pay increases which now consume about 54 percent of our defense budget. I have seen a chart—I think the Secretary of Defense can do it much better than I—that shows what the present defense establishment would cost if the pay scales were still those of eight or 10 years ago.

So, it is a combination of these factors that have produced the increase of defense costs while forces have actually been shrinking.

Senator COOPER. I would like to join with others in thanking you and showing appreciation for your very fine statement.

The first question I will ask is not one that I suggest myself but it was asked the day the agreement was announced. I am sorry Senator Jackson is not here, but he wouldn't mind my saying he asked the question.

Are there any other understandings, secret understandings, which have been not made public or will not be made public? I think we will be asked, and it is just as well to ask it now.

Dr. KISSINGER. There are no secret understandings. We have submitted to the Congress the list of all the significant agreements and interpretive statements, and so forth. What we have not done is to go through the record to see whether Ambassador Smith might have said something that they interpreted in a certain way, and this is why we put on the qualification "significant", because otherwise we would have to submit the entire record.

According to the best of our judgment, there are no secret understandings, and all the significant interpretive statements have been submitted to the Congress.

Senator COOPER. May I ask one more question? I notice in your explanation, it is said that the United States asked for a prohibition on mobile land-based missiles. You later withdrew that. But you did say that if the Soviet Union went ahead with deployment, you would consider it serious enough to break the agreement. Is the Soviet Union going ahead with mobile land-based missiles?

Dr. KISSINGER. Let me make one other comment with respect to the first thing about secret understandings.

There are, of course, in the discussions, general statements of intentions. For example, we have conveyed to the Soviets what I have also said here publicly on the record: that the option of converting the Titans into submarines, given our present construction program, was not something we would necessarily carry out. But we do not consider that as a secret agreement, that sort of thing. This was simply a statement of general unilateral intentions.

Now with respect to the land-based mobile missiles, we have made an interpretive statement according to which the deployment of land-based mobile missiles would be inconsistent with the purposes of the agreement. Then this raises the question of whether our national means of verification are adequate to monitor this.

The national means of verification are adequate to monitor over a period of time whether a land-based mobile missile is being deployed. The margin or error with respect to total numbers would be great, if you have a margin of error of five percent, and I am giving you a fictitious figure; it might be 15 percent with respect to mobile missiles.

But the fact of the matter is, what we have to monitor is not total numbers of land mobile missiles; what we have to monitor is the fact that they are deploying any of them. We are quite confident that within a reasonable period of time after the initial deployment, and maybe not in the first month, but over a three- to four-month period, and well before they can develop a substantial capability, we will be able to tell whether they have deployed a land mobile missile and we can draw the appropriate conclusions.

So as to the fact of deploying a land mobile missile, we are confident that we will discover it well before they could deploy enough to have any effect.

Congressman MONAGAN. Dr. Kissinger, you have said that these agreements, our confidence in them, is not based on trust, but enlightened self-interest, and yet I think you would agree with any bilateral arrangements, with the credibility of the other party to the contract, where that is very important, you have also said that there is reason to believe that the area of distrust and suspicion may be at an end.

I just wonder, in view of that question of credibility, is there any specific reason that you have for coming to this conclusion?

Dr. KISSINGER. We are not basing this agreement on trust, and we believe that this agreement can be verified; and secondly, that it has adequate safeguards to prevent its being violated. We also believe that we have started a process by which we can move international relations into a new era, and we base this on the fact that we agreed with the Soviet Union over the past two years on the issue of Berlin, which has removed one of the primary causes of tension in the world for the foreseeable future, and a whole spectrum of agreements on health, space, environment, rules of navigation, that we are on the verge of making progress with them in other fields such as commercial agreements, and finally, we have signed a Declaration of Common Principles which it would have been no point to sign unless we meant to move in a major effort in that direction.

So, for all of these reasons, we believe that there is a basis, that we have an opportunity both in the Soviet Union and in the United States, to move into a new era. Whether both sides have the wisdom to do it, and even if they have the wisdom to do it, and even if they have the wisdom they are not caught by events in areas in which they cannot control their decision, this remains to be seen. But I think we have the opportunity to turn a significant page in history, and as far as this Administration is concerned, we are going to make a major effort in that direction.

Senator PELL. It is an excellent presentation. I have three short questions.

First, if the Soviet expenditures for arms remains static, or should decline, or ours go up, wouldn't that have a reverse effect on their willingness to move into SALT II?

Secondly, are any of the provisions of the seabed disarmament treaty in conflict with our own treaty which you have negotiated, in view of the fact that we apparently still consider the possibility of weapons of mass destruction stored on the seabed floor, and they are prohibited by the seabed disarmament treaty?

Third, why, in this set of negotiations, was the constitutionally normal course of Congressional consultation, advise as well as consent, not engaged in?

Mr. MACGREGOR. When did you stop beating your wife?

Dr. KISSINGER. With respect to the seabed, I am not aware that we have any intention of deploying weapons on the seabed, and we have no intention of violating the seabed agreement, so unless you know of some weapon that I am not aware of, I would have to say that this is not planned.

We believe that the defense expenditures will stay roughly in balance and that the Soviet incentive to come to an agreement will not be reduced by our being stronger. On the contrary. So the judgment has been that our strength, if anything, gives them an additional incentive to make a negotiation, if we do not carry it to a point where they are convinced that this is just a subterfuge for a massive effort to get ahead of them. If that should become their conviction, then, in fact, we have a problem.

I have to repeat: We have to navigate between that, on the one hand, weakening ourselves unilaterally, and on the other hand between having them see these negotiations simply as a stage by which we try to achieve superiority. Either of these things would be self-defeating.

As for the process of consultation with the Senate, as Senator Fulbright knows, this is not my specialty, but it has been my understanding that Mr. Smith and the appropriate Secretaries have been in close consultation, and we have tried from here to be on a personal basis in contact with key Senators.

Mr. MACGREGOR. Might I add in that respect, Senator Pell, that at least since I have been here, that is, January 4, 1971 to date, it has been Ambassador Gerard Smith's intention, following the directions of the President, to make himself readily available to the Members of the Senate and the House of Representatives, here in Washington as well as in Helsinki and Vienna. I would be delighted to talk to you further about that, but I had thought that was worked out to the reasonable satisfaction of the Members of the Congress.

Congressman FRASER. Dr. Kissinger, let me say first that I have thought that the consultations with Ambassador Smith have been good, both here in Washington and in Vienna.

I listened with some care to the answer you gave to Senator Percy's question on the ABM sites. I can appreciate the Soviets would want to have a symmetrical arrangement with ours, but I was not quite clear from your answer whether in fact you have evidence that the Soviets intend to go ahead with their option to protect an offensive missile site.

The reasons I ask that is that since building the National Capital Defense is not a bargaining chip clearly because we have now put a cap on ABM and since we have a two to three times lead over the Soviet Union building a site over the Capital is not going to give us any significant benefit from the possibility of attack. It will not even give us more time.

Unless we already know the Soviets are going to build a second ABM, why couldn't we wait on ours and save the taxpayers several billions of dollars?

Dr. KISSINGER. It depends on how you define "how do we know". We have no evidence that they have started construction. We have the impression that they have the firm intention of proceeding. I have no evidence whatever to the contrary that they do not intend to proceed.

All the conversations the Presidential party had with them left the impression that they have a firm intention of proceeding with their second site. As for the argument of how much time you gain, the effort to overwhelm, in itself, is apt to give some additional time but I would not insist that this will add a huge span of time to the warning.

Congressman ZABLOCKI. Dr. Kissinger, the President and you have made it quite clear that it would be desirable to have the treaty ratified and the Executive Agreements approved by Congress in order that Phase II could begin in October.

We fully understand the system of the Soviets and there is no ratification on their part as we have it here, and I am sure the Soviets understand that this is an election year and we have political conventions and there may be an opportunity not to meet, that is a ratification and approval of the Executive Agreements.

Is it absolutely necessary that the treaty be ratified and Executive Agreements approved by Congress before Phase II can begin, sometime in October? Indeed, cannot Ambassador Smith meet with his counterparts, even though the Senate and the Congress have not finished their work as far as the treaty and Executive Agreement are concerned?

If I may ask just a second question, I think it is in the report, but what problems were there, or why didn't we pursue with greater determination the inclusion of MIRV's in the Executive Agreement?

Dr. KISSINGER. With respect to the first question actually, the Soviets do go through a ratification procedure. They have their Supreme Soviet approve it but with all respect, it is a little more tractable than our Congress.

The reason why, really, we can have some exploratory informal talks and we probably will at various levels, but the reason it would be difficult to start formal sessions is because we have to know from what base we are operating. It is rather an embarrassing position to have a senior negotiator operate on the basis of the assumption of a ratification.

Also, it would be somewhat presumptuous towards the Congress to assume a ratification that has not in fact taken place. Yet, on the other hand, unless you make some assumption, you really have not got a fixed base from which you can operate.

Therefore, the beginning of the second-phase of SALT really has to follow congressional ratification. We understand the pressures of this year and this is simply a fact.

Now, with respect to MIRV, MIRV is a complex issue for this reason: You can count numbers with national means of verification, but it is much more difficult to determine how many warheads are confined in the master warhead.

Now, you have some indications but it is not very easy. Therefore, with respect to the deployment of MIRV, the inspection requirements have to be a little bit more rigid than would be otherwise the case.

Now, we have made two proposals, two linked proposals, one is a ban on the testing of MIRV, this we are prepared to monitor by national means of inspection, and second, a ban on the deployment of MIRV for which we asked for spot-checks on on-site inspection. Now we considered the test ban absolutely crucial because he could have been somewhat more lenient on the frequency of on-site inspection if there had been a test ban on MIRV's because without testing, by definition, it is not easy to deploy them. It is, in fact, impossible to deploy them.

The Soviet Union, for not understandable reasons, because they are behind in MIRV technology, refused a test ban. They also refused a deployment ban as such. What they proposed was a production ban but without inspection. A ban on production is totally unverifiable in the Soviet Union while they could verify ours through our budget and other methods through which our industrial production generally becomes known.

So, the Soviet counter-proposal for a production ban without a test ban was generally unacceptable to us and when we reached that stalemate, we could not proceed any further. This was the obstacle to proceeding on the MIRV's.

Congressman ZABLOCKI. What encouragement do you see, or optimism that this may be an area that in Phase II we may find some common ground on

Dr. KISSINGER. Phase II, Mr. Congressman, will be very much more difficult than Phase I, because there we will deal with technological problems and there we will require even more ingenuity with respect to Phase II than was shown in Phase I.

If one can have optimism with respect to it, it is because now the Soviet technology has gone somewhat further probably so that they may be more willing to accept a test ban which will at least put a limit on further deployments, and secondly, you will remember when we started these negotiations in 1969, we were going through a crisis in the Middle East and the Berlin Crisis. We were emerging out of this whole miasma of suspicion and it was the first time we engaged with the Soviets in any major negotiation, so the climate was different.

Now, we have established a pattern in which the Chief of State on our side, the President and their political leaders, can be in constant contact with each other and I believe we can perhaps move a little more creatively in the early stages of SALT II than we could in the early stages of SALT I.

I must also say that the subject is more difficult. Certainly, we had conversations of the breadth and precision in Moscow that would have been unimaginable three or four years ago with respect to strategic questions, but this gives us some hope that at least we can talk about the gut issues.

Senator FULBRIGHT. Can I ask you to comment on one aspect on the significance of ABM, so much more has been said about the agreement.

How do you evaluate what appears to me to be a renunciation of the effort to create a defense? What you have left in the ABM is surely nothing more than a token. Hasn't each country, in effect, said, "We recognize, we have no defense to almost total devastation in view of the capacities for destruction, or within the

existing weapons", and if that is true, isn't this the experience, and I don't know why you would say it would be much more difficult.

If they live up to that and we give them no reason to believe we haven't accepted in good faith that our population is hostile to their weapons, and vice versa, and it seems to me it ought not to be more difficult if you believe in that.

Dr. KISSINGER. I believe, Mr. Chairman, this is a very good point. The limit on ABM's or effective ABM's of both sides, really creates a situation, as I said in my statement, in one sentence, in which the offensive weapons of both sides really have a free ride into the country of the other.

So that therefore the difference in numbers is somewhat less significant than you would assess otherwise. There is still a danger that one side will get such an enormous numerical advantage in warheads that it can completely obliterate the force of the other.

But in the absence of significant defenses, even relatively small forces can do an enormous amount of damage.

Therefore, too, if we can move into the second phase of SALT, into an explicit recognition that both sides will try to stay away from counter-force strategies, from the one danger that now exists, or the overwhelming danger, that they will try to destroy each other, then perhaps the premium on MIRV's will be reduced, because, as you remember very well, Mr. Chairman, MIRV's were developed at first as a hedge against ABM.

So I think we will find, in perhaps unexpected ways, that the new strategic relationship that is created by this treaty will create realizations on both sides as to the significance of usable strategic power that over a period of the next negotiations could have quite dramatic impacts.

I am very glad that you asked that.

Mr. MCGREGOR. It is very close to 12 noon. We appreciate your participation and your presence and your patience, and we thank you for launching what the President has called an effective Legislative-Executive partnership.

APPENDIX E

[Reprinted from the London Currency Report]

INTERNATIONAL MONETARY FUND : 1

THE COMMUNIST COUNTRIES, SWITZERLAND AND THE IMF

Romania has become the first country of the Soviet bloc to apply for membership of the International Monetary Fund; and Switzerland, that other prominent non-joiner, has been considering membership, too. The most important reason for this shift in attitude from two very different quarters is almost certainly the prospect that Special Drawing Rights may, in due course, become the world's principal reserve asset. The greatest difficulty, as suggested in the Table on page 46, will arise over quotas for the new members and over the composition of the Fund's executive board. This would be especially true if Romania were followed by other East European countries and perhaps, in the longer-term, by the Soviet Union and China. Indeed, just the accession of Switzerland alone may prove enough to bring to a head the whole question of quotas and voting rights in the Fund, which has gradually degenerated into a hideous muddle.

Relations between Communist countries and the Fund to date can be considered as having fallen into two phases. During the first phase, there were some attempts at limited co-operation, which finally broke down with Czechoslovakia's expulsion in 1954. The second phase began about 12 years later, when several East European countries took turns at making tentative enquiries about membership.

In the initial discussions aimed at the formation of a post-war monetary institution, the Soviet Union took an active part. It was among 18 countries invited to Washington in June 1943 for talks on the American proposals which had been drawn by Harry Dexter White. The other present included four countries which later became Communist—China, Cuba, Czechoslovakia and Poland. The Soviet delegates reserved their views at that point, but tabled a number of criticisms at a series of bilateral meetings with American officials in Washington between January and May 1944. At confrontations, they objected that the Soviet quota proposed by the United States was too small; that gold contributions should be no more than 15% of quotas for all, and only 7½% of quota for occupied countries—among which they included Russia; that the exchange rate of the rouble should not be controlled by the Fund (since it did not affect the competitive position of other countries); that roubles made available in drawings should be used only for purchases from the USSR; and that the USSR should not provide any more economic information than was mutually agreed between it and the Fund. Last, but not least, the Soviet Union proposed that members should not be obliged 'to give consideration to the views of the Fund on any existing or proposed monetary or economic policy'.

This formidable catalogue did not, however, bring matters to an immediate end. It is likely that the Soviet Union remained interested in helping to influence the shape of the new institution, and in keeping its options for membership open; and that it visualised the organisation which was being created more as a development than as a stabilisation agency, without drawing any clear distinction in this respect between what was to become the Fund and the Bank.

In June 1944, the Soviet Union was one of 17 countries which took part in a special drafting conference at Atlantic City. Others included China, Cuba and Czechoslovakia. In the following month, the USSR provided one of the four deputy chairmen of the Bretton Woods Conference—presided over by Mr. Henry Morgenthau, the American Treasury Secretary—and also provided a chairman for one of the specialised committees among which the work was distributed. Lesser, as well as greater, problems arose. Keynes complained of 200 people in rooms with inadequate translation and bad acoustics 'shouting through micro-

phones'; the Russians, he added, 'only understanding what was afoot with the greatest difficulty'.

Nevertheless, important concessions were made—notably on Russia's quota—which the United States acknowledged as inadequate. It was almost doubled to 14%, thus approximating the British, and equal to just under half the American quota. France partly supported the Soviet view on gold subscriptions; some compromise was reached on the question of information to be made available to the Fund, and on the right of members to make exchange rate adjustments not affecting their international transactions. All these were incorporated into the draft Articles of Agreement signed by all 44 delegations at Bretton Woods, including the Russian.

What became of all this? Absolutely nothing. The attendance of Soviet observers at the first Governors' meeting in Savannah, Ga., in March 1946, represented the last official contact. There was never any formal refusal to join the Fund. The last heard from Moscow—26 years ago—was that the government needed more time to study the matter.

VITAL STATISTICS OF GROUP OF TEN, SWITZERLAND AND INDIA, WITH COMPARATIVE FIGURES FOR COMMUNIST COUNTRIES (ICR ESTIMATES)

	GNP (billions)	Population (millions)	GNP per head	Exports (billions)	Votes in IMF (percent)
United States ¹	\$1,050	207	\$5,060	\$44	21.72
Japan ¹	244	105	2,325	24	3.96
Germany ¹	230	60	3,900	39	5.25
France ¹	147	50	2,856	21	4.93
United Kingdom ¹	142	56	2,550	22	9.12
Italy ¹	100	54	1,870	15	3.31
Canada ¹	92	22	4,220	18	3.63
Sweden ¹	37	8	4,570	8	1.13
Netherlands ¹	37	13	2,850	14	2.34
Benelux ¹	23	10	2,350	12	2.32
India.....	58	550	105	2	3.12
Switzerland ²	26	6	4,125	6	-----
U.S.S.R.....	450	250	1,800	14	-----
China.....	160	775	200	2	-----
Eastern Europe.....	92	86	1,070	21	-----
Czechoslovakia.....	33	15	2,200	4	-----
German Democratic Republic.....	34	17	2,000	5	-----
Poland.....	30	33	900	4	-----
Romania.....	14	20	700	2	-----
Hungary.....	11	11	1,000	3	-----
Bulgaria.....	5	8	600	2	-----

¹ Group of Ten.

² Appointed IMF directors.

³ Honorary member of the Group of Ten.

Source: International Financial Statistics.

The Fund's official history states that since the Soviet Union never explained its failure to join, the reasons for this failure can only be guessed. The main reason suggested is that the high tide of co-operation with the Atlantic powers had passed by 1946. This was true, and the subsequent history of Czechoslovakia and Poland, which had joined the Fund before coming wholly under Russia's influence, confirmed that at the IMF, as elsewhere, the Cold War was being fought.

Poland resigned in March 1950, alleging that the Fund had failed in its original purpose and had instead become 'a submissive instrument of the government of the United States'. And Czechoslovakia remained behind, only to urge, repeatedly, the exclusion of Nationalist China (which had been demanded in a cable from Chou En-lai in August 1950, in Peking's only known communication with the IMF. Significantly, it did not seek membership in Taiwan's place). Meanwhile, relations with Czechoslovakia deteriorated rapidly. The country had been one of the first to draw on the Fund (in 1948). But under its new government it massively devalued the koruna in June 1953, without bothering to inform the Fund until the following day; it refused all information and co-operation; and its ineligibility for Fund resources was proposed by Mr. Frank Southard, the American executive director who had been deputy managing director of the Fund since 1962. At the end of 1954, Czechoslovakia was expelled; but refusing to accept this, it resigned 'voluntarily' in May 1955. There

is little to add to this first chapter of the Fund's relationship with the Communist countries except that Albania and Bulgaria made tentative enquiries about membership in 1948; and that Cuba withdrew in 1964, largely because it could not meet its obligations (although it cleared them later).

The truth about this period is that the Fund had little to offer the Communist countries. Its principal purpose was to provide resources for the stabilisation of internationally agreed exchange rates with the object of encouraging full freedom for current exchange transactions. The Communist countries were doing very little international trade at that stage, and nearly all was being conducted at international prices underbalanced by lateral arrangements. They had no reason to subject their exchange rates and economies to IMF surveillance and good reasons for not doing so, or for giving extensive information to the Fund—and, more important, through the Fund to adversaries and to their own nationals. They might have been interested in World Bank finance obtainable only through membership of the Fund, but the price was too high. As a result, the USSR, Albania and Bulgaria did not pursue membership; Czechoslovakia and Poland withdrew; and Cuba did so later. Yugoslavia, alone among the Communist countries, has remained a member from the early days.

The second stage of the relationship dates from the mid-1960's, which saw the beginning of a marked economic expansion in Eastern Europe and a considerable growth of Russian and East European foreign trade—partly financed by a growing volume of large, long-term Western banking credits. This was the period during which the shift to multilateral clearings in COMECON through the International Bank for Economic Co-operation and the creation of the transferable rouble, took place—both of which the USSR and its East European allies are anxious to use as a means of making a start towards convertibility with Western currencies.

This period was also marked by a series of tentative and, in several cases, deliberately publicised approaches to the Fund and to the Bank by East European countries, notably Romania, Czechoslovakia and Hungary. At this point, there was some inducement to join, although no imperative. Officials at the Fund believed the main interest in Fund membership at that period was as a prelude to membership of the World Bank; and that, in turn, membership of the World Bank was attractive less for the sake of Bank financing than as a means of qualifying to tender for the Bank projects. However, this flirtation came to an abrupt end with the Russian invasion of Czechoslovakia in 1968, and has only recently been resumed—under new circumstances. It has always been a thesis in Washington that once one of the Eastern European countries joins, others will follow reasonably soon; although Russian and Chinese membership may take longer. The really important reason for joining now is that if SDRs are to become the world's major reserve asset, countries which do not take part in the scheme will suffer from a distinct disadvantage. This will particularly apply to highly industrialised countries like Czechoslovakia and the German Democratic Republic, which are among the dozen richest states in the world, measured by output per head (which in both countries exceeds Italy's).

This need to be part of an extended SDR scheme is the acknowledged principal motivation in Switzerland's case, where a preliminary step towards clearing the ground for membership was taken two years ago in the form of legislation making changes in the value of the Swiss franc no longer subject to national referendum. In the case of Switzerland, the step will be a smaller one, since it has long co-operated with the Fund and supplied information almost as though it were a member; and it voluntarily contributes resources to the Fund through the General Arrangements to Borrow. It is also, of course, the 11th member of the Group of Ten; and at the Fund, as at all other international economic bodies of which it is not a member, it enjoys the special privileges of a distinguished outsider.

The Swiss Government is determined to preserve these privileges by demanding an executive director of its own as a condition of Fund membership. Given the size of Switzerland's economy, it is impossible that this should be achieved by replacement of one of the six existing appointed directors; and if the number of appointed directors is to be increased, Italy, the Netherlands, Canada and Sweden all have a stronger claim—not to mention the GDR and Czechoslovakia as well as, in the fullness of time, the Soviet Union and China. But if the Board is to comprise about a dozen appointed directors, the number of other directors will probably have to be increased, too: not unreasonably, since, under the

present arrangements, an executive director like Mr. Yaméogo of Cameroon is expected to represent the interests of no less than 17 countries besides his own. Whether this matters, remains to be seen. But there is at least a possibility that a much enlarged Board, with more directors representing solely their own countries and with other directors representing fewer countries than they do at present, could prove to be much more unwieldy and politically-oriented than now.

The whole question of the Board's composition is symptomatic of the considerable overhaul of quotas which is long overdue. A formula based on the size of members' economies, trade and reserves has never been more than a starting point for the political bargaining by means of which quotas are ultimately determined. But there is no reason why real economic weight should be given as little consideration as is reflected in the present quotas, not least those of Britain and Sweden. The real GNP of Communist countries is notoriously difficult to establish, and our estimates in the Table on page 46 summarise such information as we have been able to derive from widely disparate sources. These estimates may err on the generous side, but almost certainly not by much; and it is the generous estimates which Communist countries will be stressing when negotiating their quotas.

Meanwhile these countries will be expected to improve their standards of behaviour. Participation in the Bretton Woods and other free world institutions is sure to impose strains on their traditional business and trading methods. If female attendants at the 1972 Bucharest Trade Fair were police spies (source: British exhibitors) how can Communist monetary representatives be trusted?

INTERNATIONAL MONETARY FUND: 2

COMMUNIST CENTRAL BANKS' MEMBERSHIP: ADVANTAGES AND DISADVANTAGES

Romania's monetary representatives attended this year's IMF meetings as ambivalent observers, aware of divisions at home on the issue and apprehensive of the Soviet reaction to their move. Although Yugoslavia has been a member of the Fund for many years, Romania's was the first actual application by any Soviet bloc country. While sources expect other Warsaw Pact countries to join both the Bank and the IMF, some observers have been wondering whether Romania is merely demonstrating the independent line M. Ceausescu's Government wants to pursue—or whether the Romanians have made their application with the full approval of the Soviet Government. If so, they would have done so to create a precedent which must be followed by other members of the Service bloc—including, ultimately, the Soviet Union itself.

There are many precedents for attempts by Communist countries to establish closer financial links with the capitalist world. Soon after the clash between Tito and Stalin, Yugoslavia frustrated attempts by the Soviet Union to force it to remain a Russian satellite by means of crude economic strangulation. Tito succeeded in establishing financial contacts with the West, and held on to them resolutely. In 1949–50, the Export-Import Bank granted Yugoslavia a substantial dollar loan, and the Yugoslav central bank was admitted to membership of the IMF and the World Bank. The World Bank later granted another loan, and a British loan was also obtained in the early 'fifties. The Western powers believed that Yugoslavia should not be left to the mercy of an economic boycott by COMECON. When Moscow realised that Yugoslavia could not be forced to surrender either by military threats or by economic pressure, the Russians began to compete with Western countries by offering Yugoslavia credits at low rates of interest.

Yugoslavia's experience may have induced the Romanian Government to follow Tito's example. By reducing Romania's economic dependence on the Soviet Union and on COMECON, Ceausescu hopes to be able to deal with Moscow on a more equal footing and should end up trading with the Soviet bloc on more favourable terms—if his efforts are not thwarted.

Other Soviet bloc countries have from time to time sought financial assistance in the West. More significantly, the State Banks of all Communist countries—led by the Soviet Union itself—have been active in the Eurodollar market ever since it came into existence. While they originally had to pay high interest rates, they have been able in more recent times to borrow almost at prevailing rates of interest—although a number of banks have refrained from lending to them. From the Gosbank downwards, the Communist banks have been borrowers and lenders of Eurocurrencies, usually borrowing deposits long and lending short.

Very recently, as a result of the failure of Russian crops, Soviet borrowers have been using their credit lines in Western countries right up to the ultimate limit—so as to meet their balance-of-payments deficit. Meanwhile Hungary has succeeded in securing a foothold in the Eurobond market. Last year, the Hungarian National Bank obtained a loan on reasonable terms, and as we went to press it was on the point of obtaining another.

Romania has made one previous attempt to secure admission to the IMF and the World Bank. It put out feelers four years ago, but the Russian invasion of Czechoslovakia made it appear advisable to abstain from antagonising the Kremlin by seeking to establish such Western connections at that time. Now Russia's currently precarious economic situation and the recent rapprochement between Moscow and Washington have encouraged the Romanian Government to resume its attempt. The point here is that Russia will not be in any position to assist other Communist countries for some considerable time to come, so she can hardly object if these countries seek financial assistance elsewhere. In achieving membership of the international bodies, the Communist countries will inevitably loosen further the artificial ties which bind them to the Soviet economy.

There is much to be said in favour of admitting Romania and other Iron Curtain countries, although it would mean that the IMF would grant them credits and they would become eligible for loans from the World Bank. They would also receive large allocations of Special Drawing Rights which would effectively constitute free gifts of liquidity. While it is in the interest of Western countries to help to reduce these countries' dependence on the Soviet Union, the dilemma which has to be faced squarely is whether their admission would create a precedent for the admission of the Soviet Union to the two Bretton Woods institutions.

The last thing the West wants is to supply Russia with substantial additional liquidity while its government continues to present an acute threat to the free world. No noticeable relaxation of the subversive activities of Russia's KGB have been noticed since the rapprochement between Russia and the United States began. Indeed, in the United Kingdom, the Middle East and in certain other sensitive areas, the evidence strongly implies that subversion is on the increase. While this behaviour persists, the West has every incentive not to assist Soviet Russia financially. To do so would enable the Soviet Government to maintain and increase its military strength and to tighten the grip over underdeveloped countries which has progressed much further than Western governments care to contemplate. It will be painful enough to grant Russia credits and loans, even for the sake of increasing America's export trade with the Soviet Union. Already the volume of credits has been significantly increased, and will be further extended now that the trade pact between the two countries has been concluded. It would be highly unwise to permit this aggressive government to benefit from substantially increased liquidity in the form of SDRs, even under the present system—let alone under the monetary system proposed by the British Chancellor of the Exchequer and seconded at the recent IMF meeting by the U.S. Secretary of the Treasury.

In any case, the admission of Soviet Russia to the IMF could well reduce the Fund to virtual impotence. Russia would expect to be granted a high quota, which would mean not only large allocations of SDRs but also the award of substantial voting power. If that power were to be combined with the voting power of other Communist members, and also with that of underdeveloped countries, it could well handicap efforts by advanced countries to guide the development of the Fund in the direction intended. Even more alarmingly, the Western countries might have to buy Moscow's consent to their proposals by granting the Soviet Union unduly large allocations of SDRs. Considering that the advanced countries cannot be relied upon to act in unison, Soviet representatives at the IMF would have ample scope to play off one country against another, selling their vote to the highest bidder.

Fortunately, the possible admission of Romania and maybe other COMECON countries to membership in the IMF and the World Bank need not be considered a precedent making the admission of Russia inevitable. The rules of the Fund will certainly have to be considerably stretched even to admit countries like Romania or Hungary—since these nations have watertight exchange and trade control systems which their governments have not the slightest intention of relaxing. The same was true, however, of Yugoslavia when it was originally admitted to the Fund, and of Poland and Czechoslovakia while they belonged

(see our communication on page 45)—and it is still true. The rules of the Fund and the World Bank are not like the laws of the Medes and the Persians: they can be interpreted flexibly, as they were interpreted when Yugoslavia was admitted.

Nothing but good can come of admitting some smaller Communist countries, since membership of the Fund and of the World Bank will inevitably make them less dependent on the Soviets. But it would be a retrograde step for the Fund to subsequently admit the Soviet Central Bank, since this would mean greatly increasing Russia's financial liquidity at low cost to the USSR—thereby enabling the Kremlin to pursue its subversive designs even more effectively than before. Whatever may be written about the inefficiency of the Weimar Republic in holding back the Nazi threat, it did not finance the National Socialist Movement with loans. It would be suicide for the West to allocate to the Soviet Union—or, for that matter, to the Chinese—the financial means which would enable either country to bolster its already substantial influence in the underdeveloped countries of the world.

Obviously such considerations will not weigh heavily with countries such as India, which are burdened with governments that prefer not to recognise the Russian bear's propensity to hug its victims to economic death. But for those governments which are aware of the dangers, the movement in favour of the admission of the Warsaw Pact countries and the Soviet Union to the IMF is of profound significance. The Russian crop failure is extremely serious, and has placed the Soviet Government in a vulnerable position. But while there may be justification on opportunistic and humanitarian grounds for exporting grain to Russia in order to prevent wholesale starvation, it should be recognized that Russia's irresponsible international behaviour must to some extent be tamed in the immediate future by her need to repay the credits which have financed these purchases. It would be most unwise if the West were to permit the Soviet Government to wipe out its debts with the assistance of the Special Drawing Rights to which the Soviets would become entitled if Russia were admitted to the IMF.

APPENDIX F

[Reprinted from U.S. News & World Report, Nov. 27, 1972]

BRIDGING THE U.S.-SOVIET GAP—TRADE IS JUST THE START

BROAD CO-OPERATION BETWEEN THE TWO SUPERPOWERS—IN HEALTH, SCIENCE, SPACE AND TRANSPORTATION—IS A VITAL PART OF THE NEW APPROACH GENERATED BY RICHARD NIXON'S TRIP TO MOSCOW. IT'S A DRAMATIC TURN AWAY FROM HISTORICAL ENMITY.

Far more than a spectacular expansion of trade is resulting from the changed relationship between the United States and the Soviet Union.

After decades of cold war and confrontation, the world's two mightiest powers suddenly are building not one but many bridges across the great gap that separates capitalism and Communism.

In a period of less than six months since President Nixon's summit journey to Moscow last May, Soviet-American intercourse has broadened to an extraordinary extent, encompassing everything from combined efforts by Russian and U.S. medical experts to combat disease to partnership in a spaceflight project—and much else.

These developments are virtually unprecedented.

It's true that just after World War I, American technicians were welcome in Russia. But that was a fleeting phase, which ended as the Kremlin embarked upon a policy of "self-sufficiency."

It's also true that during World War II, the Soviet Union availed itself of massive Lend-Lease aid from America. But this did not lead to amity. When the shooting stopped, the East-West cold war began and Stalin's Iron Curtain soon descended.

Contacts discouraged.—The fact is, for 55 years after the overthrow of Russia's czarist regime and establishment of a Communist state, relations between the United States and Russia have been marked chiefly by ideological hostility that inhibited commercial, scientific and cultural contact.

The breach between the U.S. and the U.S.S.R. seemed not only wide but permanent. Superpower rivalry in the nuclear age brought an enormously costly arms race. There was rivalry, too, in space exploration. Trade was only a trickle, and exchanges in science and the arts were few.

But look at what's happening now—

Trade deals, opening a new era in commercial relationships, are sending more and more Americans to Russia and bringing hundreds of Russians to the U.S.

Groups of Americans and Russians are working together in such fields as science and technology, health problems, economics, the environment, transportation, agriculture and space.

One of the more dramatic results of the new co-operation is seen in the preparations going forward for a joint U.S.-Soviet venture in outer space in 1975. It is, of course, a complex project—best symbolized, perhaps, by a basic fact: Russian cosmonauts and American astronauts who are to be partners in the far reaches of the sky are studying each other's language.

Officials in both nations caution that many points of friction exist, that some interests continue to conflict, and that difficulties are inevitable.

But meaningful intercourse is well under way. Examples tell the story.

Negotiating: "A New Kind of Russian"

From the comments of U.S. officials who have had long experience in dealing with the Soviets on a variety of issues come illustrations of how things are changing.

Reports one American:

"Negotiations in the last few months have been unexpectedly businesslike, with a new kind of Russian who doesn't pick political arguments when he talks about health, science, environment or such other common problems.

"Always in the past, until a few months ago, the Soviets would argue, preach, start political debates. Now they are much less difficult, much more interested in getting work done."

A second American remarked: "The Soviets in negotiations now are more friendly and co-operative, more intent on finding practical answers to practical problems, and much more willing to talk about issues which only a relatively few months ago were off limits to them."

Health: Down to Cases

Soviet and American physicians now are working together in a growing number of ways, including: closely co-ordinated studies of influenza and other viruses, heart disease, cancer, occupational hazards to health, and environmental ills.

"We have hopes," said a high U.S. official, "that Russians and Americans working as a team can get into the guts of what is bothering us. Before the working-level meetings were set up, what we had in our field could be called medical tourism—visiting each other but not working together."

There have been some surprises for the American medical men, who have found that the Soviets are ahead in some aspects of heart and cancer research, in health protection for industrial workers, and in such fields as fast ambulance service and the use of paramedical personnel to speed emergency care for victims of accidents or sudden illness.

Health officials note that in the new climate of U.S.-Soviet relations, communication between American and Russian experts has accelerated greatly. In the past, letters from U.S. officials to the Soviet Ministry of Health would go unanswered for weeks or months. Now, answers come in days. A U.S. medical spokesman also made this point:

"We American doctors already have learned that we have had a false arrogance about the Soviet doctors—and that we can and should learn from them, just as there are areas in which they can learn from us."

Environment: Joint Attack on Problems

Signed in Moscow on September 21—and now being implemented—was a pact on a far-reaching plan for joint Soviet-American efforts to solve environmental problems.

Thirty projects were set up, in which American and Russian experts will work together. They include pollution of air and water, oil spills, earthquake detection, pest control and noise reduction.

Russell E. Train, chairman of the White House Council on Environmental Quality, signed for the U.S. and later took off on a trip to rarely visited permafrost areas of Siberia.

An example of co-operation: Soviet specialists are to study the work being done at the Department of Health, Education and Welfare's main laboratory on industrial air pollution and noise, in Cincinnati.

Urban problems—such as housing, transit, garbage disposal, rehabilitation of rundown areas—are to be studied by Russian-American teams in San Francisco and Atlanta, and in Leningrad and one other Soviet city yet to be chosen.

Space Project: Cosmic "Togetherness"

To many people, nothing symbolizes increasing Soviet-American co-operation more clearly than the joint venture in space exploration on which final agreement was reached at the Moscow summit.

Working groups from both nations are synchronizing their efforts and pooling their expertise in step-by-step progress toward the U.S. Apollo-Soviet Soyuz test flight which is to come in July 1975.

This experimental flight is designed to test compatible systems for the rendezvous, docking and crew-transfer operations of American and Russian spacecraft. It looks toward future combined enterprises in far reaches of the cosmos.

Typical of what is going on: At a nine-day meeting in Moscow in October, representatives of America's National Aeronautics and Space Administration (NASA) and the Soviet Academy of Sciences thrashed out specific technical problems and agreed on common technical and organizational documents to govern the preparation and conduct of the test flight.

The joint working groups are to meet at frequent intervals, both in the U.S. and the U.S.S.R.

Of necessity, American astronauts, space scientists, technicians and other personnel are mastering the Russian language, while their Soviet Union counterparts are becoming proficient in English.

Both the Russians and the Americans are under orders now to build their space vehicles with compatible rendezvous and docking systems.

That doesn't mean, a U.S. space official explained, that either side is giving away closely guarded secrets. The official said:

"We show each other our docking systems, so they can be made compatible, but neither tells the other how they are made."

Even so, the space-race rivalry—which began in 1957 when the Soviets launched Sputnik I, the first man-made satellite, and continued through U.S. triumphs in manned flights to the moon—seems now to have been subordinated to the Russian-American "spirit of '75."

Science and Technology: More Contacts

Five separate groups of American and Soviet scientists now are working together in these fields: energy, computers, agriculture, water resources, and chemical catalysis, which includes devices to reduce air pollution.

To plan expanded contacts—in such areas as oceanography, geology and geophysics generally—the U.S.-U.S.S.R. Joint Commission on Scientific and Technical Co-operation held its first formal meeting in Washington late in October.

In another example of co-operation, Americans and Russians led the way—at a multinational conference in London—to an agreement on setting up the International Institute of Applied Systems Analysis, where scientists from around the world can work together on problems created by industrialization and other aspects of modern society. The "think tank" is to be housed in a palace near Vienna. The U.S. and Russia agreed that each would pay one third of the annual operating costs of 3.5 million dollars.

Other nations participating include Britain, France, West Germany, East Germany, Japan, Czechoslovakia, Canada, Bulgaria, Rumania, Italy and Poland. An American, Dr. Howard Raiffa, of Harvard, was named director of the institute, and a Russian, Dzhermen M. Gvishiani, will serve as chairman of its council.

An American official noted: "One important thing resulting from the meetings of Americans and Russians is that the Soviet scientists demand more contacts with us to do their work better—and in the process of meeting with our people they learn and get ideas about more than just science."

Maritime Links: More Ports Open

The recently concluded maritime agreement between the U.S. and Russia, which was among the pacts to flow from the Moscow summit, is looked upon by both sides as a significant step in development of bilateral trade.

It ends a cold-war situation in which American vessels were virtually shut off from Soviet ports, even though in recent years the U.S. has been less restrictive in granting Russian ships access to American harbors.

Under the accord now in force, 40 ports in each nation are open to the other's shipping, with only four days' advance notice of entry required. Previously, the U.S. had required 14 days' advance notice; the Soviet Union, 30 days.

The Soviets insisted on the 40-port limit. The U.S., which wanted more ports made available, is expected to try to raise the limitation to 60 or 100 as trade increases.

The agreement provides that one third of all cargo moving from U.S. to Russian ports must be carried in American ships, with the Russians paying, in hard currency, 10 percent above the world price for this cargo service. Inclusion of the ships provision assured U.S. labor support for the pact.

Shipping authorities say that as a result of the stepped-up maritime intercourse a number of American vessels, now laid up, will be brought back into service, with jobs becoming available for hundreds of seamen.

At Sea: A Halt to "Incidents"

For years, Soviet and American warships steamed dangerously close to each other in a sort of high-seas game of "chicken." Out of the Moscow summit

meeting came an agreement to stop such potentially explosive incidents. Curbs are working, according to a United States naval authority, who said:

"I may be overstating it, but it seems to be all love and kisses out there on the oceans now."

To support his point, the officer cited "Strong Express," the North Atlantic Treaty Organization's naval exercise last September.

As they always do, Soviet ships monitored the operation, but they kept their distance, and there were no near-collisions, no incidents of harassment.

This practice has been true for some months, the U.S. Navy source said.

Also: Violation of U.S. territorial waters by Soviet fishing vessels was a long-time sore point.

There has been no such poaching, however, since last January, when two Soviet craft fishing inside the 12-mile limit off Alaska were seized by the U.S. Coast Guard. Masters of the Russian ships were fined \$250,000, paid by the Soviet Embassy in Washington.

Americans say that an unusually high number of Soviet patrol boats have been sighted policing the Russian fishing fleet—presumably to make sure they stay in international waters.

On the U.S. East Coast, troubles between Russian's fishermen and American lobstermen whose pots were often wrecked by Soviet vessels have eased off. A U.S. official said:

"We cannot be sure why—but it may be that the Soviet crews are being more careful and that we Americans are taking more pains to help the Soviets avoid our lobster pots by telling them where they are."

"Pirated Books": Another Change?

The Soviets have long made it a practice to translate and publish in Russian any American books that struck their fancy—without authorization from or payment to U.S. authors and publishers.

Because the U.S.S.R. has never signed the international convention on copyrights, the American victims of this practice have had no legal recourse.

The book "pirating" is still going on, but U.S. officials say that there is evidence of a changing Soviet attitude. For the first time, the two governments now are talking in detail about how to protect the rights of authors and publishers in both countries.

Russia has placed a recognized expert on "the law of protecting intellectual property" on one of the working groups dealing with trade problems. The U.S.-Soviet Joint Economic Commission reports that "significant progress" has been made on the copyright issue.

Trade: Moving Faster Both Ways

Soviet purchases of U.S. grain—expected to amount to a billion dollars in the next three years—have captured headlines. But the grain deals are just part of the rapidly expanding trade pattern.

One result of this expansion: New York City's Chase Manhattan Bank announced on November 14 that it had received Soviet permission to open a Moscow office. The First National City Bank is seeking similar approval. No American bank has had an office in Russia since 1922.

A number of other major U.S. banks have expressed interest in Soviet-American trade financing. The Russians, American bankers point out, want greater access to hard Western currencies to finance imports of capital goods. The Soviets are counting on sale of Russian products to the West to pay off the indebtedness they expect to incur.

Now under discussion are two multibillion-dollar deals.

One would bring vast quantities of Siberian natural gas to the United States. Officials estimate that between 8 billion and 10 billion dollars would be involved.

Interested parties on the U.S. side are Tenneco, Texas Eastern Transmission, and Brown & Root.

Another giant deal is a proposal by Armand Hammer, chairman of the Occidental Petroleum Corporation, that could run as high as 6 billion dollars over a 20-year period.

Mr. Hammer's offers include construction of an American-built hotel and a huge American trade center in Moscow, as well as barter arrangements involving metal-processing tools, chemicals and chemical fertilizer from the U.S., and ammonia, urea and nickel from Russia. Also: exploration of Siberia's vast oil and gas reserves.

Quickening trade pace.—Trade keeps flowing faster both ways. Some examples of recent Soviet sales to U.S. firms:

- Reynolds Metals Company, of Richmond, Va., and Kaiser Aluminum & Chemical Corporation, of Oakland, Calif., have bought rights to a Soviet process that cuts costs of aluminum casting.

- Andco, of Buffalo, N.Y., has purchased rights to produce a Soviet blast-furnace cooling system.

- Carpenter Technology Corporation, of San Diego, Calif., and Wolverine Tube division of Universal Oil Products have bought Soviet licenses for production of thin-walled tubing.

- Terraspace, Inc., of Rockville, Md., has obtained rights to a Soviet high-intensity water-jet process, for use in drilling rock in mines, quarries and tunnels.

- American Magnesium Company, of Tulsa, Okla., has bought rights to a Soviet magnesium-extraction method.

U.S. companies also are buying some raw materials from Russia. For instance, Chrysler Corporation has announced plans to acquire 100,000 troy ounces of Soviet palladium—at about \$40 an ounce—for antipollutant devices in autos.

The list of American firms selling products to Russia grows longer each day. One indication of the intense Soviet interest in U.S. technology: Moscow sent 132 technicians and trade officials to the recent International Machine Tool Show held in Chicago.

Unsolved: Some Persistent Problems

American officials are quick to emphasize that despite ever-brisker intercourse between the capitalist and Communist superpowers, many rough spots exist.

For one thing, while the Soviet Union is not interfering with English-language broadcasts by the Voice of America, it continues to jam VOA broadcasts in Russian and some other foreign languages. A knowledgeable American suggested this reason:

"The Soviets do have some trouble with dissidents. It isn't dangerous to the regime at this point. In fact, most dissidents at the moment want to reform and improve the system, not overthrow it. But the regime is sensitive to any kind of dissidence. As a result, controls over what people might hear and read from Russia's own rebels probably are as tough now as they ever have been."

Another point made by U.S. officials: The cultural-exchange program—including "people to people" visits—still falls far short of American hopes.

Statistics on tourism show that in 1971 about 55,000 Americans went to the Soviet Union as tourists, compared with only 183 Russians in that category who visited the U.S. during the year.

Intourist, the Soviet Government agency which makes arrangements for all foreign tourists who visit Russia, is expecting a steady increase in the numbers of Americans who want to see the Soviet Union. But there are no signs that ordinary Russians are being encouraged to visit the U.S.

Direct air service between the two countries is still held to a minimum.

Only one U.S. airline, Pan American World Airways, goes to Russia—two flights a week during the tourist season, late April to mid-October. The Soviet state airline, Aeroflot, flies two round trips a week between New York and Moscow—all year long.

Spokesmen for Pan American say that the number of its flights is limited by the profit factor—not by Soviet restrictions. The airline, which recently was able to get office space in downtown Moscow and use of a ticket counter at Moscow's international airport, is counting on a heavier volume of traffic as growing numbers of U.S. businessmen and tourists head for the Soviet Union.

The language barrier is one obstacle to freer Russian-American contacts. English is taught somewhat more in Soviet schools than Russian is in the U.S., but in neither country is there widespread command of the other's language.

Yet, notwithstanding the years of hostility and the remaining problems, it is clear that both nations are moving into a new era of relationships in governmental, economic, scientific and other patterns—though they continue to be ideological adversaries, and political and military rivals.

WHY RUSSIA WILL BE HARD TO DEAL WITH AT NEW ARMS TALKS

IT'S A TOUGH TASK THE U.S. IS TAKING ON: GETTING MOSCOW TO CUT BACK ITS NUCLEAR ARSENAL. EXPERTS' VIEW IS THAT BARGAINING COULD GO ON FOR YEARS

GENEVA.—Round 2 of the Soviet-American arms-control talks—opening here in Geneva—confronts U.S. negotiators with a critical challenge:

Can the Russians be induced to relinquish the substantial advantage some experts say the Soviets secured in the opening round?

The arms pacts signed by President Nixon and Soviet leaders in Moscow last May 26 by no means halted the offensive-weapons race. What emerged was an interim agreement to put a ceiling on construction of land-based and sea-based missiles for five years. Some weapons, for example, were excluded completely. No cutbacks of any kind were agreed to.

Key goal.—The overriding U.S. aim in this new phase of the Strategic Arms Limitation Talks (SALT) is a new comprehensive treaty to limit and even cut back the level of offensive weapons on the basis of "equality."

The Soviets go into the talks with a strong position as a result of the two and a half years of tough bargaining in the first round of negotiations—known as SALT I.

One agreement limits the U.S. and the Soviet Union each to only two anti-ballistic-missile sites. The Russians were anxious to conclude this treaty, fearing a decisive American advantage if the race in defensive missiles continued.

The other document that came out of SALT I was the agreement freezing for five years offensive-missile launchers at the level of those that were operational or under construction on May 26, 1972. This acknowledges a Russian advantage of 2,359 land-based and submarine-based missiles against 1,710 for the U.S., as illustrated on these pages.

U.S. officials argue that the alternative to the five-year freeze would have been an even greater gap. The Soviets last May were building ICBM's at the rate of 250 a year and submarine-based missiles at the rate of 128 a year, while the U.S. had no new construction program at all.

Strategic analysts insist that the Soviets in SALT II will refuse to give up their numerical advantage in missilery unless they get matching U.S. concessions, or unless they are convinced that a dissatisfied U.S. may walk out of the talks to renew an arms race that could leave Russia trailing far behind America.

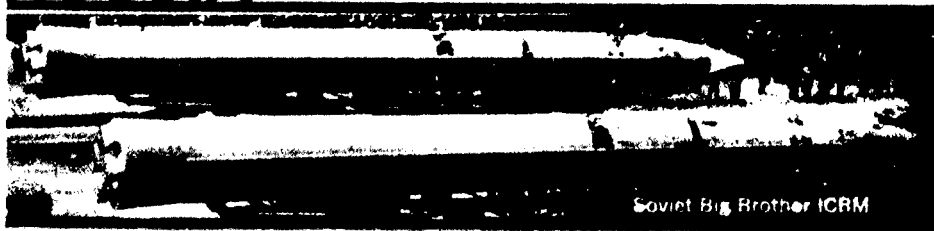
Russia is aware that the Nixon Administration is keeping open an option to build a fleet of B-1 strategic bombers and missile-launching Trident submarines later in the 1970s. The U.S. has warned the Russians also that the treaty ending the defensive-missile race may be renounced if the two sides fail to conclude a similar treaty limiting offensive strategic weapons on a basis of equality.

More roadblocks.—Aside from anticipated reluctance of the Russians to relinquish their present numerical advantage in missiles, U.S. and Soviet negotiators face three major obstacles in the search for further concord.

RUSSIA

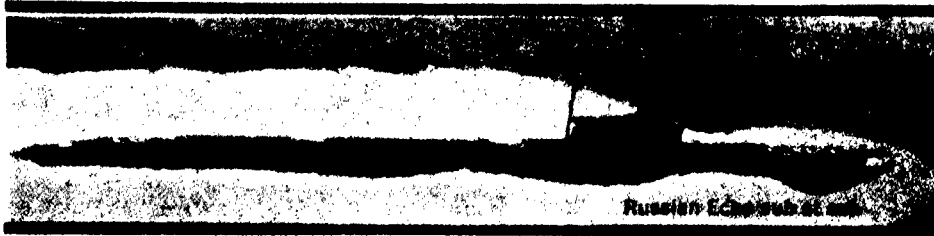
THE BIG EDGE U.S. CONCEDES TO RUSSIA IN NUCLEAR MISSILES

*Upper Limits Set by
SALT I Agreements
of 1972*



LAND-BASED MISSILES

1,409



SEA-BASED MISSILES

950

TOTAL OFFENSIVE
NUCLEAR MISSILES

2,359

The first is a basic disagreement over what should be classified as "delivery vehicles."

The U.S. says that only ICBM's, submarine-launched missiles and intercontinental bombers should be counted. The U.S. has a total of approximately 2,200 delivery vehicles by that definition—1,710 missiles and 450 bombers. Russia has about 2,500 such vehicles—2,359 missiles and 140 heavy bombers. On that basis, the Soviets would be required to reduce, or the U.S. would be allowed to expand, its force to achieve equality.

The Soviets argue that any nuclear weapon capable of hitting targets in the U.S.S.R. should be covered. This would include 500 U.S. fighter-bombers which are based in Western Europe and on aircraft carriers in the Mediterranean Sea. Soviet negotiators hint that all carrier-based American aircraft in the Pacific should be included as well. By that standard, the U.S. would be required to reduce, or the Russians would be allowed to expand, delivery vehicles to achieve equality.

A second major obstacle is Soviet insistence that missile-launching submarines operated by Britain and France—members of the North Atlantic Treaty Organization—must be taken into account in computing the size of the U.S. strategic nuclear force. The British and French have made it clear that they would challenge any attempt to bring their nuclear weapons into Soviet-American talks without their participation.

The third issue involves foreign bases for America's Polaris and Poseidon submarines. The Russians are expected to demand that the U.S. give up these overseas facilities or compensate the Soviets with concessions in other areas.

Other weapons bans.—The Nixon Administration is considering three other major arms-control proposals for SALT II besides the demand for quality in strategic launchers.

One is a ban on land-based mobile missiles, which should not pose insuperable problems. Another is a ban on testing and deploying MIRV's—multiple warheads that can be guided individually to separate targets. And the third is a limit on antisubmarine warfare.

The multiple-warhead ban is strongly advocated by some top U.S. officials despite a substantial American lead in this field at present. The Russians have not yet made significant tests, while the U.S. has completed its testing program and is installing multiple warheads on half of its 1,000-strong Minuteman missile force and on 31 of 41 nuclear submarines—each carrying 16 missiles.

Any proposal for a ban on multiple warheads faces strong opposition within the U.S. Administration, Congress and the armed services.

The Soviets, so far, have shown little interest in the idea of a ban—especially since they have not even completed testing. But this could well develop into one of the most controversial issues of the new round of negotiations.

The plan to limit antisubmarine warfare is intended to insure that offensive submarine missiles should remain invulnerable indefinitely to any attempt at a surprise attack. Under this scheme, "active sonar," which is essential for tracking these submarines, would be banned from certain areas of the ocean. In this way, advocates argue, the arms race would be further curbed by making it unnecessary to build new weapons systems in order to preserve the invulnerability of the strategic nuclear forces.

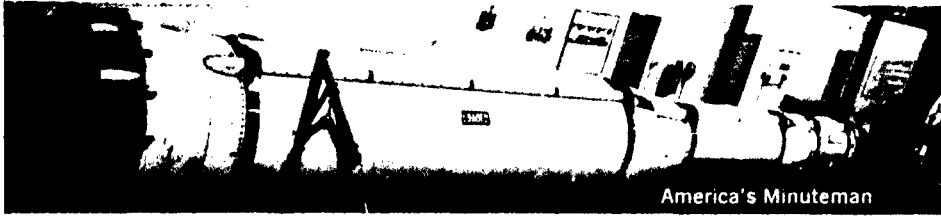
Some high-ranking U.S. Navy men challenge the proposal on the grounds that it would hamper the defense of shipping against Russia's powerful attack-submarine force.

Prospects for success.—Over all, experts stress that what happens in the forthcoming talks depends a great deal on developments inside the U.S.

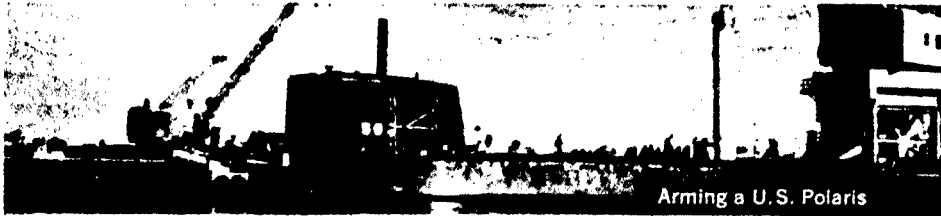
The Russians, they say, are unlikely to give an inch if America seems to lack the will to put up a real fight for equality in missile strength.

A lot depends, too, according to these experts, on over-all Soviet-American relations. Continued and growing agreements in other fields would provide an incentive to avoid failure at SALT II. So would continued Soviet dependence on the United States for indispensable grain supplies.

Even with the best will in the world on both sides, experts emphasize this: Long, tough, exceedingly complex negotiations are inevitable.



America's Minuteman



Arming a U.S. Polaris

ALSO:

A separate pact provides that each country may build no more than two anti-ballistic-missile sites — each with a total of 100 ABM's.

APPENDIX G

ESTIMATED USE OF U.S. GOVERNMENT-OWNED POLISH CURRENCY, FISCAL YEARS 1972 AND 1973

[In millions of dollars]

U.S. agency	Fiscal year	
	1972	1973
1. Department of Health, Education, and Welfare.....	7.402	
Public Health Service.....		6.459
Social and Rehabilitation Service.....		2.400
Office of Education.....		.331
2. Department of Agriculture.....	1.00	
Agricultural Research Service.....		2.400
Foreign Agricultural Service.....		.008
3. Department of Commerce.....	.025	
Bureau of International Commerce.....	(1)	2.077
National Oceanographic and Atmospheric Agency.....		.046
National Bureau of Standards.....		.355
4. Department of Interior.....	.160	
5. Department of Transportation.....		3.500
6. Department of Labor.....	.004	
7. U.S. Environmental Protection Agency.....	2.500	4.000
8. U.S. National Science Foundation.....	.493	2.500
9. Smithsonian Institution.....	.058	.425
10. Library of Congress.....	.050	.225
11. Department of State.....	(1)	
Educational and cultural programs.....	(1)	1.233
Foreign building office.....	(1)	.170
State S. & E.: Embassy operations and other U.S. Government programs.....	(1)	3.445
Annuitant checks.....	(1)	4.950
Accommodation exchange (all agencies).....	(1)	.500
12. U.S. Information Agency.....	(1)	
Salaries and expenses.....	(1)	.215
Special in-country expenses.....	(1)	.070
13. USAID (Crakow Hospital).....		7.230
14. Repurchases by GOP.....		15.517
15. Subtotal, U.S. Government program use.....		26.845
Total.....		42.362

¹ Fiscal year 1972 figures approximately the same, but not calculated precisely for purposes of this memorandum.

² This figure has been adjusted by Embassy to reflect later information, expenses of TDTIO.

³ Includes \$250,000 SFC carryover from fiscal year 1972, fiscal year 1973 total thus might be reduced by this amount.

⁴ Includes approximately \$1.2 to \$1.4 million in SFC for Copernicus Astronomical Center.

⁵ These programs funded primarily from dollar appropriations, but cause drawdown on available zloty supply. Figures cited here are Embassy estimates, based on past financial history, of zloty use for these programs.

⁶ Calculated at US\$1 to PZ1.24.

⁷ Leaving a remaining obligated balance of \$1.172 in SFC, which the Embassy estimates will be expended over the next 2 to 3 fiscal years.

⁸ Does not include \$393,000 in SFC withheld as partial (10 percent) reimbursement for GOP calendar year 1970 annuitant payment.

Source: Fiscal year 1973 date, items 1 to 10: State/M/FRM/FM:RWhitener (as of Aug. 7, 1972).

APPENDIX H

AUGUST 4, 1972

HON. PETER G. PETERSON,
Secretary of Commerce,
Department of Commerce, Washington, D.C.

DEAR MR. SECRETARY: I applaud your recent efforts to liberalize trade between the U.S. and Eastern Europe. With a 1972 U.S. trade deficit predicted at twice last year's \$2.05 billion gap, it is clear that the U.S. should move into the markets of Eastern Europe and take advantage of the growing demand for American products there.

A major barrier to freer trade will still remain even after we have reduced tariff and quota impediments, however: the lack of "hard" currency in Eastern Europe. For the U.S. to benefit most fully from trade liberalization, East European countries must be in a position to pay for increased imports from the U.S. Even with Most Favored Nation treatment granted by the U.S., East European countries will not be able to generate enough hard currency on which to base a major expansion in U.S. exports. There simply does not seem to be very much that the U.S. either needs or wants in the way of increased imports from Eastern Europe.

But there is an obvious way in which the East European countries could earn greatly increased amounts of hard currency, and thus support larger U.S. commodity exports—tourism. The area is beautiful, varied, rich in tradition and folklore, exotic but accessible.

Yet Eastern Europe is ignored by the bulk of tourists, especially American tourists. Of the 22 million Americans who went abroad last year, for instance, fewer than 200,000 went to Bulgaria, Rumania, Czechoslovakia, East Germany, Poland, and Hungary.

Tourism is a significant source of revenue for those countries with the necessary tourist facilities—hotels, restaurants, and transportation. In Spain, tourism brings in more foreign exchange than do exports. Eastern European nations, by contrast, earn 850 times as much foreign exchange from trade as from tourism. The East European governments are becoming aware of the economic potential of tourism, and at least two, Hungary and Rumania, have mounted campaigns to expand tourism.

The U.S. has strong economic reasons to encourage the development of tourism—American, European, Japanese—to Eastern Europe:

1. It would provide additional hard currency to purchase American goods.

2. By diverting some American tourists from Western Europe, it would channel dollars away from the dollar-glutted central banks of France and Germany to Eastern Europe, where they would be ploughed back into purchase of American exports. This might relieve some of the current balance of payments pressure on the U.S.

3. It would greatly benefit American air carriers if they are granted adequate landing facilities.

There is another reason for encouraging the development of tourism in Eastern Europe: the strong cultural ties of an important part of the American people. There are 6 million first-and-second generation Americans of East European descent (about 2½ million Poles, 2 million East Germans, 750,000 Czechs, 600,000 Hungarians, 250,000 Rumanians, and 20,000 Bulgarians). If travel to Eastern Europe were easier, cheaper, more comfortable, and more widely publicized, these Americans could take advantage of the new boom in charter flights and package tours to visit the lands of their origin.

I urge you to discuss with East European leaders the possibility of financing larger imports from the U.S. through increased earnings from tourism. Specifically, the U.S. could offer:

1. To place no impediments to U.S. tourism in Eastern Europe.

2. To look favorably upon the entry of these countries into the World Bank cluster where they could obtain long-term financing for the construction of tourist facilities.

For their part, the East European countries will need to curtail tourist red tape (currency spending requirements, mandatory group tours, and heavily restricted travel areas), and to publicize the attractions of travel in Eastern Europe.

Sincerely,

HENRY S. REUSS,
Member of Congress.

APPENDIX I

[From the Herald-Tribune International, Nov. 28, 1972]

TRADE WITH MOSCOW

The Soviet economy has entered a period of deep austerity. That has been clear in a speech by Premier Kosygin to Soviet planners, a speech of such potential impact that several weeks were allowed to pass between its delivery and public announcement of its contents. In terms as grim as those used by Nikita Khrushchev in an earlier period of economic stringency a decade ago, Premier Kosygin demanded an end to the initiation of all but the most essential new construction projects, maximum parsimony in the expenditure of foreign exchange and primary emphasis upon obtaining higher productivity from existing capital investment. Just as in the Khrushchev era, the present Kremlin stress on economy is a product of difficulties in agriculture and of the problems posed by the continued inefficiency of resource utilization in construction and industry.

These Soviet difficulties must inevitably have an important effect on the prospects for Soviet-American trade opened by the economic agreements recently reached in Washington. The Soviet Union can increase its purchases from this country by diverting foreign exchange that might have been used to buy goods from Western Europe or Japan. But these possibilities are limited, especially in light of the huge drain Soviet grain purchases have made on Moscow's restricted foreign exchange holdings.

The Russians have come to recognize that their future economic development will depend more and more on keeping up with technological advances in the United States and other Western countries. The highly centralized structure of Soviet industry militates against the broad-based research and development activities that are at the root of productivity growth in the West. The vital importance of gaining help from the United States through transfer of trade and technology doubtless played a significant role in curbing the Soviet response to the American bombing of Hanoi and the mining of Haiphong harbor last spring.

Moscow's hopes of paying for the capital equipment and technology it seeks will depend on its ability, in the near term, to get very large credits and loans from official and private financial sources, and, in the longer run, on the ability to increase the production and export of gas, oil, minerals and other raw materials to the West. Some of the Soviet resource projects in which American and other foreign companies are interested are so huge as to make the recent \$750-million wheat deal look modest by comparison.

American business does not want to see trade, investment and "co-production" opportunities in the Soviet Union, involving many billions of dollars, go by default to Japanese or other Western competitors. But it will be a serious mistake if American business, the Nixon administration, or for that matter, Soviet officials, become so eager to expand Soviet-American trade as to forget the continuing sensitivity of the American people—and of Congress—to Soviet political behavior both inside and outside the Soviet Union's borders.

Russia's brutal repression of the civil rights of many of its own people, the imposition of a head tax on Jews to prevent them from leaving the Soviet Union and the threat of more serious restrictions still to come, the encouragement of other countries to expropriate American interests—all such actions are calculated to inflame American public opinion and to jeopardize the future growth of Soviet-American relations.

USSR ECONOMIC AFFAIRS

The USSR Gosplan is the general staff of the country in the field of economics. However, the statistical approach frequently predominates in its work, even in solving big problems, while analysis and elaboration of economically sound

decisions from a national-economy standpoint do not always receive proper attention. There are cases in which USSR Gosplan departments, in solving important national-economic problems, do not show a principled nature, and stand in the way of departmental interests. The gosplan workers, in examining plans of ministries and departments, must act exclusively in the general interests of the state. The gosplan must constantly strive for an enhanced scientific level of planning. Key problems of development of the national economy must be at the center of its attention. It is necessary to sharply increase the role and responsibility of gosplan department chiefs, resolutely eliminate the departmental approach in developing state plans, and consolidate plan discipline.

Systematic control over the fulfillment of decisions is of great importance for successfully achieving the goals of the plans. This is a very important Leninist principle in the activities of all the planning and economic organs. It is the primary duty of the planning organs to maintain constant and effective control over fulfillment of the directives of the party and government and the plans adopted by the state. The status of affairs in all sectors of production is determined to a large extent by the principle and persistence of the planning workers in implementing the party's economic policy.

One of the important ways of improving the work of USSR Gosplan is the active utilization of mathematical-economic methods and modern computer technology. In order to master them more completely, it is necessary to closely combine the efforts of economists and mathematicians and increase the level of mathematical training of the economic cadres. This condition alone will insure the effective development of variants of the plan and the selection of the optimum solutions.

Improvement in planning the national economy and managing it, as well as in solving tasks of increasing the effectiveness of social production, presupposes broad utilization of the achievements of the modern scientific-technical revolution. Science is being developed in our country at high speed. This requires the constant consolidation and development of a material-technical base of scientific organizations, in particular, of experimental pilot plan production. The plan for science and technology must become a very important component of the national-economic plan and it must permeate all its sections. It is the task of the USSR Gosplan, the State Committee for Science and Technology under the USSR Council of Ministers, and all the ministries, to make maximum calculations in the 1973 plan for utilizing the newest scientific and technical achievements. Accelerating the solution of many problems of the development of our society depends on an improvement in the level and effectiveness of scientific research and on the very fast introduction of their achievements into the national economy.

In conclusion, A. N. Kosygin pointed out that compilation of the plan for 1973 must be completed at the earliest possible date. This requires that work be efficiently organized in all parts of economic leadership.

A. N. Kosygin expressed confidence that the USSR Gosplan will complete the work of compiling the plan for development of the national economy for 1973 in good time and with due regard to quality.

The session adopted a decision directed toward a deeper development of the draft plan for 1973 which will insure maximum mobilization of the available resources in the national economy, a saving of material resources, more effective utilization of capital investments, an increase in the level of balancing the national-economic plan, the elimination of present disproportions, and, on this basis, the achievement in 1973 of new successes in fulfilling the 5-Year Plan.

GOSPLAN MEETING HEARS KOSYGIN ON ECONOMIC RESERVES

Moscow PLANOVOYE KHOZYAYSTVO in Russian No. 11, Signed to Press 9 Oct 1972, pp. 3-12X.

[Report on speech by Chairman of the USSR Council of Ministers A. N. Kosygin, titled "Reserves—at the Service of the National Economy," delivered at a 30 September session of the USSR Gosplan]

[Text] An expanded session of the USSR Gosplan, under the chairmanship of N.K. Baybakov, took place on 30 September 1972.

Chairman of the USSR Council of Ministers A. N. Kosygin, deputy chairmen of the USSR Council of Ministers—Chairman of the USSR Gosplan V. E. Dymshits, Chairman of the USSR Gosstroy I. T. Nivokov, Chairman of the State Committee of the USSR Council of Ministers for Science and Technology V. A. Kirillin—and leaders of the republic gosplans participated in the session.

Deputy chairmen of the USSR Gosstroi, the USSR Gosstroy, and the State Committee for Science and Technology, department chiefs and responsible workers of the USSR Gosplan, USSR Gosstroi, USSR Gosstroy, and the republic gosplans, and leaders of the institutes attached to the USSR Gosplan attended the session.

Chairman of the USSR Gosplan N. K. Baybakov reported on the work on the draft state plan for the development of the USSR national economy for 1973.

A. N. Kosygin made an important speech at the session.

At the beginning of his speech A. N. Kosygin noted the important successes achieved by the Soviet people during the [first] 2 years of the current 5-year plan in uplifting the economy, science, and culture. High and steady rates of growth of industrial production have been secured. An extensive program of social and cultural measures, directed toward increasing the workers' living standard, is being consistently carried out. A large volume of capital works, including housing construction, has been performed. These successes are the result of implementing the economic policy of the party elaborated in the decisions of the 24th CPSU Congress. Economic methods of management have gained strength in guiding the national economy, and Leninist principles of socialist management are being consistently put into practice.

A. N. Kosygin emphasized that the CPSU Central Committee and the USSR Council of Ministers, having examined beforehand the problems of the development of our economy in 1973, attach great importance to the task of elaborating the national economic plan for 1973, to the full accounting of available reserves therein, and to increasing the demands made on the level of economic leadership.

Preparation of the plan for developing the national economy of the Soviet Union, said A. N. Kosygin, is a very responsible matter. The further increase in living standard of our people depends to a great degree on how it is prepared and with what effectiveness the utilization of material, labor, and financial resources has been envisaged in it.

As is known, unfavorable weather conditions have caused difficulties in agriculture this year. Shortcomings also have occurred in the work of certain branches of industry and especially in construction. The consequences of these difficulties and shortcomings are, for the most part, being overcome by the measures being taken. Therefore, the plan should contain sound decisions which insure the unconditional fulfillment of the directives of the 24th CPSU Congress.

All available reserves need to be placed at the service of the national economy. This is the most important task of the USSR Gosplan and each of its workers. It is a complex task, but one that is undoubtedly feasible.

In this connection, said A. N. Kosygin, I would like to dwell on certain most pressing problems which have arisen in the course of preparing the draft of the national economic plan.

The 24th CPSU Congress emphasized the need for strengthening the role of the factor of intensification in the development of the national economy. This presupposes, first of all, solving many tasks through increasing the efficiency of the operation of the sectors on the basis of the full utilization of the achievements of scientific and technical progress and a growth in labor productivity. The problem of uncovering the important reserves available in the national economy, which should be fully taken into account when developing the 1973 plan, is acquiring special importance.

Enormous additional possibilities for increasing the volume of output can be obtained by improving the use of the fixed capital available in the national economy. The ministries and central planning organs are obliged, in the first instance, to take account in the plans of the better utilization of the capacities of existing enterprises. Before beginning new construction, it is necessary to make certain that a sector's internal reserves have already been exhausted and that construction of a new enterprise is the most rational path for further developing the branch. The USSR Gosplan should watch this closely.

The country possesses a powerful production potential. From 1950 through 1972 all fixed capital increased from R 139 billion to more than R 850 billion, and in 1973, according to the 5-year plan, its value will exceed R 900 billion. The growth of fixed capital during the past 3 years alone (1970-72) is nearly equal to the value of the fixed capital of the national economy in 1953. These are great achievements.

But the growth of fixed capital is the quantitative characteristic of our production potential. Especially important for us today is the qualitative side, that is to say, how this capital is utilized. Its utilization in the various sectors is far

from uniform, and there are no normatives for the utilization of capital. It is necessary to seriously consider the question of establishing normative indicators of the utilization of fixed production capital in industry and in other sectors of the national economy which take into account the number of work shifts of the enterprises. This also is a task of gosplan.

Our newly commissioned production facilities are attaining their capacities slowly. According to a survey made by the Central Statistical Administration in 1971, out of 1,557 projects whose normative limits for the attainment of planned capacities had expired, 906 were not fully utilizing their capacities, as a result of which the national economy did not receive from these projects 1.4 million tons of steel, 3.2 million tons of rolled metal, 2 million tons of clinker, and many other types of production. It is necessary for the ministries and planning organs to take measures for the most rapid attainment of production capacities in recently commissioned enterprises. The meeting of normative periods for the commissioning and attainment of production capacities is the major reserve of our economic system, and this reserve must be fully accounted for in preparing the 1973 plan. One of the trends for better use of capital is an increase in the number of shifts that equipment operates.

Often the ministries and departments, when considering questions of sector development, put forward excessive demands for the apportionment of capital investments and other material resources, not considering in full the possibility of more effective use of existing production capacities and all the available resources. Each task which arises for the sector development should not be bound to a demand for additional resources. The USSR Gosplan must resolutely stop all attempts to get unwarranted capital investments.

There are great reserves in capital construction. The solution of the production and socioeconomic tasks of the 5-year plan depends to a large extent on the situation in construction and its successes. The disclosure of reserves in construction is the task, of course, not only of the USSR Gosplan, but also, to no small degree, of the USSR Gosstroi and the USSR Gosstroy.

The main shortcomings of construction are dissipation of resources, protracted periods of construction of projects, and excessive increases in unfinished construction. The ministries are not taking the necessary measures for more quickly commissioning enterprises already under construction. The volume of incomplete construction on units financed by state capital investments alone will grow from R 24.5 billion in 1961 to R61.4 billion at the end of 1972, taking into account the construction carried out with the funds of kolkhozes, cooperatives, and other organizations, his figure will come to about R70 billion.

The dissipation of capital investments among numerous projects impedes the provision of construction with materials and manpower, and the end result will lead to disruption of normative periods of construction and immobilization of large amounts of state funds.

We have much construction underway. It is necessary first of all to fix our attention on completing the already constructed units.

The USSR Gosplan and the ministries must reduce in the 1973 plan the number of newly started construction projects. It is also necessary to improve the technical-economic basis of the distribution of new projects, to coordinate within the plans the periods of their construction with the financial and material resources and also with the capacities of the construction organizations.

Questions of construction projects employing noncentralized capital investments demand special examination. Today, enterprises have at their disposal considerable funds for expanding production capacities, for modernizing equipment, and for other goals connected with improving production. How should these funds be used? In 1971, the plan for noncentralized capital investment was fulfilled by 128 percent. Funds amounting to R14.7 billion were used (while R11.5 billion were stipulated by the plan). The overwhelming majority of these funds were used correctly and effectively. At the same time, large sums were spent not on industrial construction and not on constructing dwellings and improving the daily needs of the workers, but on constructing administrative buildings and other projects that are by no means immediate necessities. Such an expenditure of funds is inadmissible. Discipline here must be strict. It is not permissible for the USSR Gosstroi and its offices in the localities to tolerate the deflection of large material and technical resources to such construction projects. This in no way means that it is generally a question of the inexpediency of the construction of such types of projects.

The elimination of the deficiencies that have been pointed out in capital construction and in its planning will permit the raising of the effectiveness of capital investment and will insure the recovery of investment in production sites in formative periods. With this, the principal share of capital investments must be directed toward technical retooling and the reconstruction of operating enterprises. It is also necessary to devote special attention to further developing cooperative housing construction in the large cities.

Raising the quality and technical level of the output of production is an important reserve for the growth of the effectiveness of social production. A series of economic and organizational measures aimed at solving this important problem are currently being carried out. However, these measures are being implemented extremely slowly.

As a result, the national economy is not obtaining the proper effect from the utilization of material and labor resources. Thus, for example, in the current 5-year plan a considerable number of pipes are being purchased abroad even though our country occupies first place in the world in pipe production. If the production of large-diameter pipes intended for great pressures of, say, 75 atmospheres and higher is organized, then it would be possible to decrease purchases from abroad and to save a large amount of metal for other needs of the national economy. Another example: Our industry produces a large number of various types of machinery, much of which in weight exceed the models of the same machinery produced in other countries. This is one of the reasons why, even though the annual production of steel in our country exceeds 120 million tons, the national economy is still experiencing insufficiencies in metal. It is necessary for the USSR Gosplan, the USSR Gosstab, the ministries and the departments to devote more attention to the problem of lowering the material intensiveness of production, primarily in machine building.

To solve the problems of quality improvement and enhancement of the technological level in production, it is necessary to utilize more widely not only our own developments in progressive designs and technological processes, but also the achievements of the rest of the world. Many of our scientific-technological achievements are highly valued in capitalist countries, and foreign firms have purchased licenses for their use. Among them are, for instance, the processes for producing aluminum from nepheline, the manufacture of especially thin-walled seamless pipes, the production of magnesium, the extraction of pure metals and alloys by electrical remelting, the system of evaporative cooling of blast furnaces, and many others. However, we must not only sell our own licenses but also buy licenses from abroad. In regard to acquiring and exploiting licenses, the responsibility of the sectorial ministries and of the State Committee for Science and Technology of the USSR Council of Ministers must be enhanced.

A.N. Kosygin underscored the special role of the USSR Gosplan in maintaining proportional economic development and in increasing the level of balance of the plan. The ministries, from the position of their sectors, cannot always orient themselves properly on this question. Therefore, the USSR Gosplan must first of all insure the proportional development of the economy. In this lies the main task of the USSR Gosplan, especially its combined departments and, above all, the combined department of the national economic plan. They must exert influence on the work of all other USSR Gosplan departments which form separate economic plan indicators in order to maintain the proper national economic proportions in the plan.

The enhancement of the level of balance of the plan, not only in the areas of its most general proportions and divisions, but also for each item [pozitsiya] of the plan, constitutes the basis of its reality and successful fulfillment. The growing significance of the balance of the plan is determined by the putting into operation of many thousands of new enterprises, the continually increasing scales of production, and the development of intersectorial and interrayon relations, and, consequently, also by the increasingly more complex structure of the national economy. A completely balanced national economic plan for 1973 will permit us to insure the stability of plans of ministries and enterprises.

A.N. Kosygin made a number of critical remarks in regard to the USSR Gosplan and other planning and economic organs.

The activity of the USSR Gosplan, said A.N. Kosygin, constitutes one of the greatest and most important areas of the work performed in the economic management of our state.

APPENDIX J

The following tabulation shows the debt service (repayments plus interest) implicit in the three projections, together with projections of exports through 1977 at 7.4% (the upper limit of export growth estimated). As the tabulations indicate, debt service reach 20% of exports in 1971 and may exceed 25% by 1973. Soviet credit in the West is good, and Soviet control over the economy and over the use of foreign exchange resources insures that debt obligations can be met. However, the Soviet government probably wishes to avoid the reduction in flexibility which a high debt service ratio would produce. For the USSR a ratio of over 25% will serve as an important constraint on the expansion of Soviet imports from the West.

	Exports	Projection A	Ratio (percent)	Projection B	Ratio (percent)	Projection C	Ratio (percent)
1970	2,345	405	17	405	17	405	17
1971	2,519	510	20	510	20	510	20
1972	2,705	614	23	645	24	645	24
1973	2,905	773	27	835	29	867	30
1974	3,120	858	28	945	30	1,053	34
1975	3,350	934	28	1,045	31	1,240	37
1976	3,599	982	27	1,114	31	1,392	39
1977	3,865	1,012	26	1,167	30	1,525	39

PROJECTIONS OF SOVIET INDEBTEDNESS TO WESTERN CREDITORS

Year	Drawings ¹	Scheduled repayments ¹	Interest	Net credit	Outstanding debt at end of year
Projection A:					
1970	750	326	79	345	1,737
1971	850	411	99	340	2,176
1972	850	498	116	236	2,528
1973	850	621	152	77	2,757
1974	850	692	166	-8	2,915
1975	850	759	175	-84	3,006
1976	850	801	181	-132	3,055
1977	850	829	183	-162	3,076
Projection B:					
1970	750	326	79	345	1,737
1971	850	411	99	340	2,176
1972	1,000	529	116	355	2,647
1973	1,000	670	165	165	2,977
1974	1,000	760	185	55	3,217
1975	1,000	846	199	-45	3,371
1976	1,000	906	208	-114	3,465
1977	1,000	953	214	-167	3,512
Projection C:					
1970	750	326	79	345	1,737
1971	850	411	99	340	2,176
1972	1,000	529	116	355	2,647
1973	1,250	702	165	383	3,195
1974	1,500	855	198	447	3,840
1975	1,500	1,003	237	260	4,337
1976	1,500	1,126	266	108	4,711
1977	1,500	1,236	289	-25	4,975

¹ Credits are assumed to be for an average of 8 years at 6 percent interest.

Note: Projection A assumes a continuation of the level reached in 1971 with the high point of pipe deliveries. Projection B assumes a rise in 1972 to \$1,000,000,000 and a continuation of that level afterward. Projection C assumes continued growth of drawings to a maximum of \$1,500,000,000.

APPENDIX K

BASIC DATA ON UNITED STATES-POLISH TRADE, 1967-71

[In thousands of dollars]

	U.S. exports (incl. re-exports)	U.S. imports	Deficit
1967.....	60,825	90,960	30,135
1968.....	82,375	96,871	14,496
1969.....	52,694	97,835	45,141
1970.....	69,915	97,946	28,031
1971.....	73,271	107,227	33,956
January-June 1972.....	44,737	64,359	19,622

NOTES

Average annual deficit, 1967-71: 30,349. The United States has had a deficit in its balance of trade with Poland in every year since the cessation of sales of agricultural commodities to Poland under Public Law 480 in 1965.

Major U.S. exports, agricultural commodities, chiefly corn, soybeans, edible oils, and cotton.

Major U.S. imports: canned hams and other processed pork products; iron and steel; textiles.

Trade with the United States accounts for about 2.5 percent of Poland's total trade turnover.

Source: U.S. Dept. of Commerce.

Basic data on the Polish economy, 1971¹

I. Aggregative data:		
Gross national product (billions of dollars) ¹	48.6	
Per capita GNP (dollars).....	1,486	
Population (millions, of which 52.7 percent live in towns more than 5,000 persons).....	32.7	
Labor force (millions).....	15.8	
Index of industrial production (1965=100).....	158.7	
II. National income by sector (percent):		
Socialized sector.....	80.5	
Private sector.....	19.5	
Industry.....	50.6	
Agriculture (of which 89 percent private).....	17.2	
Construction.....	11.0	
Other.....	21.2	
III. Foreign Trade (in billion dollar equivalents):		
Total imports.....	4.0	
Total exports.....	3.9	
Imports from Socialist countries.....	2.7	
Exports to Socialist countries.....	2.4	
Imports from other countries.....	1.3	
Exports to other countries.....	1.5	

In trade with the industrial West, Poland's major exports are coal and agricultural products. Imports from the industrial West include chiefly machinery and equipment and chemical and petrochemical products.

IV. The Polish Economy since December, 1970:

Economic conditions in Poland have improved considerably since the shipyard riots of December, 1970, resulted in the ouster of Wladyslaw Gomulka and the installation of Edward Gierek as 1st secretary of the Polish United Workers Party. According to published figures, real income has risen by more than 11 percent (13.1 percent in the socialized sector) since December 1970, and the planned increase for 1973 is 8.3 percent. The present average monthly wage is estimated at 2600-2800 zlotys. Prices on most food products have been frozen since January, 1971, and the Government has recently announced that the freeze will be extended through 1973.

¹From U.S. Department of State.

Source: Główny Urząd Statystyczny, *Rocznik Statystyczny 1972*, Warszawa.

