Soviets offer $10 billion in deals—why won't the U.S. say yes?

"Certain negative aspects," reported *Pravda*, had to be stressed by Soviet President Brezhnev in his talks with U.S. Secretary of State Cyrus Vance on Soviet-American relations in Moscow last month. But Brezhnev was not just talking about the SALT negotiations or "human rights" issues.

Stories filed by Heinz Lathe, the usually well-informed Moscow correspondent for the *Handelsblatt* and other West German dailies, indicate that Brezhnev and Foreign Minister Anatolii Gromyko applied a sort of "linkage" — the preferred term of Zbigniew Brzezinski — in reverse. In his own contribution to the talks, reported Lathe, Brezhnev insisted that the U.S. must clarify other aspects of its foreign policy, if SALT is to succeed. In particular, Brezhnev wanted action on the restrictions imposed on U.S. trade with his country.

Drop the restrictions, and $10 billion in industrial contracts is ready for bidding by U.S. firms, according to Lathe's account of what Brezhnev had to say.

This volume of business corroborates the scale of possible sales to the Soviets, which is similarly indicated by the "28 major projects" that Soviet foreign trade officials reportedly discussed with Armco Steel Chairman C. William Verity during his recent visit to the USSR. It is *five times* the previous figure of $2 billion quoted by Foreign Trade Minister Patolichev and his deputy V. Sushkov as the amount of business immediately ready to go to the Americans.

A large delegation of U.S. businessmen is due in Moscow in December, for the meeting of the U.S.-USSR Trade and Economic Council. The delegation goes with two strikes against it, however: the existing mass of restrictions that still tie the hands of would-be negotiators of large-scale East-West trade, and the position of Treasury Secretary W. Michael Blumenthal as *ex officio* U.S. chairman of the Council and head of the delegation.

The Soviets are broadcasting loud and clear that they want Soviet-American trade to pivot on industrial growth, not just grain sales. Dzhermen Gvishiani, Deputy Chairman of the State Committee for Science and Technology, held a press conference in late October to tell American correspondents that it was a great mistake — "ridiculous" in his words — to suppose the new U.S. review procedures for high-technology exports would put political pressure on the Kremlin. It is the height of naiveté, said Gvishiani, to underestimate Soviet science. "We have the ability to solve any scientific and technological problem that exists today," he stated, and added that the USSR would prefer to sell high-technology products to the U.S. as well as buy them.

Mikhail Troyanov, director of the Soviet Institute for Physics and Energy Technology, also took the opportunity to discuss with Americans the paramount importance of high-technology industrial expansion when he toured the U.S. in October as a guest of the Atomic Industrial Forum. Troyanov reportedly spoke out for the advantages of building fast-breeder nuclear power plants — something that currently the USSR is doing and America is not.

— Rachel Berthoff

The war against East-West trade

The Carter Administration's performance to date on industrial-technological trade has cost the United States something in the hundreds of billions of dollars.

In the nuclear field alone, perhaps the most notorious case, the conservative estimates are that the U.S. could be exporting 85 reactors in the next few years and could have contracts underway for the same, if it were not for the Administration's nuclear export prohibitions. Since a nuclear plant costs approximately $1.5 to $2 billion, and by Department of Commerce estimates every $1 billion in U.S. exports supports 55,000 U.S. jobs, the decision to prohibit and-or discourage the export of 85 plants means the loss of between 8 and 9 million skilled and engineering jobs.

That's just the nuclear field. There is no way to accurately estimate the cost in terms of total exports, capital formation, and jobs that are being lost daily because of the restrictions, delays in licensing, and cancellations imposed on East-West trade particularly, on the pretext of "national security" considerations.

Just one lost sale, like, for example, the cancellation of the Sperry UNIVAC computer sale to the Soviet news agency Tass last August, can mean the loss of all future sales of that technology to a particular country. In tracking new exporters, the Commerce Department found that within one or two years, ***half*** of all U.S. exporters had stopped exporting largely because of the costly paperwork involved in government regulations, delays, and so on. One company charged that they had to lay out $10,000 for legal contracts and bureaucratic paperwork in order to carry through a foreign contract worth only $40,000!

C. William Verity, Jr., Chairman of the Board at Armco, Inc., recently reported to Senator Stevenson's subcommittee on International Trade that the loss of only one of his company's contracts with the Soviet Union, involving gas-lift equipment for two fields, due to delays in export licensing, meant not only the loss of a $500 million contract but $15 million in new capital formation for Armco, 10,000 U.S. jobs, and a $500 million contribution toward a favorable U.S. balance of trade.

Verity also reported that there are a total of 28 similar projects now being discussed by the Soviets with American firms — all within the same dollar range as the lost Armco project — and that all of them have been put on the back burner because of threatened licensing delays or disapproval. The Soviets finally awarded the Armco gas-lift equipment project to two French concerns instead, and these 28 other projects may go the same route. And this is just a sampling of what Henry Kissinger, Zbigniew Brzezinski, and James Schlesinger's trade war policy against the Soviets looks like from the standpoint of U.S. industry and employment.

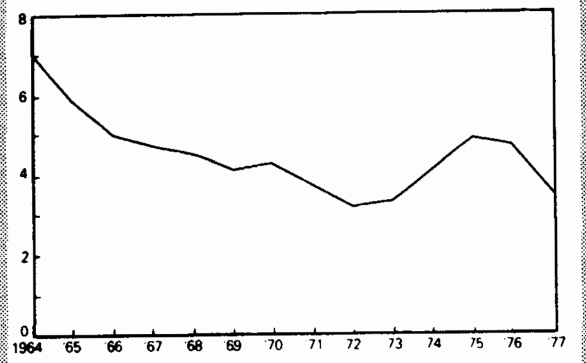
1. The politics of the trade fight

Six months of plotting and maneuvering by Brzezinski, Schlesinger, and Co., backed by cofactioneers in the Defense Department, has given

Figure 1

U.S. Machine Tool Exports

Percent of world tool consumption



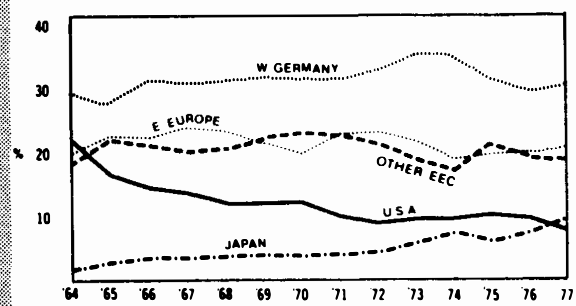
*Excludes U.S. consumption of domestically produced machine tools.

Source: American Machinist, Department of Commerce and NMTBA

Figure 2

Machine Tool Exports

Percent of Total World Exports

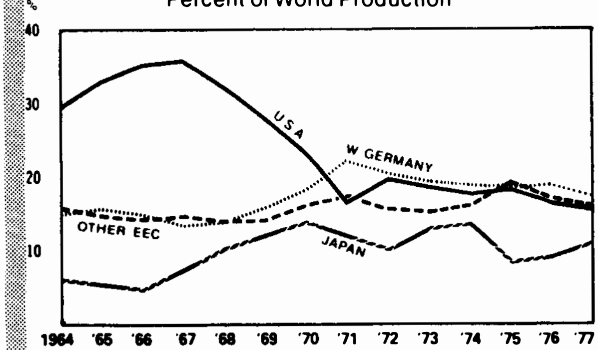


Source: American Machinist, Department of Commerce, NMTBA

Figure 3

Machine Tool Production

Percent of World Production



Source: Department of Commerce

this faction virtually dictatorial powers over U.S. exports. The Department of Commerce is still valiantly fighting for a genuine export-promotion policy (although within "given limitations"), but the day-to-day decisions on technology transfers and export licensing are now being determined by the National Security Council, the Department of Energy, and the Department of Defense. The NSC was granted inclusion in the technology review process by the Executive last July; since then, the NSC has also been pushing for total centralization of export determination within the Council. Previously, decisions on export licensing were made by the Commerce Department and-or a joint committee of Commerce, State, and Defense. Some decisions were passed up to the President for final determination. Now, nearly all technology exports are "questioned" and "reviewed" by the NSC in particular, resulting either in long delays or suspensions-cancellations by the President, as "recommended" by Brzezinski and Schlesinger.

The delays themselves are illegal. Under the provisions of the Export Administration Act, industry exporters are to be notified of the approval or disapproval of their export license application within a minimum of 90 days. It is now the norm that companies must wait as long as 18 months to two years for such notification. Said one oil company executive, "If anyone insisted on an answer within 90 days, it would undoubtedly result in a denial of the license."

Next, the NSC and DOE have been putting heavy pressure on President Carter to place more export items on the strategic control list (that is, the list of those items subject to review because of their potential risk to U.S. national security). In July, oil production technologies were put on the list on the argument that increased oil or gas production could aid another country to become "militarily self-sufficient in energy supplies." It is openly said that the object of this control is to prevent the Soviet Union from accessing its oil.

But as most exporters have accurately perceived, this is not motivated by military considerations alone. The point is to prevent the Soviets from selling their oil abroad, a source of their balance of payments with the West — and hence a source for expanding East-West trade. In other words, it is aimed not just at the Soviets but at their trading partners in the West, and at the basis of East-West detente.

The sickest joke in this routine is that America's "industrial and technological superiority" is supposed to give the U.S. leverage against the USSR. Even the Commerce Department has now rebutted this nonsense, saying, "The reality is that there are very few instances where the U.S. has either a monopoly or significant edge over competition in the international marketplace." The Soviets can, and are, obtaining their "keystone" technologies elsewhere.

2. A Chinese plot?

"Every time the Administration picks up that trade gun to shoot at 'them,' how come they always shoot one of 'us' instead? I can't fathom it, maybe it's some kind of Chinese plot," an international representative from McDonnell Douglas commented recently.

U.S. exporters thought it highly illuminating that at the same time the Administration was going after oil technology exports to the USSR, it was licensing the same sort of exports for the People's Republic of China. It is equally obvious to U.S. industrialists that no amount of pushing trade with China could make up for lost Soviet or East bloc deals and, further, that China is presently incapable of absorbing significant quantities of advanced U.S. technologies — the very technologies that have kept the U.S. in the trade market.

There are, in fact, several aspects to the "Chinese plot": the attempt to forge a London-Washington-Peking axis against the Soviet bloc and against detente, and the related effort to reduce America's economic power to a level where the U.S. becomes the subservient junior partner of decrepit Britain.

How else can Brzezinski and Schlesinger's "reasoning" on trade be explained? The U.S. trade deficit in 1977 was $31 billion. The Administration offers a single solution for balancing the deficit: cut back oil and other imports. Why not expand exports? Because that would mean accepting Soviet projects, and using different means than London's austerity-bent International Monetary Fund and World Bank (a new credit institution, such as the European Monetary System) to bring U.S. technologies to the less developed countries; it would mean getting rid of most of the present restrictions.

Cutting imports automatically means cutting out jobs in the U.S. because, in addition to oil, one quarter of all U.S. industrial output is dependent upon imports (for example, 12 out of the critical 15 raw materials are imported).

Nor is it difficult to detect what might be labeled as a "Maoist" influence inside the Administration, a "New Left" contempt for American industry. For example, the President's Export Council is supposed to be the main outside industrially oriented advisory group to the President on trade policy. Its members appointed under the Ford Administration consist of representatives from Control Data, Dresser Industries, Motorola, and Hewlett-Packard. When Carter came into office he added two new appointees: one a mobile home builder from New Hampshire, the other a nursing home operator from Indianapolis! Carter, it is reported, has not called on the Council for advice in over two years. Apparently, he believes Brzezinski and Schlesinger have more expertise in trade matters.

Trade policy: the Administration versus industry

Henry Kissinger, unofficial director of U.S. foreign policy: "The extension of Soviet spheres is a process which must be stopped. But it is helped by free East-West trade. Just as we cannot ask industrialists to make foreign policy, so the Western governments must establish an East-West code in order to stop the escalation which serves Soviet expansion." (Speech before the International Iron and Steel Institute in Colorado Springs, reported Oct. 5 in the French paper *Les Echos*).

National Security Council 1978 report on trade: "Broadly defined....trade is what most of international relations is all about. *For that reason, trade is national security policy*." (Emphasis in original).

Secretary of Defense Harold Brown: "Defense's primary objective in the control of exports of U.S. technology is to protect the United States' lead time relative to its potential adversaries in the application of technology to military capabilities."

Industry responds:

- **Robert Malott, FMC Chief Executive**: "This country's worsening export posture has been obscured by the Administration's fixation with the so-called 'oil-caused trade deficit.' *The fact is oil is not the primary culprit*....more than half of last year's unprecedented deficit increase can be attributed directly to the decline in U.S. manufacturing and agricultural trade."
- **The National Machine Tool Builders' Association**: "The national security of our nation is not enhanced if the subject equipment is freely supplied by a foreign nation. Rather, the national security of this nation is improved if our machine tool factories are kept operating at a high rate of production, thus enabling them to better meet fixed expenses as well as to keep a trained workforce together."
- **The Computer and Business Equipment Manufacturers**: "The use of controls on foreign commercial trade to achieve foreign policy and military security objectives is ill-conceived and fundamentally injurious to our economic vitality, and a danger to national security."
- **James Thwait, President of International Operations, 3M Corp.**: "There's nothing wrong with importing $45 billion of oil, we could have the exports to pay for it."
- **A Sperry-Rand executive**: "A sale once lost can mean a whole market loss for twenty years or more — the U.S. government is our own worst enemy."
- **Machinery and Allied Products Institute**: "There are very few products or technologies where U.S. restrictions can effectively deny an economic capability to a foreign country. There are very few items which foreigners 'must' purchase from the U.S."
- **Frederick Huszagh, Executive Director, Dean Rusk Center at University of Georgia**: "A number of studies have established that research and development is directly correlated to export performance ... the American industries having the highest levels of R and D expenditures are the industries subject to the most burdensome controls and policies of delay and uncertainty.... This leads to a reduction in domestic R and D and a reduction of our technological lead.... Ultimately, this vicious cycle can affect not only our economic vitality, but also our military strength."

Shoddy treatment of industrialists has become standard practice. One industry executive related the following experience: "After months of phone calls and letters trying for an appointment, I walk into the office of this Assistant Secretary . . . with down-at-the-heels loafers propped up on his desk and wearing an open-necked blue-collar work shirt. His greeting is 'Well, what's your bitch?' I give him a short course on why an embargo on exports would cripple, if not destroy, our industry and all he says is, 'You mean you don't support the President's policy. You industry guys are all alike. You're looking for the bucks; not the moral obligation'."

3. The declining position of the U.S.

Even though exports accounted for only 6.3 percent of the U.S. Gross National Product last year, exports account for 40 percent of the market for construction machinery producers, 30 percent for aerospace, and 33 percent for computer manufactures. The U.S. trade deficit is wholly a result of the negative growth in high-technology exports, according to trade association estimates. And as was noted before, the multitude of restrictions on trade are mainly hitting the high-technology industries — nuclear, computers, computerized machine tools — exactly those industries where the U.S. had a technological lead. The government, said a Sperry Rand spokesman, "is creating our own competition. *That's* the result of their policy."

The U.S. share in world exports has declined from 18.8 percent in 1960 to 15.4 percent in 1976, and continues to plunge. The relationship between exports (which provide investment capital) and U.S. industrial growth is shown clearly enough by the decline in machine tool exports and the decline in U.S. machine tool output (Figures 1 and 2). Then add in other factors. For example, U.S. growth in manufacturing productivity is the least of all industrialized nations over the last 25 years. For example, the U.S. is no longer viewed as a "reliable supplier" because of obstacles to contracts even after they've been signed. No wonder London is able to undermine international confidence in the strength of the U.S. economy, and thus of the dollar.

Compare U.S. trade with the East bloc with that of West Germany or France. West German exports to the East are growing at 11.6 percent yearly, and the total volume of German trade with the East is now more than double 1973 volume. Prior to the Bremen meeting of European economic ministers in July, West Germany signed a $20 billion trade and economic development package with the Soviets. *All* of Germany's trade exports to the Soviet Union are classified as "high technology," thus giving a tremendous spur to West Germany's industrial growth. And while the USSR ranks tenth among France's clients, it is one of the biggest buyers of *capital-intensive* French goods.

U.S. trade with the Soviet Union, in contrast, fell from $2.3 billion in 1976 to $1.5 billion in 1977. The January-July 1978 figures do, however, show an increase up to $1.68 billion. But this jump is due entirely to agricultural, not technological, exports, with $1.37 billion representing agricultural products. And this is the "great leap forward" bragged about by the Administration! Nonagricultural exports to the Soviet Union have, in fact, dropped nearly 20 percent in the same period, according to statistics printed in the Oct. 16 *Journal of Commerce*. Comparative sales in 1977 to the Soviet Union of *nonagricultural* goods break down as follows:

West Germany:	$2.5 billion
Japan:	2.0 billion
France:	1.5 billion
Italy:	1.0 billion
U.S.:	less than 600 million

U.S. Export-Import Bank credits are critical for aiding high-technology exporters. But Eximbank credits are not allowed for the Soviet Union because of the Jackson-Vanik amendment to the 1974 Trade Act. so even trade that could be licensed is being lost.

U.S. trade with Communist countries

(In millions of U.S. dollars)

	U.S. Exports	
1970	234.9	118.7
1971	222.2	162.0
1972	276.9	542.2
1973	606.5	1,194.7
1974	823.4	609.2
1975	951.0	1,836.9
1976	1,189.8	2,306.0
1977*	791.4	1,534.8

*January to October at annual rate

Source: U.S. Department of Commerce; "overseas Business Reports."

Comparative figures showing credits extended to the Soviet Union for trade as of Jan. 1, 1978 are:

France:	$3.4 billion
West Germany:	3.3 billion
Japan:	3.2 billion
Italy:	2.6 billion
UK:	1.8 billion
U.S.:	500 million — all *prior* to Jackson-Vanik

4. Trade barriers in effect or pending

A listing of the more prominent trade "disincentives" helps give a more accurate sense of the compounded effect of all of them together, or what Frederick Huszagh calls the "black box" operation which is simply squeezing American industry out of international trade. This list is in no way all-inclusive, for as one trade association representative remarked, "*Seventy* different federal agencies have now been given free rein to poke their noses in and make their stupid recommendations on U.S. exports. This is what we're up against." This, of course, is in addition to NSC or DOE intervention.

International Traffic in Arms Control (ITAR) regulations.

Strategic Trade Control. The object is to restrict the flow of trade to the "Communist world" of equipment and technology that could have military significance. The stated criteria for deriving a "crucial" or "turnkey" technology are: (1) if it gives advantage or *marginal* gain to the recipient country's military capability; (2) time advantage; (3) technological "leap-frogging"; (4) manpower training-education; (5) military self-sufficiency in fuel supplies.

Item 1091 A of the Commodity Control List. This "loophole" is increasingly being used by Brzezinski et al. to stop trade. It requires licensing for equipment that "could be equipped with . . . some other embargoed item" and make it of strategic value. For example, a computer can be hooked up to something other than intended by the contractor, trucks can be used to haul tanks, and so on.

Illegal delays (for reviews and re-review). The required deadline under the Export Administration Act is 90 days for licensing. Eighteen months to two years is now becoming the norm.

New technologies disincentives. Patent-processing is gruesome, but this is even worse. All new inventions put up for export are scrutinized so carefully as to their possible strategic significance, one exporter said, that he was told by a government agency "Don't even waste your time applying."

Trade Act of 1974. The act includes the Jackson-Vanik amendment, which bars Most Favored Nation status and, therefore, Eximbank credits, to the Soviet Union and other "Communist countries."

NEPA Enforcement (pending). The Council on Environmental Quality and the Natural Resources Defense Committee are in litigation to require the Eximbank and other federal agencies to apply environmental protection requirements to technology transfers.

Church amendments to the Trade Act of 1974. Restrict nuclear exports.

Nonproliferation legislation.

"Human rights" decisions. This is the primary property of the Human Rights Bureau of the State Department, headed by Pat Derian and former Kennedy aide Mark Schneider. It has already seriously interfered with trade with Libya, Rhodesia, South Africa, Argentina, Chile, Uraguay, Iraq, Algeria, South Yemen.

U.S. trade embargoes. These effect Cuba, Vietnam, Rhodesia, South Africa, and other countries.

Foreign Corrupt Practices Act of 1977. This act mandates investigations, jail terms, and fines for overseas "payoffs." Industry calls this the "self-righteous clause" because other countries ignore payoffs, understanding that such "commissions" are sometimes required by the countries sold to, and are not the fault of the exporter.

Anti-trust laws. These laws prevent U.S. companies from bidding jointly on projects.

DISC. Pending proposals to end U.S. tax breaks on multinational operations abroad.

Exim rechartering on the rocks. Rechartering of the Eximbank did not go through the past session of Congress, and the bank has been extended on its present charter until June. Absurd amendments, such as Senator Hollings's to exclude U.S. textiles from GATT regulations, have wrecked the bill. Other amendments have watered down the financing. The bill will have to be reintroduced in the spring and go through the whole hurdle again.

Export Administration Act amendments. No details are available yet, but the Act comes up for extension next session and Senators Jackson and Percy have held an inquiry and hearings in their Permanent Investigations subcommittee on the Dresser approval with the intention of adding amendments to the Act which will "tighten up" the trade restrictions.

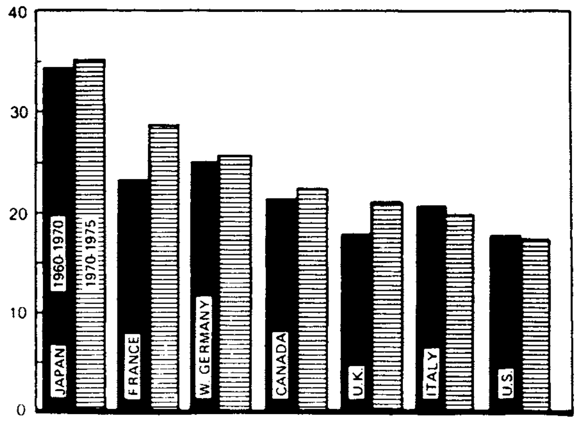
Congressional legislation, such as the House "Technology Transfer Ban" bill. This would give Congress the authority to veto, within 90 days, any license application.

5. The total effect

A complete survey of the total effect of all trade restrictions on U.S. industry would be impossible. Even individual industries are unable to give accurate estimates of their own trade losses, much less make projections for the entire industry or for all exports — mainly because of the spinoff effect of, for example, losing even one contract to an important customer. The only government agency that is equipped to manage such a review, the Commerce Department, is by law prohibited from investigating "particular" (i.e., nameable) industries and publishing its results, because to do so would be to represent "special interests."

International Investment Patterns

Fixed capital formation as a percent of GNP



Scurce Department of Commerce

The comparatively low percentage of the total domestic product (GDP) which is invested in fixed capital in the United States is one reason for its slower industrial growth. The additional fact that a smaller percentage of this investment is made in industry is another reason for concern for the industrial leadership of the United States.

Here, however, is a survey of some results of using "trade as a weapon" (against American producers!).

•Armco Chairman William Verity reports the loss of a Soviet project for gas lifting, with total scope of the project at $1 billion ($250 million per field for two fields initially). Verbal agreement had been reached, but the Soviets were forced to conclude a contract with two French firms instead because of U.S. licensing delays.

•Another Armco deal with the Soviets to produce cold-rolled dynamo steel valued at $350 million was lost (except for 10 percent which Armco retained in the project) because of lack of Eximbank credits. Japanese and French firms were able to offer such credit.

•Verity also projects that expansion of U.S. exports to the Soviet Union up to the $20 billion mark during the next five years would be quite feasible, if it were not for the restrictions.

•The government of Iran offered nuclear contracts for over $36 billion to built over the next 10 years. The U.S. government demanded that Iran agree to the nonproliferation guidelines, Iran refused, and the U.S. lost the contracts.

•Cancellation of the sale of Sperry 1100 UNIVAC computer to the Soviet news agency Tass lost a deal valued at $100 million. According to Sperry, the computer business has a very large overhead just for completing government paperwork. Because of delays, contracts have been taking almost twice as long to wind up as a few years ago. There have been other less publicized cancellations such as that of the sale of Control Data's Cyber 76 to the Soviet Union two years ago.

•Nuclear restrictions have virtually put the nuclear business out of the export field and may put them out of the nuclear business as well. At least 14 projects were lost in 1977 because of "uncertainties and delays" over the contracts. This does not include the Iranian offer. Westinghouse has predicted that the industry could get contracts for at least 85 reactors in the next two years, with each reactor valued at $1.5 to 2 billion.

•Electronics Industries Association cites as an example the Australian government demand to a U.S. exporter that the firm, as part of its bid, guarantee that a license would be forthcoming. The company obviously couldn't meet such a demand, and so lost the contract.

•Deals to Libya have been suspended involving at least $900 million and several U.S. companies: Boeing, Lockheed, and Oshkosh Truck Corp. The truck deal was curtailed because the trucks "could be used to haul Soviet-built tanks across the desert." Aircraft sales were suspended because they might be used for troop transport.

•A United Technologies (UTC) trade statistician threw out the "ballpark figure" of $6 billion as the effect on his company of the Libya decision (UTC makes engines for Boeings) and the "human rights" clampdown against Argentina (UTC makes Sikorsky helicopters, which have been stopped). He said that they have also been severely affected by what he perceived as a "clear shift" from a former strictly defined military strategic criterion to the inclusion into that category of what used to be classified as nonmilitary. This shift could be costing the aerospace industries upwards of $10 billion this past year, he estimated, and future losses to the industry would climb rapidly if the present policy continued. Keep in mind that the realization of an aerospace contract takes at least five years, and perceived future obstacles to this completion quickly lose contracts.

•Sperry Rand officials would give no figures, but noted that additional losses result from the collapse of the dollar overseas. Many companies are cutting back on international growth because they have depended on local foreign markets to refund their debt. That debt is now too burdensome.

•DuPont is restricted from selling certain kinds of x-ray equipment to hospitals in South Africa because the equipment might be used on troops!

•Loss of trade to South Africa is estimated by some sources at at least $5 billion.

•The Electronics Institute estimates their industry's losses last year at $10 billion in trade, and $1 billion in new capital formation.

—Maureen Manning

East bloc debt: why the scare?

Last month, media across the country suddenly discovered the Soviet sector debt question, and to hear them tell it, the economies of Eastern Europe were practically in the bankruptcy courts.

The source for this alarming news? The Brookings Institution, the private think-tank that has staffed so much of the Administration that it has a semiofficial role. And if the national press was hyping the report to make the average reader think a debt rollover crisis would hit before the weekend, the Brookings report was nonetheless alarmist enough on its own.

The report, *Economic relations between East and West: prospects and problems*, was aimed at the financial community, and its line was unequivocal: if you have any money, stay away from the East bloc. Their debt burden is catastrophic, and anyway, who'd want to help them even if it wasn't? The only way they can pay is by competing with the West in international markets.