

APPROVING THE EXTENSION OF NONDISCRIMINATORY TREATMENT
(MOST-FAVORED-NATION TREATMENT) TO THE PRODUCTS OF THE
UNION OF SOVIET SOCIALIST REPUBLICS

NOVEMBER 22 (legislative day, NOVEMBER 20), 1991.—Ordered to be printed

Mr. BENTSEN, from the Committee on Finance,
submitted the following

REPORT

[To accompany S.J. Res. 215]

The Committee on Finance to which was referred the joint resolution (S.J. Res. 215) to approve the extension of nondiscriminatory treatment to the products of the Union of Soviet Socialist Republics, having considered the same, reports favorably thereon without amendment and recommends that the joint resolution do pass.

I. SUMMARY

S.J. Res. 215 would approve the extension of nondiscriminatory (most-favored-nation (MFN)) treatment to products imported into the United States from the Union of Soviet Socialist Republics (Soviet Union). The extension of reciprocal MFN treatment was one of the principal provisions of the trade agreement negotiated between the United States and the Soviet Union and signed on June 1, 1990.

On August 2, 1991, the President formally submitted the agreement and accompanying side letters to the Congress for its consideration, along with his proclamation extending nondiscriminatory treatment to imports from the Soviet Union. The proclamation also provided that on the date that MFN treatment became effective for the Soviet Union, MFN treatment would also be extended to the products of Estonia, Latvia, and Lithuania, "without prejudice to the longstanding U.S. policy of not recognizing the forcible incorporation" of these states into the Soviet Union. As required by Title IV of the Trade Act of 1974, a joint resolution (S.J. Res. 191) ap-

proving the extension of MFN treatment to the Soviet Union, Estonia, Latvia, and Lithuania was introduced by request on August 2, 1991.

The United States reestablished diplomatic relations with Estonia, Latvia, and Lithuania on September 2, 1991, and the Soviet Union recognized their independence on September 6, 1991. These actions necessitated modifications to the President's proclamation of MFN treatment that accompanied the trade agreement and to the joint resolution approving the extension of MFN treatment. On October 9, 1991, the President retransmitted the trade agreement, with a corrected proclamation, and a corresponding resolution—S.J. Res. 215—was introduced by request on October 15, 1991. Both the proclamation and S.J. Res. 215 provide for the extension of MFN treatment only to the Soviet Union.

Under section 405(c) of the Trade Act of 1974, as amended by the Customs and Trade Act of 1990 (Public Law 101-382), the trade agreement and proclamation may take effect only if the House and Senate adopt a joint resolution of approval.

On November 19, 1991, the House Committee on Ways and Means ordered favorably reported H.J. Res. 346, the companion to S.J. Res. 215. The House of Representatives approved H.J. Res. 346 on November 20, 1991.

II. GENERAL EXPLANATION

A. THE STATUTORY FRAMEWORK

Title IV of the Trade Act of 1974, as amended, authorizes the President to extend MFN treatment to non-market economies not accorded MFN status if two conditions are met: (1) compliance with the freedom-of-emigration provisions under section 402 of the Trade Act of 1974 (commonly referred to as the Jackson-Vanik amendment); and (2) conclusion of a bilateral commercial agreement under section 405 of the Trade Act of 1974 providing reciprocal nondiscriminatory treatment. Section 404 of the Trade Act of 1974 stipulates that MFN treatment shall remain in effect only as long as the bilateral commercial agreement is in effect. Section 404 also provides that the President may suspend or withdraw MFN treatment at any time.

(1) *Compliance with freedom-of-emigration provisions.*—Section 402 of the Trade Act of 1974 (the Jackson-Vanik amendment) provides that products from certain non-market economies may not be accorded MFN status, and the country may not participate in U.S. financial credit or guarantee programs if the President determines that the country: (a) denies its citizens the right or opportunity to emigrate; (b) imposes more than a nominal tax on visas or other documents required for emigration; or (c) imposes more than a nominal levy, fine, fee, or other charge on any citizen as a consequence of the desire to emigrate.

A country may become eligible for MFN treatment and for U.S. financial programs and may conclude a commercial agreement only if the President submits a report to Congress indicating that the country does not violate these conditions. Alternatively, the President may waive the Jackson-Vanik requirements if he reports to Congress that a waiver will substantially promote the objectives

of the law and if the President has received assurances that the emigration practices of the country will henceforth lead substantially to the achievement of the objectives of the freedom-of-emigration provisions. The waiver authority may be extended by Presidential action for one-year periods, subject to Congressional review.

(2) *Bilateral commercial agreement.*—Under section 405(b) of the Trade Act of 1974, all bilateral commercial agreements must:

- (a) provide that the agreement is subject to termination or suspension for national security reasons;
- (b) include safeguards against market disruption;
- (c) provide for the protection of intellectual property;
- (d) include dispute settlement provisions;
- (e) include arrangements for the promotion and facilitation of trade; and
- (f) provide for consultations to review the agreement and the status of bilateral commercial relations.

The agreement must be limited to an initial period of three years. The agreement is, however, renewable for additional three-year periods if a satisfactory balance of concessions in trade and services has been maintained during the life of the agreement and if the President determines that actual or foreseeable reductions in U.S. tariffs and non-tariff barriers to trade resulting from multilateral negotiations are satisfactorily reciprocated by the other party to the agreement.

B. PRESIDENTIAL ACTION AND CONGRESSIONAL CONSIDERATION

(1) *Presidential action.*—On June 1, 1990, Presidents Bush and Gorbachev signed a bilateral commercial agreement providing for the reciprocal extension of MFN treatment. Accompanying side letters concerning a range of topics, including the protection of intellectual property, the promotion of official and commercial tourism offices, the settlement of lend-lease accounts, currency convertibility, and other matters are also integral parts of the agreement. The agreement, side letters, and a proclamation proclaiming MFN treatment for the Soviet Union were submitted formally to the Congress on August 2, 1991, and resubmitted on October 9, 1991, after modifications were made to the proclamation to take account of the independence of the Baltic states.

On December 12, 1990, the President waived the application of sections 402 (a) and (b)—the Jackson-Vanik requirements—with respect to the Soviet Union upon his determination that such a waiver would substantially promote the Act's objectives relating to freedom of emigration. On that date, the Soviet Union became eligible for U.S. Government credits and credit guarantees. On June 3, 1991, the President notified Congress of his intention to extend the waiver for the Soviet Union for the year beginning July 4, 1991.

In his report to the Congress of June 3, 1991, the President stated that emigration from the Soviet Union had steadily increased every year since 1984. The President noted that more than 370,000 Soviet citizens had emigrated in 1990, almost double the figure from 1989. He noted that the rate of emigration in the first quarter of 1991 was not as high as the last quarter of 1990, but

that this was due in large part to a slowdown in movement to Israel as a result of the Gulf War. In addition, the President stated that the Soviet Government had pledged to maintain high rates of emigration and that on May 20, 1991, the Supreme Soviet passed an entry/exit law that, for the first time, formally codified the right to emigrate.

The president further noted that, if a waiver were not granted to the Soviet Union, "much of the utility of the Jackson-Vanik amendment as a tool to encourage greater emigration would be lost. If almost 400,000 emigrants were seen as insufficient to justify a waiver, the Soviets could easily conclude that the amendment presents an impossible standard and consequently could decide there is no reason for further improvements."

(2) *Congressional consideration.*—Sections 405(c) and 407(c) of the Trade Act of 1974, as amended by the Customs and Trade Act of 1990 (Public Law 101-382), provide that a trade agreement and the Presidential proclamation granting MFN status may take effect only after the House and Senate adopt a joint resolution of approval. The joint resolution is subject to the "fast-track" implementing procedures of the House and Senate under section 151 of the Trade Act of 1974, as amended. Under section 151, the approval resolutions automatically referred to the Committee on Finance. No amendments are in order. The procedures of section 151 provide for final Congressional action on an approval resolution within 60 session days after its introduction (or 90 days if the resolution is a revenue measure).

On October 9, 1991, H.J. Res. 346 was introduced in the House and on October 15, 1991, an identical resolution, S.J. Res. 215, was introduced in the Senate. The resolutions, which approve the proclamation of nondiscriminatory treatment to imports of products from the Soviet Union, were referred, respectively, to the Ways and Means Committee in the House and to the Finance Committee in the Senate.

The Committee on Finance held hearings on the trade agreement on September 11 and 12, 1991.

On November 19, 1991, the Committee on Ways and Means ordered H.J. Res. 346 favorably reported. The House of Representatives approved H.J. Res. 346 on November 20, 1991.

C. SUMMARY OF THE U.S.-SOVIET TRADE AGREEMENT

In addition to providing for the reciprocal extension of MFN treatment, the trade agreement includes a number of provisions aimed at facilitating trade between the United States and the Soviet Union. Included in the agreement are measures to encourage the mounting of trade promotion events; ease the establishment of business offices and the direct hire of employees; and improve the transparency of laws and regulations affecting trade and commercial matters. Additional provisions require that trade be conducted in convertible currencies and require the parties to provide nondiscriminatory treatment with respect to a range of financial transactions. In addition, hard currency earnings from trade may be immediately repatriated. Further, the Soviet Union agreed

to make significant improvements to its intellectual property laws. An article-by-article summary of the agreement follows:

Article I.—Article I provides that the United States and the Soviet Union shall accord MFN treatment to each other's products with respect to customs duties and charges, the method of payment for imports and exports, all rules and formalities in connection with importation and exportation, taxes and internal charges and other laws and regulations affecting the sale, distribution and storage of products. Each country also agrees to accord to the products of the other MFN treatment with respect to the allocation of and access to the currency needed to pay for imported goods.

Article II.—Under Article II, the parties agree, on a reciprocal basis, to improve market access for each other's goods and services. In addition, the Soviet Union agrees to increase, step-by-step, national treatment for the United States' goods and services. The Article also provides that trade is to be conducted between the two countries by means of contracts concluded as exercises of independent commercial judgement on the basis of nondiscrimination and customary commercial considerations such as price, quality, availability, delivery, and terms of payment. Article II also provides that neither country will require or encourage barter or countertrade. Finally, the countries commit to ensure that technical regulations and standards do not become obstacles to trade.

Article III.—Article III includes general provisions concerning the desirability of expanding two-way trade and commits both countries to take "appropriate measures" to encourage the expansion of commercial contacts. Both countries agree to facilitate the holding of trade promotional events and encourage their companies and citizens to participate in such events. Article III also provides that the United States and the Soviet Union will permit the duty-free importation and re-exportation of articles used in trade events. Finally, Article III encourages the expansion of trade in machinery, equipment and technologies.

Article IV.—Article IV obligates each country, consistent with applicable immigration laws, to permit government commercial offices to hire directly both host- and third-country nationals. This Article also contains general provisions concerning unhindered access to government commercial offices, the encouragement of participation in the activities of government commercial offices, and access to officials at federal and sub-federal levels.

Article V.—Article V contains a number of provisions aimed at facilitating business transactions between the two countries. These provisions relate to the establishment of private sector commercial offices, the direct hire of employees, importation of office equipment, access to office space and living accommodations, employment of agents and distributors, the stocking and distribution of samples and replacement parts, advertising, market research, and access to services provided by the governments (e.g., public utilities). In addition, Article V establishes guidelines for accelerated accreditation procedures for U.S. firms operating in the Soviet Union.

Article VI.—This Article requires each country to make publicly available on a timely basis all laws and regulations relating to trade, investment, and other commercial matters. In addition, Article VI requires each party to permit nationals and companies of

the other country to comment on the formulation of rules and regulations which affect the conduct of business.

Article VII.—Article VII stipulates that, unless otherwise agreed, commercial transactions should be conducted in U.S. dollars or other convertible currency. The Article also binds the parties not to restrict the export of convertible currencies or deposits obtained in connection with trade in goods and services and provides that nationals of each country may maintain bank accounts in the other country. Furthermore, Article VII requires nondiscriminatory treatment with respect to a range of financial transactions.

Article VIII.—Article VIII stipulates that each party will ensure the protection of intellectual property and that all international commitments (*i.e.*, Paris Convention and Universal Copyright Convention) will be honored. Furthermore, the Soviet Union agreed to submit legislation concerning adherence to the Berne Convention, copyright protection for computer programs and databases, protection for sound recordings, patent protection for all areas of technology and protection of trade secrets. Side letters to the agreement provide details on the intellectual property commitments.

Article IX.—Each party agrees to facilitate the transit through its territory of products originating in the other country.

Article X.—Under Article X, each party also agrees to take steps to foster economic and technical cooperation in such fields as standards and statistics. Also, each country agrees to consult on services trade liberalization.

Article XI.—Article XI provides safeguard arrangements calling for prompt consultations and permitting the imposition of import restrictions in case of market disruption.

Article XII.—This Article incorporates a number of provisions relating to the settlement of disputes. For example, Article XII grants national treatment to the nationals and companies of either party with respect to access to the courts and administrative bodies of the other party, encourages the adoption of arbitration and sets forth desired arbitration procedures. The Article also provides that each country is to ensure that there is an effective means for the recognition and enforcement of arbitral awards.

Article XIII.—Article XIII stipulates that nothing in the agreement limits the right of either country to take actions to protect its national security interests.

Article XIV.—Under Article XIV, the two countries agree to consult periodically through the Joint U.S.-Soviet Commercial Commission to review the operation of the trade agreement. The Article also provides for prompt consultations in the case of disputes concerning the agreement.

Article XV.—This Article defines the key terms used in the agreement.

Article XVI.—This Article contains several exceptions to the agreement. The agreement is not to be construed, for example, to prohibit measures designed to secure compliance with laws which are not contrary to the purposes of the agreement, or measures to protect intellectual property rights.

Article XVII.—Article XVII deals with the entry into force of the agreement, stipulates that the initial term of the agreement will be

three years, with possible extensions for three-year terms, and provides for termination of the agreement.

In separate side letters, each of which is an integral part of the agreement, the parties have made additional commitments concerning the protection of intellectual property, the promotion of tourism and commercial enterprises, currency convertibility, and bank accounts. The two countries also recognize that certain provisions of the agreement will not apply to textile trade. The Soviet Union also agreed to accede to the Convention Establishing the Customs Cooperation Council and to adopt the Harmonized Commodity Description and Coding System. Also, the United States agreed to seek Congressional repeal of the prohibition on imports of gold coins from the Soviet Union and the Soviet Union agreed that extension of MFN to the Soviet Union would remove an obstacle to settling lend-lease accounts.

D. U.S.-SOVIET TRADE AND IMPACT OF TRADE AGREEMENT

(1) *U.S.-Soviet trade.*—U.S. trade volumes with the Soviet Union are low, due largely to persistent Soviet hard currency shortages, the poor quality of Soviet goods, and chronic Soviet production problems. In 1990, U.S. exports to the Soviet Union totaled just over \$3 billion, down almost 30 percent over 1989 levels. Leading U.S. exports are corn, wheat, oil seeds, fertilizers and other agricultural products. Imports from the Soviet Union last year reached just over \$1 billion, up 50 percent over 1989. Oil, ores, precious metals, anhydrous ammonia, and alcoholic beverages are among our leading imports from the Soviet Union.

For the first eight months of 1991, U.S. exports to the Soviet Union were valued at just over \$2 billion—a 22 percent decline from the comparable period in 1990. U.S. imports from the Soviet Union reached \$576 million through August 1991, up one percent over the first eight months of 1990.

(2) *Impact of the trade agreement.*—The General Accounting Office (GAO) has estimated, based on trade data for the years 1987-1989, that granting MFN to the Soviet Union would reduce the weighted average tariff rate on dutiable imports from the Soviet Union by 4.7 percent. The GAO has noted that, although the Soviet Union does not have MFN status, U.S. tariff rates on Soviet imports are generally very low, primarily because the bulk of Soviet exports are raw materials and semi-manufactured goods that have low tariff rates. The GAO has stated that more than half of Soviet exports enter the United States duty free, and, on dutiable items, the weighted average tariff rate is 9.9 percent. That rate would drop to 5.2 percent—the average MFN tariff rate on dutiable products—if MFN is granted.

The Committee expects that the benefits of the trade agreement would not, however, be one-way. Exports from the United States to the Soviet Union will also benefit from MFN tariff rates, although the Committee recognizes that the chief obstacle to U.S. exports in the past has not been the level of the Soviet tariff, but rather the Soviet Union's inefficient centralized purchasing system and acute hard currency shortages. The Committee expects that, as the sweeping economic and political changes in the Soviet Union con-

tinue, and as that country works toward establishing a market-based economic system, new sales and investment opportunities will present themselves to American firms.

In addition, the Committee expects that increased Soviet exports to the United States will generate hard currency and provide the means for that country to import more goods necessary to improve its productivity and standard of living. Several Members also expressed the expectation that the Soviet Union would devote some of their hard currency earnings to the repayment of debts owed to American suppliers. The Committee noted that numerous provisions of the trade agreement are designed to facilitate transactions between United States and Soviet companies and should lead to increased U.S. exports to and investment in the Soviet Union.

The Committee wants to emphasize the importance of a rapid and smooth transition to market-based pricing principles in the Soviet economic reform effort. As numerous international organizations, including the International Monetary Fund and the World Bank, have concluded, free market pricing is critical to an efficient allocation of resources, which, in turn, is a key element of any program to integrate the Soviet economy into the global trading system.

This is also important from the U.S. perspective because of the potential for increased trade friction, including complaints under various provisions of U.S. trade law, if our market is disrupted by artificially priced imports from the Soviet Union.

The Committee is concerned that current General Agreement on Tariffs and Trade [GATT] rules do not effectively deal with the problem of the pricing of goods from state-sponsored or state-controlled enterprises, and that there has not yet been sufficient study of how to deal with this problem in a constructive fashion. Accordingly, the Committee urges the Administration to begin a review of the pricing practices of non-market economies with the objective of developing a program to ensure that products from non-market economies can be introduced into the global trading system in a manner that does not adversely affect traditional market-based pricing mechanisms.

The Committee also recognizes that the situation in the Soviet Union continues to be uncertain, as the republics and central authorities continue negotiations on an economic community agreement. The Committee understands that the outcome of these negotiations could have an impact on the operation of the U.S.-Soviet trade agreement, including the application of the agreement to the individual republics, the implementation of the agreement, and the enforcement of the agreement.

To address these concerns, Chairman Bentsen, in a letter to Secretary of State Baker (reprinted below), proposed the establishment of a mechanism for close and continuing consultations between the Administration and the Congress to be used as the United States proceeds to normalize its commercial relations with the former Soviet Union and with the newly independent Baltic states.

Based on discussions with the Department of State, the Committee requests and anticipates, as a first step in the consultative process, that the Administration will provide a written report to the Committee on the trade agreement ratification process in the

Soviet Union after the ratification process is completed and before the United States implements the trade agreement. The Committee believes that the process which the Soviet Union employs to ratify the agreement may shed light, for example, on which republics intend to be bound by the agreement. The Committee expects the Administration to report to it on the mechanics of the ratification process; the identification of the republics participating in the process; the nature of the republics' commitments to accept the obligations of the trade agreement; and the implications of ratification for the operation of the trade agreement, along with information on all other relevant issues.

The Committee fully expects that other questions concerning the trade agreement may arise once the agreement enters into force. Therefore, the Committee expects the Administration to inform the Committee of any meaningful developments that may affect the operation of the trade agreement and to consult with it on the implications of any such developments. The Committee expects to be consulted on such issues as: the implications of the subsequent independence of any of the republics, the implications of a declaration by any of the republics that it intends not to be bound by the obligations of the trade agreement; the applicability of Title IV of the Trade Act of 1974 to any break-away republics; and any other problems that may arise with respect to the application of the trade agreement in the Soviet Union as a whole or in any of the individual republics. The Committee expects to be informed of these developments in a sufficiently timely fashion that it can respond meaningfully, if it wishes, to developments as they arise.

The Committee requests and anticipates that the Administration will provide two follow-up reports discussing the operation of the trade agreement, including, but not limited to, the issues described above. The Committee requests that these reports be submitted 12 months and 24 months after the date of submission of the first report on the ratification process.

With a consultative mechanism in place to monitor the operation of the trade agreement, the Committee believes that the Congress should act promptly to approve the U.S.-Soviet trade agreement, rather than wait until the situation in the Soviet Union solidifies. The Committee believes that the trade agreement is in the best interest of the United States, and that the agreement will help spur the development of two-way trade. The Committee noted that the U.S. Ambassador to the Soviet Union, Robert Strauss, has urged the Senate promptly to approve the agreements as a means of enhancing trade opportunities for American business as well as for the Soviets. The text of Ambassador Strauss' letter to Chairman Bentsen is printed below.

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, DC, October 9, 1991.

Hon. James A. Baker III,
Secretary, Department of State, Washington, DC.

DEAR MR. SECRETARY: In the weeks following the failed coup in the Soviet Union, we have witnessed a series of dramatic events that profoundly affect the nature of our relations with the Soviet

Union and the Baltic republics. I believe it is important to begin to normalize our relations with these countries, as well as with the individual Soviet republics.

Accordingly, I am writing to inform you that I intend to schedule Finance Committee action on the Soviet trade agreement and on legislation granting most-favored-nation trading status to the Baltic republics as quickly as possible. I am also writing to suggest that we need to develop a mechanism for close and continuing consultation between the Administration and Congress to be used as the United States proceeds with the process of normalizing its economic relations with these countries.

As you know, the trade agreement between the United States and the Soviet Union was negotiated in June 1990 but was not forwarded to the Congress for our consideration until August 2, 1991. We received the agreement before the failed coup in the Soviet Union. Since that time, the situation has been changing dramatically, raising a number of questions with regard to both the meaning of the agreement and the conditions under which it will be implemented.

At the heart of the problem, of course, is the fact that the Congress has before it a trade agreement that was negotiated with an entity—the Union of Soviet Socialist Republics—that no longer exists. Deputy Secretary Eagleburger has stated that, since the three Baltic republics have achieved full independence from the Soviet Union, they will not receive most-favored-nation status under this agreement, thus necessitating separate legislation.

Other questions arise as well. Which of the remaining Soviet republics, for example, have expressed a willingness to abide by the terms of the June 1990 agreement? How will the Department enforce the agreement with respect to those republics that have declared their independence? Will the President issue separate Jackson-Vanik waivers for any of the republics that become independent from the Soviet Union? Deputy Secretary Eagleburger has written House Ways and Means Committee Chairman Rostenkowski that the Department will decide on a case-by-case basis whether a notification to Congress with respect to MFN treatment for individual republics would be appropriate. Deputy Secretary Eagleburger mentioned one criterion that would guide that decision—the division of authority between the republic and the central government—but what other factors will be taken into account?

In normal times, Congress would require an answer to these questions prior to approving any trade agreement. But these are not normal times. Moreover, many of these questions simply cannot be answered fully at this point. Given the dynamic and unpredictable nature of the situation in the Soviet Union, I am confident that other questions will arise as the situation sorts itself out.

For these reasons, I believe it is important that we establish a mechanism for close and continuing consultations between the Administration and Congress as the United States responds to the evolving relationship we have with these countries and they have with each other. For example, it will be important for the Department to consult closely with the Congress well before any decisions are made with respect to the individual republics, and to discuss any problems that may arise concerning the implementation of the

agreement. It is precisely because many of these decisions cannot be made at this point that Congress and the Administration need to develop a consultative mechanism.

I look forward to discussing with you how to structure a consultation mechanism that can keep pace with out developing commercial relations with the Soviet Union, Estonia, Latvia, and Lithuania.

Sincerely,

LLOYD BENTSEN, *Chairman.*

U.S. DEPARTMENT OF STATE,
THE DEPUTY SECRETARY OF STATE,
Washington, DC, November 19, 1991.

Hon. LLOYD BENTSEN,
Chairman, Committee on Finance, U.S. Senate.

DEAR MR. CHAIRMAN: Thank you for your letter of October 9 proposing the establishment of a consultative mechanism to provide for close and continuing consultations between the Executive Branch and the Congress as we continue to normalize our trade relations with the Soviet Union and the Baltic States of Estonia, Latvia, and Lithuania.

The situation in the Soviet Union continues to evolve. We believe it is very important for the Republics to retain economic ties with one another and, as they deem appropriate, with a central authority. As you know, the process of establishing an economic community is underway. Until this process is completed, we cannot provide definitive answers to many of the questions that you and Chairman Rostenkowski have raised concerning the Trade Agreement pending before Congress.

However, as the Agreement moves through the ratification process in the Soviet Union, we believe that answers to some of the questions you have raised will emerge. The Administration has been consulting with the Congress on developments in the Soviet Union, and we intend to continue to do so. In that spirit, and in order to keep you fully informed of relevant developments in the Soviet Union, I assure you that, after the ratification process in the Soviet Union is completed and before the United States actually implements the Trade Agreement, the Administration intends to consult closely with the Congress, including the Committees on Finance and Ways and Means. The purpose of these consultations will be to inform the Congress about various factors related to Soviet ratification of the Trade Agreement, such as the mechanics of the ratification process, the role of the Republics in the process, the commitments made by both the central authorities and the Republics, and the implications of ratification for the operation of the Trade Agreement.

Once the Agreement has entered into force, other questions concerning the Agreement may arise with respect to the application of the Agreement in the Soviet Union as a whole or in individual Republics. We intend to consult in a timely manner with the Committees on Finance and Ways and Means on the implications of these developments. This would include questions relating to the status

of the Republics with regard to the central authorities, changes that could affect the commitment of the Republics to carry out the Agreement, or any other problems which might arise with respect to the operation of the Agreement in the Soviet Union as a whole or in an individual Republic. We would also intend to consult on questions on the applicability of Title IV of the Trade Act of 1974 which might arise from changes in the relationship between the Soviet central authorities and the Republics.

Because the situation in the Soviet Union may remain uncertain for some time, the Administration is prepared to meet periodically with you or your staff to discuss developments that have significant implications for the operation of the Agreement.

I urge you to move forward with legislation approving the extension of most-favored-nation status to the Soviet Union and granting that same status by statute to the Baltic States. I believe that swift Congressional approval of these measures is in the best interest of the United States, as well as that of the Soviet Union and the Baltic nations.

Sincerely,

LAWRENCE S. EAGLEBURGER.

NOVEMBER 19, 1991.

DEAR LLOYD: I understand that Congress will be considering the U.S.-Soviet Trade Agreement in the very near future and I want to let you know why I believe it is in the U.S. interest for Congress to approve the Agreement as soon as possible.

As you know, we have been working long and hard to put the cold war behind us and to normalize trade relations between the U.S. and the USSR. This Agreement is recognized by all concerned as an important milestone in this process.

I believe it essential for us to go on record today in support of the aspirations of the people of this country to integrate their economy and political system with those of the West. Approving the Trade Agreement would send this kind of signal. Failing to do so would be seen as closing the door to the U.S. market at the very time when pro-market reformers are beginning to take some of the most important—and painful—steps towards freeing up their economic system and opening it to competition.

I recognize that the Senate may have concerns about the implementation of this Agreement on the Soviet side, and frankly, I cannot tell you with any certainty that a workable central authority will evolve here any time soon, but I can assure you that all levels of leadership, both in the Republics and at the Center, recognize the importance of abiding by the international commitments previously agreed to by the Soviet Central Government, and have confirmed their intention to do so.

I know that there is a lot of debate in Washington about the ability of the U.S. to influence events here in a positive direction, and that there is some reluctance to spend taxpayer dollars to do so. Approving this Agreement will not cost the taxpayers a cent, and it will enhance trade opportunities for American business as well as for Soviets. In my judgment, this is strongly in the U.S. self interest and can be sold on that basis. If there is anything I can fur-

nish and discuss with you that you think would be helpful, please call.

All the best,

BOB STRAUSS, *Ambassador.*

The Committee believes that U.S. companies can assist the former Soviet Union's transition to a market-based economy and that the prompt enactment of the trade agreement is an important step toward that end. Accordingly, the Committee strongly supports enactment of S.J. Res. 215 and the extension of MFN treatment to the Soviet Union.

III. VOTE OF THE COMMITTEE IN REPORTING THE BILL

In compliance with section 133 of the Legislative Reorganization Act of 1946, the Committee states that S.J. Res. 215 was ordered favorably reported by voice vote.

IV. BUDGETARY IMPACT OF THE BILL

In compliance with sections 308 and 403 of the Congressional Budget Act of 1974, and paragraph 11(a) of Rule XXVI of the Standing Rules of the Senate, the following letter has been received from the Congressional Budget Office regarding the budgetary impact of the bill:

U.S. CONGRESS
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, November 20, 1991.

Hon. LLOYD BENTSEN,
Chairman, Committee on Finance,
U.S. Senate, Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has reviewed S.J. Res. 215, a joint resolution approving the extension of most-favored-nation (MFN) status to the Union of Soviet Socialist Republics (USSR), as ordered reported by the Senate Committee on Finance on November 20, 1991. CBO estimates that extending MFN status to the USSR for one year would result in a \$22 million reduction in federal government revenues in fiscal year 1992.

Under Title IV of the Trade Act of 1974, MFN status may not be conferred on a country with a nonmarket economy if that country maintains restrictive emigration policies. Because of this stipulation, the USSR has not qualified for MFN status. However, the President may waive the stipulation on an annual basis if he certifies that granting MFN status would promote freedom of emigration in that country. The President first waived this stipulation on December 12, 1990.

In order to grant a country MFN status for the first time, the President also must negotiate a trade agreement with that country, and Congress must pass a joint resolution granting the country MFN status. On June 3, 1991, the President notified Congress of his intention to extend the waiver of the application of Title IV of the Trade Act of 1974 with respect to the USSR for one year. On October 9, 1991, the President transmitted to Congress the trade agreement granting MFN status to the USSR.

S.J. Res. 215 approves the extension of MFN status to the USSR. Granting MFN status would lower tariff rates on imports from the USSR. The net effect on the federal budget of lowering the tariff rate would be a reduction in customs duty revenues below the level projected under current tariff rates. While imports would rise in response to the lower domestic price resulting from the lower tariffs, the negative effect on revenues of the lower tariff rates would outweigh the positive effect on revenues of the greater volume of imports from these countries. In addition, it is likely that some of the increase in U.S. imports from the USSR will displace imports from other countries. In the absence of specific data on the extent of this substitution effect, CBO assumes that an amount equal to one-half of the increase in U.S. imports from the USSR will displace imports from other countries. CBO estimates that, net of income and payroll tax offsets, granting the USSR MFN status would reduce federal government revenues by \$22 million in fiscal year 1992.

S.J. Res. 215 would affect revenues and thus would be subject to pay-as-you-go procedures under Section 252 of the Balanced Budget and Emergency Deficit Control Act of 1985.

PAY-AS-YOU-GO CONSIDERATIONS

[By fiscal year, in millions of dollars]

	1992	1993	1994	1995
Changes in outlays.....	(¹)	(¹)	(¹)	(¹)
Changes in receipts.....	-22	0	0	0

¹ Not applicable.

This estimate is based on 1990 Census data for imports from the USSR, which are available for goods by Harmonized Tariff Schedule classification. The increase in imports of goods from the USSR brought about by the reduced prices of the imported products in the U.S.—reflecting the lower, MFN tariff rates—has been calculated using estimates of the substitution between U.S. products and imports of these goods.

The analysis presented above assumes that the economy of the USSR will function in the next year in a manner generally similar to that in the recent past. Obviously major political and economic changes are under way that could affect its ability to produce and export goods, its need to import goods from the U.S. and other countries, and the exchange rate between its currency and that of the U.S. On balance, we feel that this assumption is appropriate for a one-year extension of MFN status, but that over a five-year period, considerably greater uncertainty arises.

If you wish further details, please feel free to contact me or your staff may wish to contact John Stell at 226-2720 or Trevor Alleyne at 226-2758.

Sincerely,

ROBERT D. REISCHAUER,
Director.

V. REGULATORY IMPACT OF THE BILL

In compliance with paragraph 11(b) of Rule XXVI of the Standing Rules of the Senate, the Committee states that the bill will not significantly regulate any individuals or businesses, will not impact on the personal privacy of individuals, and will result in no significant additional paperwork.

VI. CHANGES IN EXISTING LAW

Pursuant to the requirements of paragraph 12 of rule XXVI of the Standing Rules of the Senate, changes in existing law made by the resolution, S.J. Res. 215, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

UNITED STATES CODE

TITLE 19—CUSTOMS DUTIES

CHAPTER 18—IMPLEMENTATION OF THE HARMONIZED
TARIFF SCHEDULE

Harmonized Tariff Schedule of the United States (1991) Annotated
for Statistical Reporting Purposes

General Notes

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3(a)

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(b) *Rate of Duty Column 2.* Notwithstanding any of the foregoing provisions of this note, the rates of duty shown in column 2 shall apply to products, whether imported directly or indirectly, of the following countries and areas pursuant to section 401 of the Tariff Classification Act of 1962, to section 231 or 257(e)(2) of the Trade Expansion Act of 1962, to section 404(a) of the Trade Act of 1974 or to any other applicable section of law, or to action taken by the President thereunder:

Afghanistan	Latvia
Albania	Lithuania
Bulgaria	Mongolia
Cuba	North Korea
Estonia	Romania
German Democratic Republic	[Union of Soviet Socialist Republics]
Kampuchea	Vietnam
Laos	

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