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FOIA MARKER

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Record Group/Collection: George H.W. Bush Presidential Records
Collection/Office of Origin: Science and Technology Policy, Office of (OSTP)
Series: Bromley, D. Allan, Files
Subseries: International Files - Country Files

OA/ID Number: 62068
Folder ID Number: 62068-004

Folder Title:
Russia - Meetings [4 of 5] [1992]

Stack:

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MEETING

WITH

MINISTER BORIS SALTYKOV

3 PM - MONDAY, APRIL 27, 1992

ROOM 360

Withdrawal/Redaction Sheet

(George Bush Library)

Document No. and Type	Subject/Title of Document	Date	Restriction	Class.
01a. Memorandum	To: Allan Bromley From: John O'Neil Re: Meeting with Minister Boris Saltykov (2 pp.)	4/24/92	(b)(1)	

Collection:

Record Group: Bush Presidential Records
Office: Science and Technology Policy, Office of (OSTP)
Series: Bromley, D. Allan, Files
Subseries: International Files - Country Files
WHORM Cat.:
File Location: Russia - Meetings [4 of 5] [1992]

Date Closed:	5/10/2010	OA/ID Number:	62068-004
FOIA/SYS Case #:	2005-0336-F	Appeal Case #:	
Re-review Case #:		Appeal Disposition:	
P-2/P-5 Review Case #:		Disposition Date:	
AR Case #:		MR Case #:	
AR Disposition:		MR Disposition:	
AR Disposition Date:		MR Disposition Date:	

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P-1 National Security Classified Information [(a)(1) of the PRA]
P-2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P-3 Release would violate a Federal statute [(a)(3) of the PRA]
P-4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
P-5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA]
P-6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

PRM. Removed as a personal record misfile.

Freedom of Information Act - [5 U.S.C. 552(b)]

(b)(1) National security classified information [(b)(1) of the FOIA]
(b)(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
(b)(3) Release would violate a Federal statute [(b)(3) of the FOIA]
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(b)(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
(b)(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
(b)(9) Release would disclose geological or geophysical information

AGENDA (as of 4/22)**SCIENCE, TECHNOLOGY AND INDUSTRIAL POLICY
IN THE FORMER SOVIET UNION****RUSSIAN AREA STUDIES PROGRAM
GEORGETOWN UNIVERSITY
INTERCULTURAL CENTER AUDITORIUM
APRIL 27-28, 1992****Monday, April 27**

- 09:00 Welcome
 Dr. Harley Balzer, Director, Russian Area Studies Program
- 09:10 Keynote Address
 Dr. Allan Bromley, Director, Office of Science and Technology Policy,
 Executive Office of the President
- 09:50 Break
- 10:15 Science, Technology and Industrial Policy in Russia
 Dr. Boris Saltykov, Minister for Science, Higher Education and
 Technology Policy, Russia
- 12:00 Lunch
- 13:30 Russia's Basic Science: New Realities and New Opportunities
 Academician Yurii Osipov, President, Russian Academy of Sciences
- 14:45 Break
- 15:00 Industrial Research & Development and Economic Development in the
 Former Soviet Union
 Dr. Robert Campbell, Professor of Economics, Indiana University;
 Dr. Dmitry Piskunov, Director, Analytical Center for Science-Technology
 and Problems of Socio-Economic Development, Russian Academy of
 Sciences
- 16:30 Adjourn
- 16:30-
18:30 Reception, Intercultural Center Galleria
 (Co-sponsored by Science Application International Corporation)

Tuesday, April 28

- 09:15 Research & Development and Industrial Activity in the Former Soviet Union.
 Dr. Maxim Alexandrov, Director General, Science and Technology Corporation, Russian Academy of Sciences, St. Petersburg
 Dr. John Gage, Director, Science Office, Sun Microsystems Laboratories Inc., Mountain View, California
 Vladimir Semyonov, General Director, Pnevmostroymashina Industrial Association, Ekaterinburg
- 11:45 Lunch
- 13:15 Innovation, Research & Development, and the Economy
 Dr. Joseph Berliner, Professor of Economics, Brandeis University;
 Dr. Sergei Glazev, Deputy Director, International Center for Research on Economic Transformation, Moscow and Deputy Minister of Foreign Economic Relations, Russia
- 15:00 Break
- 15:15 Prospects for Cooperation
 The Hon. George Brown, Chair, Committee on Science, Space, and Technology, U.S. House of Representatives
- 15:45 Concluding Thoughts: The View From the Moscow Embassy
 Robert Clarke, Science Counsellor, U.S. Embassy, Moscow
- 16:30 Adjourn.

This conference is made possible by the United States Department of State and Department of Commerce, and the Carnegie Corporation of New York.

THE WHITE HOUSE
WASHINGTON

January 17, 1992

Dear Dr. Saltykov,

Congratulations on your appointment as Minister of Science, Education, and Technology Policy in the Russian Government. I look forward with great anticipation to working closely with you in the coming year on the issues that will arise, but particularly on our Agreement on Cooperation in the Field of Basic Scientific Research. Let me add that your appointment was received with particular applause by American scientists who have had the pleasure of working with you in the past.

I understand that you may be attending the annual meeting of the American Association for the Advancement of Science in Chicago in early February. Further, I understand that you may also visit Washington on your way to Chicago. If that is so, I hope that you could stop by for a meeting with me at the White House to begin discussing issues of mutual concern to both of us. Please inform the U.S. Science Counsellor in Moscow, Bob Clarke, if this will be possible, and we will be glad to assist you in Washington.

I wish you every success in your new position during this new year.

Sincerely,

A handwritten signature in dark ink, appearing to read "D. Allan Bromley", with a stylized, flowing script.

D. Allan Bromley
The Assistant to the President
for
Science and Technology

Dr. Boris Saltykov
Russian Ministry of Science, Education,
and Technology Policy
11 Tverskaya Ulitsa
Moscow, 103009
Russia

NATIONAL SECURITY COUNCIL
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PAGE 01

NSC: OSTP

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FM AMEMBASSY MOSCOW
TO WHITEHOUSE WASHDC, IMMEDIATE
SECSTATE WASHDC, NIACT IMMEDIATE

<SUBJ> TEXT OF LETTER TO PRESIDENT, S SCIENCE
ADVISOR FROM SCIENCE MINISTER SALTUKOV
UNCLAS MOSCOW; MCN/MRN WILL BE SENT VIA SEPARATE TELEGRAM
WHITE HOUSE FOR OSTP - DR. BROMLEY
DEPARTMENT FOR S/S - PASS TO SECRETARY, S PARTY
E. O. 12356: N/A

TAGS: PREL, TSPL, RS, US

SUBJECT: TEXT OF LETTER TO PRESIDENT, S SCIENCE
ADVISOR FROM SCIENCE MINISTER SALTUKOV

1. THERE FOLLOWS TEXT OF ENGLISH-LANGUAGE LETTER
DATED FEBRUARY 7, 1992, FROM RUSSIAN FEDERATION
SCIENCE MINISTER SALTUKOV TO DR. BROMLEY.

2. BEGIN TEXT.

DR. ALLAN BROMLEY

THE ASSISTANT TO THE PRESIDENT
FOR SCIENCE AND TECHNOLOGY

WHITE HOUSE, WASHINGTON, D. C., U. S. A.

FEBRUARY 7, 1992.

DEAR DR. BROMLEY,

THANK YOU FOR YOUR KIND LETTER OF JANUARY 17,
1992 WITH CONGRATULATIONS ON MY APPOINTMENT AS
MINISTER OF SCIENCE, EDUCATION AND TECHNOLOGY
POLICY OF THE RUSSIAN FEDERATION.

I AM HAPPY TO KNOW FROM YOUR LETTER ABOUT
WILLINGNESS OF YOUR OFFICE TO WORK CLOSELY ON
ISSUES OF COOPERATION IN SCIENCE AND TECHNOLOGY
FIELDS BETWEEN RUSSIA AND U. S. A.

DUE TO OVERLOADING OF MY SCHEDULE I WAS NOT IN A
POSITION TO PARTICIPATE IN THE ANNUAL MEETING OF
THE AMERICAN ASSOCIATION FOR THE ADVANCEMENT OF
SCIENCE TO BE HELD IN CHICAGO IN EARLY FEBRUARY.
NEVERTHELESS I AM PLANNING FOR A SHORT VISIT TO
WASHINGTON IN THE LAST DECADE (EMBASSY NOTE: 10
DAYS) OF FEBRUARY IN ORDER TO HAVE PRINCIPLE
DISCUSSIONS WITH YOU AND OTHER PROMINENT AMERICAN
SCIENTISTS AND POLICY MAKERS ON ISSUES OF MUTUAL
CONCERN IN SCIENCE AND TECHNOLOGY FIELD FOR BOTH
OUR COUNTRIES. AN INFORMATION ON EXACT DAYS OF
MY VISIT TO WASHINGTON WOULD BE FORWARDED TO YOUR
OFFICE IN ADVANCE.

PLEASE CONVEY MY BEST REGARDS TO THOSE AMERICAN
SCIENTISTS MENTIONED IN YOUR LETTER WITH WHOM I
HAD THE PLEASURE TO WORK IN THE PAST.

SINCERELY,

DR. B. G. SALTUKOV

MINISTER OF SCIENCE, HIGHER EDUCATION
AND TECHNOLOGY POLICY
OF THE RUSSIAN FEDERATION

END TEXT.

3. THE ORIGINAL WILL BE POUCHED TO THE
DEPARTMENT UNDER REGISTRY NUMBER 335514
STRAUSS

<SECT> SECTION: 01 OF 01 <SSN> 1238 <STOR> 920208164531 MSG000318876331
<TOR> 920208164915

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PRT: COMM OLEARY

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RUEHLN/AMCONSULATE ST PETERSBURG
INFO RUEHC/SECSTATE WASH DC

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SECTION 01 OF 02

AMEMBASSY MOSCOW: PASS TO SCIENCE COUNSELOR BOB CLARKE
SECSTATE: EUR/ISCA PASS TO PAUL TIMMER
OES/SCT PASS TO CATHY CAMPBELL

BEGIN TEXT:

SUBJ: REPORTING CABLE OF MINISTER SALTYSKOV MEETING WITH DR. D.
ALLAN BROMLEY ON FEBRUARY 24, 1992

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REF: MOSCOW 10970

>BEGIN SUMMARY:

1. SUMMARY: ON FEBRUARY 24, 1992, MINISTER SALTYSKOV CALLED ON ASSISTANT TO THE PRESIDENT BROMLEY. SALTYSKOV ACKNOWLEDGED THE MERIT OF THE INTERNATIONAL S&T CENTER BUT ALSO EXPRESSED CONCERN THAT IN EUROPE IT MIGHT BE PERCEIVED IN EUROPE AS A CURE-ALL. RUSSIA, HE OFFERED, WAS NOT AS CONCERNED AS THE WEST ABOUT WEAPONS SCIENTISTS LEAVING THE FORMER SOVIET UNION. SALTYSKOV MENTIONED THAT PRESIDENT YELTSIN HAD TASKED HIM TO HAVE AN UMBRELLA AGREEMENT READY FOR THE

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SUMMIT. DISCUSSIONS ALSO RANGED OVER THE NEEDS OF SCIENCE IN THE FORMER SOVIET UNION. THE BEST METHODS TO ASSIST IN MEETING THOSE NEEDS. AND THE SCIENCE RELATIONSHIP BETWEEN RUSSIA AND UKRAINE. END SUMMARY.

2. MINISTER SALTYSKOV CALLED ON ASSISTANT TO THE PRESIDENT FOR SCIENCE AND TECHNOLOGY D. ALLAN BROMLEY ON FEBRUARY 24, 1992, AT 3 PM IN DR. BROMLEY'S OFFICE IN THE OLD EXECUTIVE OFFICE BUILDING. VICTOR BEKOV ACCOMPANIED THE MINISTER FROM MOSCOW AND VLADIMIR KRUKOV OF THE RUSSIAN EMBASSY JOINED HIM FOR THE MEETING. DR. RATCHFORD, JOHN O'NEIL, AND RICK YANNUZZI OF OSTP, AND PAUL TIMMER PAGE 03 RHEHAAA0259 UNCLAS FROM THE DESK ALSO PARTICIPATED.

3. SALTYSKOV BEGAN BY STATING THAT THE RUSSIANS ARE PROUD THAT AMERICA IS HELPING THEM. HE CONTINUED THAT AFTER TALKING WITH THE FOREIGN MINISTRY, HE IS ABLE TO STATE THAT THERE ARE NO COMMUNISTS IN THE YELTSIN LEADERSHIP.

4. HE THEN STATED THAT THE THREE MAIN DIFFICULTIES IN RUSSIA WERE: THE DEFICIT, THE DEFICIT, AND THE DEFICIT! FOR 1992. HE SAID, THEY WERE PLANNING FOR THE SAME LEVEL OF SUPPORT FOR SCIENCE AS IN 1991, BUT THAT INFLATION DIMINISHES THAT AMOUNT. SALTYSKOV SAID HE IS

TROUBLED BY THE INTERNATIONAL S&T CENTER PROPOSED TO BE ESTABLISHED IN RUSSIA, BECAUSE HE FEARS THAT ONCE THIS CENTER IS ESTABLISHED EVERYONE WILL THINK THAT IT WILL FIX EVERYTHING. HE FEELS THAT THE PROBLEM WITH SCIENCE IN RUSSIA HAS TWO ASPECTS. THE CIVILIAN SIDE OF THE PROBLEM IS LARGE. THE MILITARY SIDE IS SMALL.

5. DR. BROMLEY THEN MENTIONED INITIATIVES UNDERWAY IN THE U.S. THAT WILL ADDRESS AT LEAST SOME OF THE MINISTER'S CONCERNS. FIRST HE DISCUSSED A TWO-DAY MEETING IN WASHINGTON UNDERWAY AS HE AND PAGE 04 RHEHAAA0259 UNCLAS SALTYSKOV WERE MEETING. THAT MEETING DISCUSSED FSU WEAPONS SCIENTISTS' POTENTIAL ROLE IN BASIC RESEARCH COOPERATION. (NOTE:

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GERSON SHER. NSF. DISCUSSED THIS MEETING WITH BOB CLARKE IN MOSCOW LAST MONTH.)

6. DR. BROMLEY THEN MENTIONED A MEETING SCHEDULED FOR MARCH 3, 1992. AT THE ACADEMY OF SCIENCES. HE REPORTED THAT IT WOULD INCLUDE GOVERNMENT, ACADEMIA, AND THE PRIVATE SECTOR, INCLUDING PRIVATE FOUNDATIONS, TO REACH A COMMON UNDERSTANDING OF THE PROBLEM AND TO COORDINATE INITIATIVES.

(REPORT POUCHED)

7. THEN DR. BROMLEY ASKED HOW BEST TO PROVIDE ASSISTANCE, SO IT WILL NOT GET LOST IN THE BUREAUCRACY BEFORE REACHING THE SCIENTISTS. HE ASKED IF IT WOULD BE BEST TO PROVIDE ASSISTANCE ON AN INSTITUTE-TO-INSTITUTE BASIS, AND IF SO WHICH INSTITUTES, BY VIRTUE OF THEIR EXCELLENCE AND IMPORTANCE, ARE CRITICAL TO THE SURVIVAL OF SCIENCE AND TECHNOLOGY IN RUSSIA. 107

8. SALTYKOV RELATED THAT THERE IS A DEBATE IN RUSSIA ON WHETHER TO SUPPORT THE OLD STYLE S&T STRUCTURE OR TO SUPPORT RESEARCH TEAMS. THE INSTITUTES ARE MONOPOLIES, HE SAID, AND THEY HAVE NO EXPERIENCE WITH PEER REVIEW. FOR NOW THEY HAVE ONLY A DECLARATION, BUT SALTYKOV ADMITTED THAT NO ONE KNOWS THE MECHANISM FOR DISTRIBUTING FUNDS. THEY NEED EXPERIENCE. LAST YEAR THEY STARTED A DATA BASE FOR "EXPERTS IN SCIENCE" IN THE ACADEMY. HE REPORTED THAT OVER 10,000 SOVIET SCIENTISTS WERE PUBLISHED ABROAD IN INTERNATIONAL AND FOREIGN JOURNALS. HE EXPECTS THE FIRST RESULTS AT THE END OF THE QUARTER, BUT HE ADMITTED THAT THEY REALLY NEED THAT TYPE OF INFORMATION QUICKER.

9. AS FOR AMERICAN ASSISTANCE, HE RECOMMENDED AN ADVISORY BOARD AND OFFERED TWO MODELS: TO HAVE TWO SEPARATE ADVISORY BOARDS, ONE RUSSIAN, AND ONE AMERICAN; OR ONE INTEGRATED BOARD. HE ADMITTED THAT HE PREFERS THE LATTER.

10. IN THIS CONNECTION, DR. BROMLEY MENTIONED THE BASIC SCIENCES

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JOINT COMMISSION WHICH HE CO-CHAIRLED WITH ACADEMICIAN LAVEROV IN MOSCOW DURING MAY OF 1991. SALTYKOV ACKNOWLEDGED ITS USEFULNESS. BUT POINTED OUT THAT THE RUSSIAN ACADEMY IS ONLY A SMALL PERCENTAGE
PAGE 06 RHEHAAA0259 UNCLAS

OF THE RESEARCH IN RUSSIA AND THAT IT IS NOT THE BEST MODEL FOR DISTRIBUTING FUNDS. THEN HE MENTIONED THAT IT IS, AND HAS BEEN, THEIR INTENTION TO COMBINE THE ACADEMY AND UNIVERSITIES. HE THINKS THIS CAN BE ACCOMPLISHED RATHER QUICKLY. AND THEN REMARKED THAT THE ACADEMY SHOULD NOT BE A PENSION ORGANIZATION.

11. SALTYKOV AGREED WITH DR. BROMLEY'S OBSERVATION THAT A MIXED COMMITTEE OF RUSSIAN AND AMERICANS COULD IDENTIFY EXPERTS WHO SHOULD

GET SUPPORT. SALTYKOV STATED THAT THE COMMITTEE SHOULD OPERATE FOR 2-3 YEARS BUT THAT THE COMING SPRING WOULD BE THE CRITICAL PERIOD. HE MENTIONED A DEAL WITH CARLO RUBBIA TO FUND SOME RUSSIAN SCIENTISTS BUT THAT HE THOUGHT THE REQUIREMENTS FOR FUNDING WERE DIFFERENT FOR DIFFERENT SPHERES OF SCIENCE. LIKE MATH. BIG SCIENCE, ETC.

12. TURNING TO THE UPCOMING OECD MINISTERIAL. DR. BROMLEY SAID HE ANTICIPATED SALTYKOV'S ATTENDANCE AND SAID THAT THE SITUATION FOR RUSSIAN SCIENCE WILL BE ON THE AGENDA. HE CONTINUED THAT THE ERA WHEN ONE COUNTRY COULD FUND BIG SCIENCE PROJECTS MAY BE AT AN END. SALTYKOV AGREED AND SAID THAT THIS IS A PARTICULAR PROBLEM FOR HIM

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FINAL SECTION OF 02

SINCE RUSSIA CAN'T AFFORD THE INVESTMENT.

13. DR. BROMLEY THEN ASKED SALTYKOV TO EXPLAIN THE RELATIONSHIP BETWEEN THE RUSSIAN ACADEMY AND THE UKRAINIAN ACADEMY. SALTYKOV SAID THAT AS THE RUSSIANS DEVELOP POLICY THEY MUST BE MINDFUL OF THE

UK Academy

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RELATIONSHIP WITH THE UKRAINIAN ACADEMY AND HE POINTED OUT THAT MARCHUK'S UNION OF ACADEMIES WAS NOT SUCCESSFUL. IN POLITICS, HE SAID, THERE IS A PROBLEM WITH THE BLACK SEA FLEET BUT THE SCIENCE TO SCIENCE RELATIONSHIP IS NORMAL. HE SPOKE OF A DECEMBER MEETING IN MINSK ON SCIENCE AT WHICH THEY AGREED ON A PERMANENT COUNCIL ON
PAGE 02 RHEHAAA0260 UNCLAS

SCIENCE AND THAT THERE WAS CONSIDERABLE DEBATE ON LARGE PROJECTS. THEN, MENTIONING THE LARGE FACILITIES OF THE ACADEMY, HE SAID THERE IS STILL DISCUSSION ON THE LARGE TELESCOPE IN THE CAUCASUS AND THAT THE ISSUE HAD NOT YET BEEN RESOLVED. A SIMILAR SITUATION EXISTS WITH RESPECT TO KAZAKHSTAN AND BAIKONAR.

14. TURNING TO OUR BILATERAL COOPERATION, DR. BROMLEY GAVE SALTYKOV MATERIAL ON THE 9 EXISTING BILATERAL AGREEMENTS (COMMENT: THIS IS THE SAME MATERIAL THAT HE PROVIDED TO DR. OSIPOV WHEN THEY MEET ON JANUARY 28, 1992) AND HE REQUESTED THAT SALTYKOV IDENTIFY THE SUCCESSOR ORGANIZATIONS IN RUSSIA. SALTYKOV AGREED TO PROVIDE THE REQUESTED INFORMATION AND SAID THAT RUSSIA WISHED TO CONTINUE THE COOPERATION. HE THEN SAID THAT PRESIDENT YELTSIN HAD GIVEN HIM A SPECIAL ASSIGNMENT TO GET A NEW BASIC SCIENCE AGREEMENT TO SIGN AT THE UPCOMING SUMMIT. THE TWO SPECIFICS HE MENTIONED WERE TO EXPLORE THE POSSIBILITIES FOR COOPERATION, AND FUNDING.

15. DR. BROMLEY HIGHLIGHTED THE LATEST THRUST IN OUR BILATERAL COOPERATION, THAT IS THE "BOTTOM-UP" APPROACH AND INSTITUTION-TO-INSTITUTION AND SCIENTIST-TO-SCIENTIST RELATIONSHIPS.
PAGE 03 RHEHAAA0260 UNCLAS

DR. RATCHFORD ASKED SALTYKOV TO CLARIFY HIS PROPOSAL, SPECIFICALLY WHETHER HE MEANT AN UMBRELLA AGREEMENT OR A COMPREHENSIVE S&T AGREEMENT. SALTYKOV SAID HE PREFERS TO START WITH AN UMBRELLA AGREEMENT AND TO IDENTIFY THE SPECIAL BENEFIT AND EMPHASIS.

16. SALTYKOV ADDED THAT IN DEVELOPING A NEW AGREEMENT THERE IS A NEED TO BALANCE SCIENCE WORLD-WIDE. ON THIS ISSUE, DR. BROMLEY POINTED OUT THAT LAST YEAR DURING THE JOINT COMMISSION MEETING ON THE BASIC SCIENCES AGREEMENT THE US HAD AGREED TO CONSIDER FUNDING

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PROPOSALS FROM SOVIET SCIENTISTS IF THE PROPOSALS INCLUDED AN AMERICAN SCIENTIST AS A PARTICIPANT. BUT THAT THE US IS NOT PREPARED YET TO ACCEPT PROPOSALS WHICH DO NOT INCLUDE AN AMERICAN PARTICIPANT. SALTYKOV INDICATED THAT HE CONCURRED IN THIS APPROACH.

17. DR. BROMLEY THEN INQUIRED ABOUT LAVEROV'S 100 MILLION RUBLE FUND FOR RESEARCH. SALTYKOV SAID HE ADVOCATES A FOUNDATION. BUT THAT IT'S TOO EARLY FOR THIS. HE SAID A DRAFT DECREE ON A FOUNDATION HAS BEEN PREPARED FOR PRESIDENT YELTSIN. THE DECREE IS IN STAFFING NOW. SALTYKOV PROPOSES THAT ACADEMICIAN GONCHAR WOULD HEAD THIS FOUNDATION. SALTYKOV CONTINUED THAT HE HAD A "SPECIAL RESERVE"

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OF 2 BILLION RUBLES IN 1992 MONEY. HE IS ATTEMPTING TO ESTABLISH A NEW CHANNEL FOR MONEY, ADMITTING THAT RUSSIANS KNOW THE THEORY BUT NEED PRACTICE. AND HE WILL ATTEMPT TO GIVE OUT THE FIRST MONEY FOR PROPOSALS IN 3 TO 4 WEEKS. ONE PURPOSE OF THIS TRIP, ACCORDING TO SALTYKOV, IS TO GET A FIRST HAND IMPRESSION OF THE US SYSTEM. HE SAID THAT DISCUSSION IS FINE, BUT WHAT RUSSIA NEEDS NOW IS THE FIRST CONCRETE STEPS. HE ACKNOWLEDGED AGREEMENT ON THE CONCERN FOR BASIC SCIENCE IN RUSSIA AND RECOGNIZED THE TREND TOWARDS THE INTERNATIONALIZATION OF SCIENCE.

18. DR. RATCHFORD ASKED A QUESTION AS TO THE BEST APPROACH TO SAVE BASIC SCIENCE IN RUSSIA, BALANCING THE NEED FOR ACTION AND THE RIGHT APPROACH OVER THE LONGER TERM. SALTYKOV MENTIONED SUBSCRIPTIONS TO FOREIGN JOURNALS FIRST, BUT ADDED THAT THERE ARE OTHER REQUIREMENTS ALSO. WHEN ASKED ABOUT THE PROBLEMS OF GETTING AEROFLOT TICKETS FOR RUSSIAN SCIENTISTS, HE REPORTED THAT HE IS TRYING TO WORK THAT PROBLEM IN HIS GOVERNMENT. SALTYKOV ALSO MENTIONED THE PROBLEM OF PUBLISHING AT HOME AND LET ON THAT NAUK IS EXPERIENCING DIFFICULTIES ALREADY.

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19. DR. BROMLEY MENTIONED THAT THERE WILL BE DOMESTIC CRITICISM FOR HELPING SCIENCE IN THE FORMER SOVIET UNION. HE OFFERED IT WOULD BE

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EASIER TO FUND JOINT RESEARCH PROJECTS INSTEAD OF SIMPLY FUNDING RUSSIAN SCIENTISTS TRAVEL. BUT, IN RESPONSE TO SALTYKOV'S QUESTION, HE ACKNOWLEDGED THAT TRAVEL COULD BE INCLUDED AS A PART OF THE GRANT.

20. DR. BROMLEY TOLD SALTYKOV HIS VISIT HAD REINFORCED OUR DESIRE TO HELP. HE NOTED THE IMPORTANCE TO BOTH COUNTRIES OF SAVING SCIENCE IN THE FORMER SOVIET UNION AND STRESSED THE IMPORTANCE OF RUSSIAN SCIENTISTS REMAINING IN RUSSIA.

21. IN RESPONSE TO A COMMENT BY DR. RATCHFORD, SALTYKOV REITERATED THAT HE HAS RESERVATIONS ON THE PROPOSED INTERNATIONAL S&T CENTER TO BE ESTABLISHED IN RUSSIA. HE EXPLAINED THAT HIS PROBLEM IS THE PERCEPTION IN EUROPE. HE STATED THAT THE CENTER IS A POSITIVE THING BUT OFFERED THAT WESTERN CONCERN IS WITH THE WEAPONS SCIENTISTS WHILE RUSSIA IS NOT AS CONCERNED. HE STATED THAT THE WEAPONS SCIENTISTS ARE NOT LEAVING. ON THIS POINT HE OFFERED THAT THE PROBLEM IS WITH THE JOURNALISTS.

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22. THE MEETING CLOSED WITH DR. BROMLEY'S EXPRESSION OF ANTICIPATION AT SALTYKOV JOINING HIM AT THE OECD MINISTERIAL MEETING IN PARIS ON MARCH 10 AND 11, 1992. AND DR. BROMLEY'S MENTION OF THE SPECIAL INVITATION SALTYKOV WILL RECEIVE TO JOIN HIM IN THE NEXT CARNEGIE GROUP MEETING. (OSTP CABLE OF MARCH 20, 1992.)

23. COMMENT: SUBSEQUENT INFORMAL CONVERSATIONS WITH SALTYKOV ABOUT AN UMBRELLA S&T AGREEMENT INCLUDED AN OFFER FROM OSTP TO PROVIDE A DRAFT AGREEMENT. A DRAFT TEXT HAS BEEN PROVIDED TO STATE (OES/SCT) FOR INITIAL REVIEW PRIOR TO RECEIPT OF RUSSIAN TEXT. REFTEL. EMBASSY WILL BE ADVISED SEPTEL RESULTS OF INTERAGENCY REVIEW.

END TEXT

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ATTENDEES

RUSSIANS

MINISTER BORIS SALTYKOV

VALDIMIR KRUKOV - RUSSIAN EMBASSY

OSTP

DR. RATCHFORD

JOHN O'NEIL

CATHY CAMPBELL - OES/STATE

BOB CLARKE - EMBASSY MOSCOW

PAUL TIMMER - STATE

Withdrawal/Redaction Sheet

(George Bush Library)

Document No. and Type	Subject/Title of Document	Date	Restriction	Class.
01b. Talking Points	Talking Points for meeting with Saltykov (6 pp.)		(b)(1)	

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BILATERAL COOPERATIVE S&T AGREEMENTS WITH THE FORMER USSR

- 1. AGRICULTURE**
- 2. ARTIFICIAL HEART**
- 3. BASIC SCIENTIFIC RESEARCH**
- 4. ENVIRONMENTAL PROTECTION**
- 5. MEDICAL SCIENCE AND PUBLIC HEALTH**
- 6. OCEANS STUDIES**
- 7. PEACEFUL USES OF ATOMIC ENERGY**
- 8. SPACE**
- 9. TRANSPORTATION**

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BILATERAL COOPERATIVE AGREEMENTS WITH THE FORMER USSR

1. AGRICULTURE

TERM: 6/19/93

EXECUTIVE AGENTS: USDA
USSR COMMISSION ON FOOD AND FOOD
PROCUREMENT

2. ARTIFICIAL HEART

TERM: 6/28/92

EXECUTIVE AGENTS: HHS
USSR MINISTRY OF HEALTH, ALL UNION CENTER FOR
CARDIOLOGY RESEARCH

3. BASIC SCIENTIFIC RESEARCH **TERM: 1/08/93**

EXECUTIVE AGENTS: OSTP
GKNT

SUBSIDIARY MOU PARTNERS: NSF-USSR ACADEMY OF SCIENCES
NIST-USSR ACADEMY OF SCIENCES
USGS-USSR MINISTRY OF GEOLOGY
USGS-USSR COMMITTEE OF GEODESY &
CARTOGRAPHY

4. ENVIRONMENTAL PROTECTION **TERM: 5/23/92**

EXECUTIVE AGENTS: EPA
USSR STATE COMMITTEE FOR NATURE USE AND
ENVIRONMENTAL PROTECTION

5. MEDICAL SCIENCE AND PUBLIC HEALTH: **TERM: 5/01/92**

EXECUTIVE AGENTS: HHS
USSR MINISTRY OF HEALTH

6. OCEAN STUDIES: TERM: 5/31/95

EXECUTIVE AGENTS: NOAA
GKNT

7. PEACEFUL USES OF ATOMIC ENERGY: TERM: 6/01/95

EXECUTIVE AGENTS: DOE
MINISTRY OF ATOMIC POWER AND INDUSTRY

8. SPACE:

TERM: 4/14/92

EXECUTIVE AGENTS: NASA
USSR ACADEMY OF SCIENCES
GLAVKOSMOS

9. TRANSPORTATION:

TERM: 5/31/93

EXECUTIVE AGENTS: DOT
GKNT

6. OCEAN STUDIES: TERM: 5/31/95

**EXECUTIVE AGENTS: NOAA
GKNT**

7. PEACEFUL USES OF ATOMIC ENERGY: TERM: 6/01/95

**EXECUTIVE AGENTS: DOE
MINISTRY OF ATOMIC POWER AND INDUSTRY**

8. SPACE: TERM: 4/14/92

**EXECUTIVE AGENTS: NASA
USSR ACADEMY OF SCIENCES
GLAVKOSMOS**

9. TRANSPORTATION: TERM: 5/31/93

**EXECUTIVE AGENTS: DOT
GKNT**

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF SCIENCE AND TECHNOLOGY POLICY
WASHINGTON, D.C. 20506

April 24, 1992

MEMORANDUM FOR D. ALLAN BROMLEY

THROUGH: J. THOMAS RATCHFORD

FROM: JOHN F. O'NEIL *JFO*

SUBJECT: VISIT BY ACADEMICIAN YURIY OSIPOV
PRESIDENT OF THE RUSSIAN ACADEMY OF SCIENCES
MONDAY, APRIL 27, 1992
4:00 P.M. IN ROOM 360

Dr. Yuriy Osipov, founder the new Russian Academy of Sciences and then was elected President last fall. You met with him, and Academician Velikov, on January 28, 1992 in your office.

Major items discussed at your last meeting included:

- problem with journal subscriptions,
- problem with Aeroflot tickets/prices for Russian scientists,
- assistance from U. S. private foundations/associations,
- possibilities for development of social sciences, and
- brain drain.

Talking points are at Tab A. Additional [points may develop during preceding meeting with Minister Saltykov.

Attendees are at Tab B.

TALKING POINTS

INTRODUCTION

WELCOME ONCE AGAIN.

I'M SORRY I HAD TO DEPART THIS MORNING BEFORE YOU SPOKE - I HAD BUSINESS AT OUR OWN ACADEMY OF SCIENCES, I'M SURE YOU UNDERSTAND.

I AM TOLD YOUR TALK WAS VERY WELL RECEIVED.

U.S. DEVELOPMENTS SINCE LAST MEETING

SINCE OUR LAST MEETING WE IN THE UNITED STATES HAVE TAKEN A NUMBER OF STEPS WE HOPE WILL ASSIST SCIENCE IN YOUR COUNTRY. BESIDES THE INTERNATIONAL S&T CENTER IN RUSSIA, I WOULD LIKE TO BRIEFLY MENTION TWO OTHER STEPS:

- o OUR ACADEMY CONVENED A CONFERENCE ON MARCH 3rd TO SOLICIT PRIVATE SECTOR INPUT FOR GOVERNMENT POLICY.**
- o THE CONFERENCE WAS QUITE SUCCESSFUL.**
- o THE ACADEMY HAS PRODUCED A COMPREHENSIVE REPORT WHICH ASSISTS US IN GOVERNMENT AS WE SEEK TO ESTABLISH POLICY AND INITIATE PROGRAMS. I AM PLEASED TO PRESENT YOU WITH A COPY.**
- o SECONDLY, ON ITS OWN INITIATIVE THE PRIVATE SECTOR HAS UNDERTAKEN A NUMBER OF INITIATIVES TO PROVIDE JOURNALS, BOTH OLD COPIES AND NEW SUBSCRIPTIONS.**
- o I HAVE ASKED OUR ACADEMY TO HOST ANOTHER MEETING TO REVIEW THE STATUS OF COOPERATIVE S&T ACTIVITIES WITH THE FSU, INCLUDING THE ACTIVITIES BEING IMPLEMENTED BY OUR PRIVATE FOUNDATIONS AND ASSOCIATIONS.**

DEVELOPMENTS IN THE RUSSIAN ACADEMY OF SCIENCES

WE ARE ANXIOUS TO HEAR WHAT YOU HAVE TO REPORT ON DEVELOPMENTS IN THE RUSSIAN ACADEMY OF SCIENCES SINCE OUR MEETING IN JANUARY.

AEROFLOT

IS THERE STILL A PROBLEM WITH AEROFLOT TICKETS?

COMMERCIALIZATION

I HAVE HEARD THAT YOU AND YURI OSSIPYAN HAVE ESTABLISHED A COMPANY TO COMMERCIALIZE ACADEMY TECHNOLOGIES. THIS SOUNDS FASCINATING - I WOULD LIKE VERY MUCH TO HEAR ABOUT THIS VENTURE.

SOCIAL SCIENCES

I AM ANXIOUS TO HEAR ABOUT DEVELOPMENTS IN THE SOCIAL SCIENCES SINCE OUR LAST MEETING.

ARE THERE OTHER WAYS WE CAN PROVIDE ASSISTANCE.

ATTENDEES

DR. YURIY OSIPOV

DR. RATCHFORD

JOHN O'NEIL

AID TO THE FORMER SOVIET UNION

The President's budget requests \$620 million in new appropriations for fiscal years 1992 and 1993 for assistance to the republics of the former Soviet Union. Funding will be used to deliver emergency humanitarian relief and provide technical assistance to support democratic reform and promote economic restructuring. The request includes:

- **\$500 million for a special Humanitarian and Technical Assistance Account to meet emerging humanitarian and special assistance needs as they arise.**
- **\$100 million in Economic Support Funds for technical assistance activities to promote democratic reforms and economic restructuring.**
- **\$10 million in Development Assistance funds targeted at development activities in republics with lower per capital incomes.**
- **\$10 million in PL-480 Food for Peace money for "Farmer-to-Farmer" Program to send U.S. farmers and agribusiness experts to provide training and advice to counterparts in the new independent states.**

These funds will be combined with \$860 million in resources available under existing legislation, including:

- **About \$210 million in food assistance (\$165 million in food aid and \$45 million in surplus Department of Defense stocks).**
- **\$100 million in Department of Defense money for transportation of humanitarian relief.**
- **\$400 million in Defense funds for the assistance in eliminating nuclear arms and chemical weapons.**
- **\$30 million in U.S. Agency for International Development (USAID) funds to provide urgently needed medical supplies.**
- **\$120 million in USAID and US Commodity Credit Corporation (CCC) funds for technical assistance activities.***

The United States also has announced \$3.75 billion in Commodity Credit Corporation export guarantees for the purchase of food. About \$3 billion has already been used tons of U.S. commodities. Together with the \$1.5 billion in existing and proposed grant assistance described above, the President proposed to provide more than \$5 billion in assistance to republics of the former Soviet Union. U.S. assistance is only part of a global response, with over 50 nations and multilateral institutions committed to providing over \$27 billion to the new independent states.

*Some of these funds are subject to congressional notification procedures.

AVAILABLE UNDER EXISTING LEGISLATION

REQUIRES NEW APPROPRIATION

TOTAL

PROGRAM

FY 1991
Actual

FY 1992
Estimate

FY 1993
Estimate

TOTAL

FY 1992
Proposed

FY 1993
Proposed

TOTAL

1991-92
TOTAL

Grant Assistance
(Budget Authority)

DOD Assistance**

Transportation Funds

Nuclear Disarmament

Humanitarian/Technical

Humanitarian/Technical Assistance

Economic Support Funds

USAID Disaster Assistance, Medical

USAID Development Assistance

PL 480, Farmer-to-Farmer

USAID Technical Assistance**

Food Assistance**

USDA Food Aid

DOD Surplus Stock Donations

Subtotal, Grants

Credit Programs (Face Value)**

USDA Export Credit Guarantees

TOTAL

* Use of these FY 1992 funds subject to congressional notification procedures.
**Not considered international affairs spending for purpose of the Budget Enforcement Act.

Add \$2M for SSC

\$6M for PU238 buy

Known US business investment in CIS: \$400M

(Deterred by chaotic business climate and enormous political/economic risks seen as disproportionate to likely rewards.)

**ESTIMATION: FY 1992 FUNDING FOR S&T COOPERATION WITH
REPUBLICS OF THE FSU FOR FY 1992**

DEPARTMENT OF AGRICULTURE	\$90,000	[INCLUDES EXCHANGES & AG RESEARCH SERVICE LABS-DOES NOT INCLUDE FOREIGN AD SERVICE]
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DEAPRTMENT OF COMMERCE
NOAA

OCEANS	\$94,000
EPA	\$300,000 [TRAVEL ONLY]
<u>TOTAL</u>	<u>\$394,000</u>

DEPARTMENT OF ENERGY

	\$ 100,000 [TRAVEL]
	90,000 [FUSSION CONTRACT]
SUBTOTAL	\$390,000 [ADDITIONAL \$1,000,000 IF WASTE MANAGEMENT PROJECTS APPROVED]
SSC	\$2,000,000
PU238	\$6,000,000
<u>TOTAL</u>	<u>\$8,390,000</u>

DEPARTMENT OF INTERIOR

USGS	\$1,600,000
BLM	\$120,000
MIN. MGMT SERV.	\$35,000
FISH & WILDLIFE	\$900,000
PARK SERVICE	\$92,000
<u>TOTAL</u>	<u>\$2,7742,000</u>

HEALTH AND HUMAN SERVICES

NIH	
FOGARTY	\$ 802,000
OTHERS	1,950,000
<u>SUBTOTAL</u>	<u>\$2,752,000</u>

ENVIRONMETAL PRETECTION AGENCY

RUSSIA	\$500,000
UKRAINE	500,000
<u>TOTAL</u>	<u>\$1,000,000</u>

NATIONAL SCIENCE FOUNDATION	<u>\$1,000,000</u>
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PRELIMINARY TOTAL	\$13,291,000 ***W/O HHS INPUT***
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UNITED STATES DEPARTMENT OF **COMMERCE** **NEWS**

WASHINGTON, D.C. 20230

OFFICE
OF THE
SECRETARY

STATEMENT BY BARBARA HACKMAN FRANKLIN
SECRETARY OF COMMERCE

Release of Report
"Obstacles to Trade & Investment in the
New Republics of the Former Soviet Union"
Washington, DC
Tuesday, April 14, 1992

We have what I think is some fascinating and important information to share with you after which I will be glad to take your questions.

These are exciting and unprecedented times in world history. Walls have crumbled. Borders have broken open. A new commitment to cooperation among nations to achieve world peace and prosperity is sweeping the globe.

Transforming this dream into reality is now our challenge. And the United States, under the able leadership of President George Bush, is as usual playing a leading role in making this happen.

The President's Freedom Support Act of 1992 is a comprehensive program of support for Russia, Ukraine and the other newly independent nations of the former Soviet Union. It adds significant momentum to the drive for world peace and prosperity.

A key element of the President's program is the active involvement of American business. And American businesses are eager to go forward. They are anxious to find ways to invest in the newly independent states and to increase exports to these new markets. But they are concerned that the current business climate makes the investment risk disproportionate to the possible rewards.

The Department of Commerce worked with major business groups and close to 100 knowledgeable firms to develop a comprehensive picture of the factors inhibiting investment and business activity in these emerging market economies.

The result is this report which identifies the obstacles to trade and investment. The report doesn't just outline the obstacles. It gives solutions to breaking them down. The business men and women who participated in this survey were quite clear in stating both what the problems are and the actions that governments, both ours and theirs, need to take to overcome them.

The problems as the business people see them are:

1. Instability and uncertainty -- in governments, in officials, in ownership and jurisdiction, in regulations and laws, and especially in tax rates and policies. Predictability is what matters most to business people.
2. Financial problems, including the inability to convert currency, the collapse of the banking system, and outstanding debts to American companies.
3. Inadequate information. Little is known publicly about the constantly changing laws and regulations; about potential markets; about services available for businesses, or about potential partners in business ventures.
4. Infrastructure problems. Transportation systems are inadequate. Communications systems are decrepit. Office space is costly and sparse. Production facilities are often obsolete. Visa restrictions make travel unnecessarily difficult.
5. Lack of normal trade relationship. Business wants normal bilateral commercial relationships between the United States government and those of the newly independent states.
6. Shortfall in support. Business also wants a greater display of commitment by the United States government to supporting private sector investment in these nations.

The stories business people tell about these obstacles to trade and investment in the newly independent states vividly illustrate the difficulties. They talk about laws that are frequently adopted on the spot to meet an immediate need and then found to conflict with other existing laws or regulations. They cite cases in which proposals are reviewed innumerable times by various individuals at the same or different levels of government, often with varying criteria. They tell of confronting a discouraging series of new taxes and duties, frequently introduced with little or no warning. The stories go on and on.

How do we solve these problems and overcome the obstacles so American business can capture a significant share of these new markets and assist in the transition to market economies? The business people who worked with the Commerce Department identified some immediate steps both the governments of the newly independent states and the United States could take to bring about an upsurge in trade and investment.

Business people believe that greater investment will result if the newly independent nations take the following steps.

1. Reduce uncertainty by:

- establishing a clear legal structure for business and investment.
- grandfathering contracts and backing them with guarantees or commitments by governments or multilateral organizations. An international arbitration body should be empowered to render binding decisions on business disputes.
- grandfathering tax regimes so that arbitrary and radical tax increases can be avoided.
- settling government jurisdiction questions so that companies know who is authorized to sign contracts, licenses and other agreements. Each newly independent state could identify a single individual to serve as an expeditor, such as an investment ombudsman or "Vice President for Foreign Investment".
- establishing a mechanism like the Federal Register for publishing rules and regulations.

2. Facilitate trade and investment financing by easing currency convertibility restrictions.
3. Establish a sound banking regime, including allowing foreign banks to set up branches and provide needed services.
4. Pay existing commercial debts. American business confidence will be restored by a good faith effort to acknowledge what is already owed and make plans to repay.
5. Eliminate visas or at least make multiple entry visas easily available.

What does the United States government need to do? These business people stressed the need for a close business-government partnership, both to shape policy and solve problems. Specific actions they recommend include:

- Normalizing commercial relationships by concluding bilateral agreements for trade, investment and taxes; by eliminating Cold War era restraints on trade and investment.
- Sharing the risk through expansion of Export-Import Bank, OPIC and other programs which provide guarantees for trade and investment.
- Increasing information by establishing central resources. These include information centers, commercial services at embassies, developing sources of market information and finding ways to ease the entry of small and medium-sized businesses in these emerging markets.

The Bush Administration already has acted on many of these recommendations. President Bush's Freedom Support Act of 1992 clearly outlines the parameters of a business-government partnership that will lead to greater investment and trade, opening markets for American business and creating jobs in this country. A number of Cabinet Departments and agencies are taking steps to forward this program.

At the Commerce Department, we will launch a new working group to build on the efforts of the former Joint Commercial Commission. It will be chaired by myself and my counterpart in Russia. Our first meeting will be in June at the same time President Yeltsin and President Bush hold their summer summit. Other working groups will be formed with other interested states.

We also are holding the first Cabinet level Trade Policy Coordinating Committee meeting to consider this among other issues. And, I have established a departmental task force, chaired by Undersecretary J. Michael Farren. It will develop a detailed action plan identifying additional ways in which the Commerce Department can support American businesses as they seek ways to gain their fair share of these emerging markets.

The potential for the future is great. American companies have unique expertise for aiding the newly independent states in developing free market economies. Our active involvement in encouraging increased trade and investment is an investment in our future.

I will take your questions now.

###

FACT SHEET

**"OBSTACLES TO TRADE AND INVESTMENT
IN THE NEW REPUBLICS OF THE FORMER SOVIET UNION"**

A Review of Impediments as Seen by
the U.S. Business Community

Prepared by the Department of Commerce
March 1992

THE "OBSTACLES TO TRADE AND INVESTMENT IN THE NEW REPUBLICS OF THE FORMER SOVIET UNION" REPORT WILL BE ONE OF THE KEY TOOLS IN THE GOVERNMENT'S PARTNERSHIP WITH AMERICAN BUSINESS IN EXPANDING TRADE AND INVESTMENT IN THE NEW INDEPENDENT STATES.

EXPANDED TRADE AND INVESTMENT KEY TO ASSISTING EMERGING MARKET DEMOCRACIES -- Rapid expansion of trade and investment is one of the best ways of assisting the new independent states (NIS) make the transition to market democracies. The American private sector and its technology, products, and know-how can best help these nations solve their most pressing economic problems and contribute to their development of market economies. By identifying the obstacles, we have taken the first important step in removing them.

A THOROUGH REVIEW CONVEYING BUSINESS VIEWS -- The Department of Commerce conducted a thorough review of barriers faced by American business in the new states as they attempted to sell or invest in the former Soviet Union. This report conveys the views of American companies with first-hand experience in doing business in the region. Six roundtables were held in Washington with key business groups, including a special session organized to focus on problems faced by small and medium-sized firms. The U.S. Commercial Office at the U.S. Embassy in Moscow held a roundtable with American firms which have offices in Moscow.

OVER 100 COMPANIES PARTICIPATED. Groups represented included: the American Committee on U.S.-Soviet Relations, the U.S. Chamber of Commerce, the U.S. Council on International Business, the National Association of Manufacturers, the National Foreign Trade Council, and the Trade and Economic Council. Their written submissions are appended to the report.

PRACTICAL ASSESSMENT AND RESULTS -- The report presents a practical assessment from businesses of the obstacles they face in seeking to export and invest and recommends actions to be taken by governments of the NIS, as well as the United States, to accelerate the flow of trade and investment. The obstacles and recommendations in the report have been carefully studied by the Administration. The report's findings, in part, are reflected in the FREEDOM SUPPORT ACT OF 1992 proposed by President Bush on April 1.

- 2 -

FIRST STEPS -- Actions on key recommendations in the report already have been acted on. American business placed high priority on repeal of the Byrd and Stevenson Amendments which limited U.S. Export-Import Bank programs in the NIS. Byrd-Stevenson were repealed on April 1. American companies urged swift conclusion of trade agreements with the new independent states and extension of MFN. The first new trade agreement was signed with Armenia on April 2 and agreements with the other states will be concluded soon.

NEXT STEPS -- The report has been shared with the governments of the new states and the United States will work with them to remove the obstacles identified in this report. First consultations with the NIS governments will begin later this month when Commerce and other agency officials meet with their Russian counterparts to plan for the first meeting of the U.S.-Russian Joint Commercial Commission, which will be chaired by Secretary Franklin and Russian Trade Minister Aven. Secretary Franklin also will share results of the survey with G-7 colleagues at a conference in Germany next month which is designed to coordinate microeconomic assistance programs for Eastern European and NIS states.

GOVERNMENT-BUSINESS PARTNERSHIP -- The Department of Commerce will lead the way in forming a partnership with U.S. business to increase investment in the future of the newly independent states.

- o Commerce Secretary Franklin has asked the cabinet-level Trade Promotion Coordinating Committee (TPCC) which she chairs to take a new look at ways in which agencies can cooperate in helping American business be more active in these markets.
- o Secretary Franklin also has created a Department of Commerce Task Force, chaired by Under Secretary for International Trade J. Michael Farren, to develop an action plan for employing the department's considerable tools to help develop the economies of these new democracies.

EXPANDED OPPORTUNITIES FOR AMERICAN BUSINESS -- Business in the new independent states will create new export markets for American goods and services and generate jobs for Americans. In 1991, U.S. exports of manufactured goods to the new states grew 40 percent, rising to over \$1 billion, supporting over 20,000 American jobs. In the long run, these states will comprise what could be the world's fastest-growing market. Success there will be essential for maintaining American global competitiveness.

* * * * *

The report is available as Document No. PB 92-161173 from the National Technical Information Service, 5285 Port Royal Road, Springfield, Va. 22161 or by calling (703) 487-4650.

The picture of a peaceful, prosperous world in which all citizens of the earth enjoy a decent standard of living is coming into sharper focus as the newly independent states of the former Soviet Union struggle to transform their forms of government and economic systems. Cooperation among all nations is necessary to make this picture a reality. Under the able leadership of President George W. Bush, the United States is contributing its fair share. His outline for a comprehensive program of support for these newly independent nations adds significant momentum to this movement.

As we address the challenge of helping to build market democracies in these new states, a key element is the active involvement of American business. The Department of Commerce will lead the way in forming a partnership with U.S. business to increase investment in the future of the newly independent states.

American technology, products, and know-how can help solve the most pressing economic problems in the new states and to develop a stronger basis for a market economy.

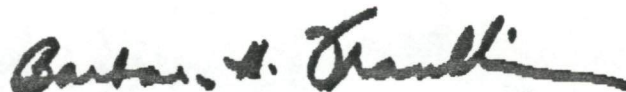
This is not altruism. It is an investment in our future. Helping build strong economies in the new states will contribute to their political and economic stability. These efforts also will create new export markets for American goods and services and generate jobs for Americans.

In the long run, the new states will comprise what could be the world's fastest-growing market, a market in which U.S. firms must be prominent in order to maintain global competitiveness.

The Commerce Department's report, "Obstacles to Trade and Investment in the New Republics of the Former Soviet Union," will be a key tool to help American businesses increase their investment in the nations.

In addition to this report, I have appointed an internal Task Force to identify the best ways the Department of Commerce can contribute to bringing about positive change in the former Soviet Union. I have directed this Task Force to develop an action plan for employing the considerable tools we have at Commerce to help develop the economies of these new democracies.

As we embark on this historic journey, the Department of Commerce stands ready to work closely and continuously with U.S. business.



Secretary of Commerce

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I. SUMMARY

As the United States develops ways to assist the new nations of the Commonwealth of Independent States (CIS) make the transition to market democracies, a key need is the immediate involvement of American business. Rapid increases in U.S. trade and investment could quickly apply American technology, products, and know-how to help solve the most pressing economic problems in the new states -- simultaneously generating new jobs and competitive opportunities for the American economy in the short as well as long term.

American companies are very interested -- drawn by the huge potential of the CIS' internal market, by the vast raw material wealth of the region, and by a conviction that they can make an immediate difference in the region's standard of living, thus contributing to the stability of the CIS -- and to the world. American companies have the expertise in key sectors important to the development of new market economies in the CIS -- such as agriculture, food processing, transportation, communications, health care, energy, and environment. They also have the unique experience of operating in an economy on a continental scale comparable to the CIS.

But they are deterred by the chaotic business climate and enormous political and economic risks that are seen as disproportionate to the likely rewards. As a result U.S. companies have, on their own, been unwilling to commit large amounts of funds for investments; and have invested only about \$400 million in the CIS. By comparison, they have invested over \$1.3 billion in Hungary, a country with only 4% the population of the CIS. Discussions with over 100 experienced U.S. companies show the most significant barriers in the CIS as:

1. Instability and uncertainty in regulations and laws, especially huge and unpredictable changes in tax rates.
 2. Uncertain ownership, particularly of natural resources, compounded by disputes and overlapping jurisdiction among various levels of government.
 3. Currency inconvertibility, worsened by collapse of the banking system, by regulations making countertrade difficult, and by unpaid debts.
 4. Severe lack of commercial, legal, and market information.
 5. High cost and difficulty of establishing offices; serious visa restrictions and internal travel difficulties.
 6. Severe physical and legal infrastructure problems.
 7. Lack of a normal bilateral commercial relationship between the United States and the CIS republics.
 8. Shortcomings in U.S. financial and commercial support; absence of a comprehensive U.S. business-government partnership.
-

U.S. companies recognize that building stable market economies, property rights, a complete commercial law and regulatory system, and a fully convertible currency situation in the CIS countries will take time. Obtaining macro-economic stability is a must. They believe, however, that in the interim governments could take steps which could almost immediately lessen the degree of uncertainty and reduce the risks for companies -- thus leading to a significant upsurge in trade and investment.

CIS GOVERNMENT ACTIONS -- The overarching barriers to trade and investment are the lack of hard currency and massive unpredictability in the commercial environment of the CIS countries. Exports are stymied by the absence of trade financing and the CIS countries' shortage of hard currency or barterable goods. Barter is further hampered by tax disincentives.

Firms see high risks and costs in the CIS countries, but not large profits. They are concerned that CIS governments believe the opposite: that investors face little risk and can make huge profits overnight. Firms are adamant that if CIS governments want foreign investment, they need to begin seeking to attract investors and to take steps to reduce the risks in the short term while a new market system is being built. Among their suggestions for quick action:

1. **Guarantee Contracts** -- Major investments need questions of ownership and contract sanctity to be settled, particularly in natural resources. In the meantime, many firms would invest if contracts were grandfathered and backed by guarantees or commitments to the U.S. government or multilateral organizations. An international arbitration body should be allowed to establish branches in the CIS, and their decisions should be binding on companies and governments.
2. **Grandfather Tax Regimes** -- Significant investment will not occur as long as there is a risk of radical tax increases that cannot be insured against. CIS states should grandfather tax regimes and offer incentives comparable to those in other countries.
3. **Ease Convertibility Problems** -- While moving toward convertibility, CIS governments should facilitate countertrade, ease use of currency exchanges, and offer partial convertibility for at least a portion of profits and vitally needed imports.
4. **Establish a Sound Banking Regime** -- While a reliable banking system is being built, companies suggest that CIS governments permit foreign banks to enter and provide full service to foreign investors.
5. **Arrangements to Pay Existing Commercial Debts** -- Many of the U.S. companies most experienced in the CIS market will not do further business until the debts owed them are paid, or at least until their debts are acknowledged and repayment plans are made.

6. **Settle Governmental Jurisdiction Questions** -- Companies need to know who is authorized to sign contracts, issue licenses, etc. Each CIS government should establish at the highest level an investment ombudsman or "Vice President for Foreign Investment" to eliminate obstacles to individual projects, and provide enforceable guarantees.
7. **Transparent Laws and Directives** -- CIS states should immediately begin publishing laws, directives, and the like in an orderly manner through a publication such as the U.S. Federal Register or the EC's Official Journal.
8. **Eliminate Visas** -- A major deterrent to business travel, visas should be eliminated -- or multiple entry visas should be made easily available.

U.S. GOVERNMENT ACTIONS -- Action to decrease uncertainty and risk is required not just on the part of CIS governments, but by the U.S. government as well. Specifically, American companies see U.S. government action as vital in four areas:

1. **Policy Support for a Normal Commercial Relationship.** U.S. companies believe that if it is U.S. government policy to encourage them to risk large amounts of their resources, the U.S. government should visibly demonstrate its own faith in a new bilateral relationship -- with trade, investment, and tax agreements; and by eliminating the pre-existing political restraints on commerce with the region, such as the Jackson-Vanik Amendment and the Byrd and Stevenson Amendments.
2. **Sharing the Political and Financial Risk.** Companies seek quick extension of Export-Import Bank, OPIC, and other programs that will provide guarantees for trade and investment. Firms look for these programs to be operated in a manner and scale commensurate with the challenge -- programs far larger than those now contemplated. They also seek terms comparable to those their competitors can obtain from their governments.
3. **Increased Commercial and Information Support.** Firms need the huge information gaps to be filled by information centers, expanded commercial services at embassies, market information, and cost-reducing ways to explore commercial opportunities.
4. **U.S. Business-Government Partnership.** Given the large role of CIS governments in commercial matters, U.S. business seeks a close partnership with the U.S. government -- both to solve problems through vehicles such as Joint Commercial Commissions and to shape a goal-oriented U.S. public-private effort, including full U.S. business involvement in assistance efforts.

II. INTRODUCTION

In his December 1991 address at Princeton, Secretary of State Baker stated the Administration's intention to work with the business community to help bring American business into Russia, Ukraine, Kazakhstan, Armenia and the other reforming republics of the former Soviet Union. To better assist U.S. firms to develop trade and to work with the Administration on assistance to this region, Secretary Baker called for a thorough review of barriers impeding trade with and investment in the region. The purpose of this step is to help develop mechanisms to eliminate or reduce these barriers so that a rapid expansion of U.S. business involvement can take place.

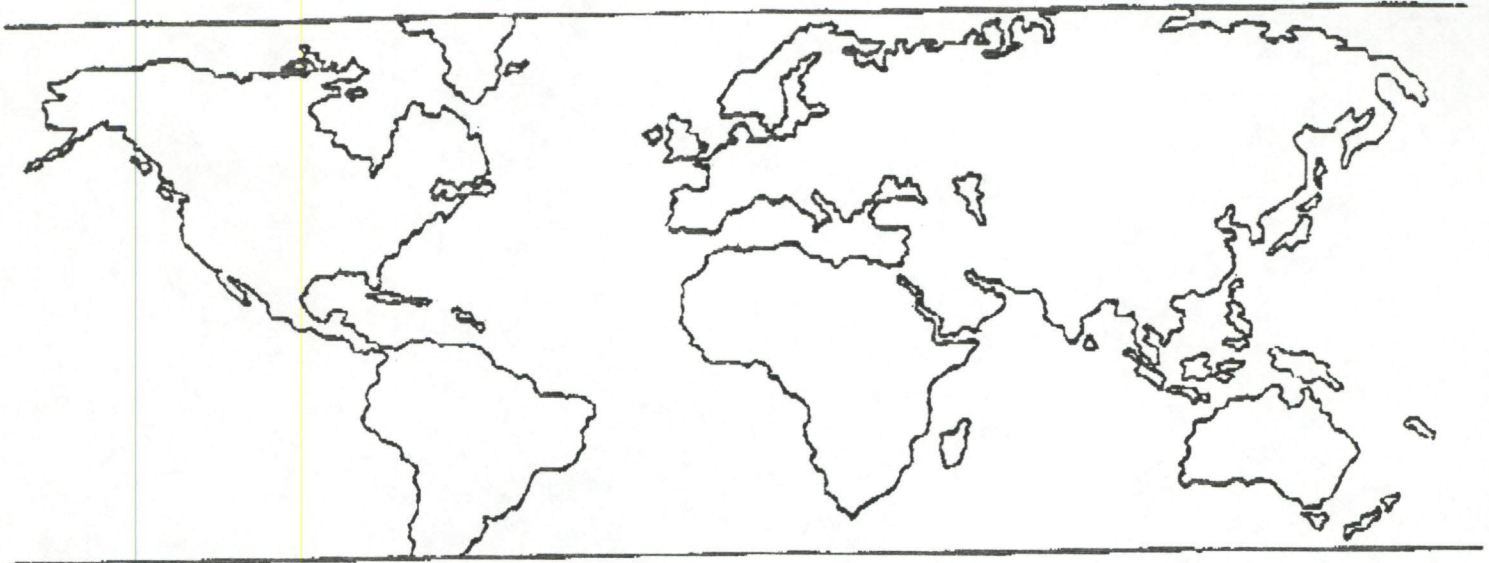
At the request of Deputy Secretary of State Eagleburger, from mid-January through mid-February, 1992, the U.S. Department of Commerce organized six roundtable sessions with business groups knowledgeable about the barriers and the difficulties of doing business in Russia and the other Independent States.

Chaired by Assistant Secretary of Commerce Dr. Thomas Duesterberg, the roundtables were held with: the American Committee on U.S.-Soviet Relations, the U.S. Chamber of Commerce, the U.S. Council on International Business, the National Association of Manufacturers, the National Foreign Trade Council, and the Trade and Economic Council. To focus on the problems of smaller companies, a special panel was held with American small and medium sized firms.

Representatives from the following U.S. government agencies participated: Department of State, Office of the U.S. Trade Representative, National Security Council, Agency for International Development (AID), Export-Import Bank, Overseas Private Investment Corporation (OPIC), and the U.S. Trade and Development Program (TDP).

In addition, the Capital Goods Industry Sector Advisory Committee (ISAC 2) held a special meeting with U.S. government agencies to offer advice, U.S. government agencies participating in the interagency Trade Promotion Coordinating Committee Subgroup on Eastern Europe and the CIS provided input, and the U.S. Commercial Office at the U.S. Embassy in Moscow conducted a roundtable with American firms having offices in Moscow.

In all, close to 100 companies and key associations participated in this study. The review was conducted primarily with companies already operating in the CIS. Relatively few U.S. companies are presently operating there, which in itself reflects the existence of barriers. The following report is a summary of the findings of these roundtables. The comments, opinions and recommendations are solely those of the participating companies, not government officials.



**Competing for Soviet Business:
Reshaping U.S. Foreign Economic Policy
and American Business Attitudes**

By Kathryn Wittneben

December 1991

Sponsored by

The Geonomics Institute

&

THE AMERICAN COMMITTEE ON

U.S. - SOVIET RELATIONS

Executive Summary

The American Committee on U.S.-Soviet Relations and the Geonomics Institute have sponsored this report comparing American foreign economic policy toward the Soviet Union with that of the other G-7 countries, Austria, Finland, and Sweden. The breakup of the Soviet Union following the aborted coup in August and the formation of the Commonwealth of Independent States in December have had a major impact on both U.S. foreign economic policy and U.S. business. The many critical political and economic issues cannot be easily or quickly settled. However, the American Committee and the Geonomics Institute believe the pace and impact of these changes call for a thorough review and discussion of past U.S. foreign economic policy goals and instruments, particularly with respect to those policies that have hindered the expansion of U.S.-Soviet trade and commercial relations.

The purpose of this study was to examine why U.S. firms lag well behind their European and Japanese counterparts in the Soviet market. American corporate leaders often claim that one of the major obstacles in doing business in the Soviet market is the lack of a "level playing field" due to American foreign economic policy constraints. This report lays out, for the first time, the basis for this claim and examines the reasons why U.S.-Soviet trade has been generally insignificant, except for grain and other agricultural exports.

This report compares U.S. trade, commercial policies, and relations with the former Soviet Union vis-à-vis Germany, Japan, Italy, France, Great Britain, Canada, Austria, Finland, and Sweden. It examines the following three questions:

- A. Is the current political and economic chaos in the republics and Baltic states a major constraint for American firms compared to foreign firms that do business there?
- B. Are there significant foreign economic policy differences between the United States and Western Europe and Japan that can explain our lack of substantial involvement in the Soviet market?
- C. Are American business attitudes and roles a major reason for our lack of substantial involvement in the Soviet market?

Major Findings

First, while there is a great deal of confusion about whom to deal with in the Soviet market, most American business leaders believe that this situation will eventually be resolved. Interviews with over 80 U.S. business representatives and other experts indicate that most U.S. firms that are involved in the Soviet market recognize that they must make a long-term commitment to work side-by-side with Soviet partners.

American business can now deal directly with the republics, the local authorities, and the individual managers of plants, state, and private enterprises. This is viewed as a very positive change by U.S. firms. Internal political and economic instabilities that are examined in this report present formidable short-term constraints to doing business there.

Most American CEOs believe, however, that these difficulties will be resolved over time.

In fact, all of our major foreign trading partners and competitors in the Soviet market face the same constraints. Consequently, internal Soviet constraints cannot explain why U.S.-Soviet trade is so low — less than 0.5 percent of total U.S. trade in 1990. In 1990, trade with the Soviet Union constituted 2.5 percent of German total trade; almost 2 percent of Italian total trade; 1.15 percent of Japanese total trade; and over 1 percent of French total trade. Only Canada and Great Britain have approximately the same lower level of trade with the Soviet Union as the United States.

Second, this report finds five major policy differences among these countries.

1. The United States is the only major country that has not yet finalized a trade agreement with the Soviet Union that provides Most-Favored-Nation treatment. The new U.S.-Soviet Trade Agreement is expected to be ratified and implemented by the United States and the central government (if still appropriate) and/or the republics in 1992. The U.S. Congress has approved the agreement, and President Bush signed it on December 9, 1991. The Administration had expected to send it to the Soviet of the Republics (the upper chamber of the Supreme Soviet) for ratification, although this may change depending on the political situation.
2. The United States is one of only two major countries that does not have an investment guarantee treaty with the Soviet Union; and it is one of the few that has not updated its tax treaty since 1985. The Department of Commerce says that both of these treaties are still being negotiated and that they are now "in the Soviets' hands" awaiting their action and response.
3. While all of the countries studied in this report abide by COCOM regulations, there appear to be significant differences among these countries in their bureaucratic processes for approving export licenses to the Soviet Union. The President and the White House have said that there should no longer be any major constraints on high-technology exports to the former Soviet Union, except for certain sensitive technologies. However, this message does not appear to have reached lower-level bureaucrats in the Department of Defense.

American companies complain about the Department of Defense's bureaucratic inertia in implementing the modified and shortened COCOM list. This inertia delays U.S. businesses' ability to complete commercial transactions in a timely, effective manner and greatly affects our ability to compete in the Soviet market.
4. United States policy on providing risk insurance is currently being revised. OPIC does not yet provide the same level of risk insurance that foreign governments do for their companies. The U.S. Export-Import Bank is still limited to a total exposure of \$300 million in the Soviet market, although this policy is also under review by the Administration.

According to the U.S. companies surveyed for this report, the major economic constraint to doing business in the former Soviet Union is the lack of financing. Foreign companies do not face this constraint the same way because their governments provide more financial assistance and support.

5. One of the Soviets' major requests for Western aid is in the area of technical assistance. This includes the provision of management training and other types of professional expertise. The United States is lagging behind other countries in providing this type of help. The only training program sponsored by the federal government is the Department of Commerce program implemented last fall. This program, Soviet American Business Internship Training (SABIT), places Soviet managers with American corporations for internships of 3 to 6 months. In contrast, the Germans have already provided over \$1 billion in training for Soviets, both in the Soviet Union and through internships in Germany.

Third, interviews and meetings with U.S. business leaders and other experts indicate that there may be a difference between the general attitudes of U.S. business toward the Soviet market and the attitudes of foreign business leaders. Many CEOs complain that they are unable to take a long-term perspective toward the Soviet market, because they need to satisfy their company's shareholders who require that they show profits on a short-term, quarterly basis. American business executives may also be more conservative (risk-averse) than European and Japanese business executives, who are able to take more risks in the Soviet market because their governments share these risks with them.

The U.S. foreign economic policy constraints strongly demonstrate that American business does not have a "level playing field" vis-à-vis our major allies and competitors in the Soviet market. To correct this situation, all of the American business leaders who were interviewed for this report support the following major policy recommendations:

- Immediate ratification of the U.S.-Soviet Trade Agreement which extends MFN status to the Soviet Union and immediate ratification of the U.S. Trade Agreement with the Baltic states.
- Repeal of the Jackson-Vanik Amendment.
- Repeal of the Stevenson/Byrd amendments that limit the U.S. Export-Import Bank credits to the Soviet Union to \$300 million.
- Expand the role of the Overseas Private Investment Corporation (OPIC) to provide greater levels of risk insurance.
- Repeal the Johnson Debt Default Act.

Other recommendations from the American business community include:

- Complete the negotiations currently underway between the U.S. government and central Soviet government and republics on the

establishment of the bilateral investment protection guarantee and tax treaties.

- Establish procedures to expedite visas for Soviet business people to travel to the United States.
- Support membership for both the union and republics in the International Bank for Reconstruction and Development (IBRD) and the International Monetary Fund (IMF).
- Set up an interagency task force within the Administration (or a new high-level, East-West coordinating body) to coordinate U.S. policy with IMF/IBRD, and the C-7 countries — and most importantly to coordinate with leaders of the republics.
- Develop an ongoing dialogue among representatives of U.S. government, business, and academia to reduce the constraints faced by U.S. business in the Soviet market.
- Provide more government-backed financing for projects in the Soviet market through the U.S. Export-Import Bank and Commodity Credit Corporation.
- Revise the U.S. export licensing process under COCOM so that the U.S. Department of Defense is involved only in monitoring for export trends and compliance. (The business community would like to have a much shorter list of truly sensitive items controlled.)
- Encourage cooperation among U.S. government, business, and academia to develop creative alternative financing structures or mechanisms to provide the necessary financial support for U.S. business in the Baltics and republics.
- Encourage cooperation among U.S. government, business, universities, and other organizations to provide technical assistance to the republics and the Baltics. Such assistance would include training for managers, development and implementation of laws and regulations, and privatization, especially with respect to defense conversion.
- Apply federal programs that have previously been established for Central and Eastern Europe to the republics and Baltics. Such programs would include the Department of Commerce's project, "Consortia of America Business," to provide office support and facilities primarily for small and mid-sized U.S. companies in major cities in the republics and Baltics, and establish an enterprise fund and other seed-type funding.
- Set up special program(s) to assist small business in the republics and Baltics, such as special counseling centers in urban areas and training by retired CEOs.
- Provide more trained foreign commercial officers in Moscow and establish additional U.S. commercial offices in other cities throughout the republics, such as in Tashkent and Vladivostok.

Historically, U.S.-Soviet trade has been quite small for a variety of political and military-security reasons. Compared to our Western European allies, who tend to be more pragmatic in their trade relations with the Soviets, the United States has more often used trade as a "stick" to force the Soviets to change undesirable policies and practices that we do not support (such as restricted emigration) than as a "carrot" to induce changes.

The United States has an important stake in the outcome in the republics and the Baltics, so it is in our national interest to become more involved, both in the public and private sectors, to create a "level playing field" and to support and facilitate economic reform in the republics and Baltics.

The American Committee and the Geonomics Institute believe U.S. government and business now have an historic opportunity to forge a new partnership and to reshape American foreign economic policy to meet the changing needs and realities. This report lays out the basis for this new partnership.

THE WHITE HOUSE
Office of the Press Secretary

For Immediate Release

April 21, 1992

REMARKS BY THE PRESIDENT
TO THE YOUNG PRESIDENTS ORGANIZATION

Room 450
Old Executive Office Building

2:04 P.M. EDT

THE PRESIDENT: Thank you all. Please be seated. I am delighted to be here and it's delightful to have this distinguished group of executives here. I want to single out Doug Glant, the International President of YPO, and thank him for "honchoing" this outfit and getting everybody together. Some of you look a little old to be YPOs, but nevertheless -- (laughter) -- far be it from me to be throwing darts in this way. (Laughter.)

But I'd like to briefly talk about some of the issues of concern -- certainly of concern to this group, but I think of concern to all Americans, but with particular emphasis for the business community. Your creativity and the know-how that I think of when I think of YPO really are the fuel that creates our country's wealth and provides rewarding and fulfilling jobs for our communities. And the role of government in free enterprise is to allow this creativity to flourish. And that means growth.

I know we've had a very difficult time here, a far longer slowdown -- indeed recession in some corners -- than we would have liked. But for the past three years, we have been trying to promote sensible policies that will help you expand businesses and help create jobs. And we're going to continue to fight for a growth agenda. I had to veto some tax legislation recently, but we were pressing at the same time for seven bullet-point pieces of legislation that would have stimulated the economy. I am still hopeful that we can get some of them through this Congress, and I'll mention a couple of them in a minute.

We face a decision here in the White House now on another subject, and that's the participation in the U.N. Conference on the Environment and Development in Rio. The attendance of the U.S. President at the Rio Conference would add a major political impetus to that undertaking; there's no question about that at all. The world looks to us for leadership in this field. But it could also commit the United States to a course of action that could dramatically impede long-term economic growth in this country. And I am committed to international cooperation to preserve the world's environment. I want to be very clear on that. And that's why I would like to go to this conference. But I am not going to go to the Rio Conference and make a bad deal or be a party to a bad deal. I am not going to sign an agreement that does not protect the environment and the economy of this country.

And this is a very important decision. It's an important decision for our environment and it's a very important decision for our economy. And to play politics with the Rio Conference severely undercuts the U.S. position as we try now to assure a world view that will protect the environment and the economy. Negotiations are going on right now to try to accomplish both before I make a decision as to whether or not I will go to Rio.

MORE

We are going to consider intensely this matter in the days ahead. And I'm going to let you know soon -- let the country know soon of our final decision on my attendance in Rio.

Here at home last week, we had some more heartening news about the United States economy. All around the world, consumers and companies buy American goods and services in ever-greater amounts, despite the sluggish performance of some of their own economies. U.S. exports -- I look around this room and I see many who are participating in this -- U.S. exports are experiencing a surge, rising seven percent in February to a one-month record high of almost \$38 billion. And once again, I think in a good sense, American exports, manufacturing exports, are leading the way.

This good news underscores a fundamental truth about our own competitiveness: If we're to succeed economically at home, we must succeed economically abroad. And the evidence is indisputable: Open markets and free trade mean new jobs for American workers and certainly growth for American companies. Over the past four decades, trade-related jobs in our country have grown three times faster than overall American job creation.

We must build on this astounding success. And already over the past four years, our exports to Mexico have more than doubled, creating more than 300,000 export-related jobs here at home. And I remember attending a YPO meeting in Mexico about 12 years ago, maybe 14 I think it was, when we were really way behind the power curve in terms of doing business with that country. And they were way behind the power curve in terms of a political situation that would permit the kind of vigorous business that I've just talked about here.

But what we're trying to do now is take that improvement and lock in the gains with what is known as the NAFTA, the North American Free Trade Agreement. With Canada and Mexico, the North American Free Trade Agreement will establish one of the world's largest trading areas, a \$6-trillion market from the Yukon to Yucatan. And that's going to mean hundreds of thousands of new jobs for U.S. workers. Those that are fighting me or fighting us on this concept are saying it will cost jobs. We are absolutely convinced that a successful conclusion to that trade agreement will create jobs, and I mean good jobs.

Tomorrow, on another field, I'm going to be meeting with Jacques Delors, the President of the EC Commission. And with him will be President Cavaco Silva, an old friend, President of the European Council. He is the Prime Minister of Portugal as you know. And we're going to be discussing the Uruguay Round of the GATT, the world trade negotiations that are so essential to expanding trade for everybody.

Over the next decade, a successful conclusion of that Uruguay Round could pump \$5 trillion into the global economy. And the U.S. share of this growth would top \$1 trillion. And no one should doubt our resolve to preserve and expand the worldwide regime of open trade. GATT must be preserved for this reason: American workers and American companies deserve the jobs and opportunities that those open markets offer.

I think these negotiations are going to be tough. They are going to be difficult. But we're approaching them, as we have earlier negotiations, with a positive spirit. We will do our part, but the United States must not be asked to bear the entire burden of compromise when it comes to hammering out a successful conclusion to this GATT Round.

There's still much we can do to make America more competitive. And one of our serious economic problems right now --

and I won't tell you too much about this, lest you tell me about it -- that is the cost of capital. And it's too high. We know that. And that's why we're going to continue to fight for a cut in the capital gains rate -- capital gains tax rate. A high cap-gains rate discourages investment and, thus, business expansion and, thus, job creation. And it is very clear to most business people that this would be a helpful thing.

Ironically, two years ago, in both Houses we had a majority for reducing the capital gains tax. And it was beaten down purely by the political leadership in the United States Senate, keeping us from giving this incentive to American businesses, large and small. I am continuing to fight for this. Some call it a tax break for the rich, and I never believed that in the first place and I don't believe it now. And we're going to keep fighting to get that stimulative cut in capital gains.

None of our industrial competitors -- major industrial competitors -- tax capital gains at rates comparable to ours.

Germany, as some of you know, Germany doesn't tax them at all. And in Japan, an entrepreneur who sells the company that he's built from scratch pays a tax of one percent. And we are supposed to compete with those vigorous economies with a much higher capital gains rate.

And yet, the very people who complain about America's ability to compete block our effort -- every effort to lower the capital gains tax. A lower rate will benefit virtually everyone in America, not only those who run a business, but anyone who owns a house, or share of stock, seeks a better job. It will help a lot in the agricultural area of this great country of ours, too. So it's time to stop punishing the pursuit of excellence. And it's time, I think, to cut the tax on capital gains.

We're also working to lighten up the regulatory burden that Washington imposes on every American business. Last January we announced a 90-day moratorium on federal regulations. Wherever possible, we blocked those regulations that discourage growth and we're accelerating those that encourage growth.

So far, the preliminary estimates show that we've saved American business \$10 billion to \$20 billion in regulatory costs. When new legislation is passed, clearly new regulations are required. I'm thinking of the civil rights legislation that I'm very proud of: the Americans With Disabilities Act. And, yes, it imposed a burden on some, but it was overdue. It's sound legislation. It encourages people to get into the mainstream. And yet, there's been some cost with that one.

We renegotiated the Clean Air Act, and that was long overdue. And I think it's good. We tried to use market forces, incidentally, in letting people meet the clean air standards, but nevertheless, that imposed a regulatory burden. So now we're trying to move forward and fulfill our responsibilities for safety and all of that, but eliminate this movement towards overregulation. And as I say, these preliminary estimates have been pretty encouraging in terms of the savings in regulatory costs.

I'm going to soon be making an announcement about our battle against these excessive regulations, but for now I simply want to say the days of overregulation are just that -- they are over. And we are going to stay in there to be sure that independent agencies, whatever they are -- people -- whoever come in with these excessive regulations are going to have them blocked, if at all possible.

We're pursuing comprehensive reforms in other areas that directly relate to America's long-term competitiveness. We've proposed, for example, market-based health care reform to control the skyrocketing costs and to bring coverage to the uninsured. I do not want to see us lose the quality of health care that we have in this country by going to the pay-or-play plan that's going to break a lot of small businesses; or even worse, to the so-called nationalized plans that have many of our neighbors sending their people over here for care. We are not going to go to that centralized or socialized approach to medicine. And the proposals that we have made that give people access to insurance and show much greater flexibility in the insurance pool I believe is the answer to this health care problem.

In another way, another field, through our America 2000 initiative, we are intensifying our efforts to literally revolutionize -- reinvent -- American education. It isn't good enough anymore to simply throw more money at the mandated programs that have failed the young people of this country. And we're not going to do that. And we've gone together, gotten the governors together, set six national education goals -- very sensible goals -- no partisanship involved in that coming together of the governors, and now we're moving forward trying to get this program underway. Some legislation is required. Fortunately, a lot of legislation is not required, and we can go right to the communities to reinvent the American school. And it is a good program, and I urge you to take a hard look at it because I know that you know that we are going to have to do a better job of education, particularly in math and science, if we're going to be competitive in the year 2000.

So American education -- I think we've got a good program and I strongly urge you to give it your support.

Another area that I know is of concern to people here, it is to me, and that is the area of legal reform. We have introduced important steps to reform our legal system, to put an end to the frivolous lawsuits that mire so many businesses and individuals and community activities in a bottomless swamp of litigation. We've got to sue each other less, start helping each other more.

And I will continue to fight to get this Congress, hostile Congress in this area, I might say, to at least give an up or down vote on reform of the liability system. We haven't even been able to get that; we haven't even been able to get it out of committee; blocked by powerful lobbies up there. So here's an area where I know your interests are at stake and an area where I would earnestly solicit your support. Because we must start capping some of these outrageous settlements that run the cost of business right off the chart, run doctors out of business, and say to Little League coaches, hey, you better not take a chance by coaching the Little League or this guy over on third base is going to sue you.

And so we're going to fight this one. But again, it's an area where we need your help.

And the last point is this: The fact is that none of these pressing social problems are going to be solved without the voluntary involvement of individuals and communities. And when I think of YPO and the success that this epitomizes, this organization epitomizes, I think of a thousand points of light and I think of people who, in spite of spending an awful lot of time building and creating jobs for people, they find time to do something in the communities. From the first day of this administration, we have called on every American to be a point of light -- to bring hope to the helpless, and to help the homeless, and to love and care for those who are in need.

And it is working. And it isn't a government program; it is simply encouraging the sense of volunteerism that is in everybody. Right here in your organizations, you're going to -- plenty of examples of what I'm talking about. Gay Mayer, who works with a drug rehabilitation program in his area, has helped more than 100 young adults recover from the ravages of drug abuse to lead productive lives. What one individual has been able to do just by giving of himself. Joe Lobozzo, who spends his Wednesday nights counseling children of alcoholics.

I would like today to challenge all of you to join these men in a movement that is literally transforming our country. It is much more effective than having a mandated specialized program coming out of some subcommittee in the United States House of Representatives. And it is working. It is the best in ourselves. And I urge you to really, really pitch in.

First, I ask you to make your company a point of light, by personally devoting as much time as you possibly can to community service, encouraging the employees to do the same. This whole concept of mentoring, where businesses reach out and help in this Education 2000 program, is really working around the country.

Secondly, you can encourage other leaders to make voluntary service part of their own missions as well. And finally, you can work among your vast memberships to help America itself become a nation with communities of light -- a concept where an entire community comes together figuring how to solve its own enormous social problems.

I spoke earlier with some of your leaders -- Doug and others -- and I know that there is support among your members to assume this leadership role. And I know Doug has asked David Weaver, an old friend, to work with each of you to decide how you can all best respond to this challenge.

I am convinced the results will be profound, and urging this -- we're not trying to escape the responsibility of the federal government. It's something entirely different. It's the concept that Thoreau noticed years ago about the propensity of one American to help another. And we're simply trying to revitalize this, especially in these days of scarce resources and failed centralized mandates.

So we've got a lot at stake here, including the legacy that we leave our children. We all want a world at peace; strong, wholesome families; rewarding jobs for all who seek them.

You know, in these days, you hear and I hear mostly about the problems. We've got a lot to be grateful for in this country. Our kids -- grandkids in some cases -- go to bed at night with far less fear of nuclear war. The war has changed dramatically in the last three years -- unprecedented changes that nobody would have believed possible.

In the Middle East, ancient enemies are at least talking about peace. South of our border you see the emergence of democracies that none of us would have predicted just three or four years ago. The solidifying of the democratic way. And you see countries coming to grips with their economic problems. Argentina comes to mind; Mexico, a sterling example of this dramatic change that is taking place around the world.

I spent this morning talking to a group of business people on working with them on what we can do to help democracy along in the CIS, the Commonwealth of Independent States over there, led by Russia. And then the Ukraine, with Kravchuk coming here next month and Yeltsin the next. And so there's an awful lot of change in this world that is good and strong and positive.

And now what we've got to do is take these ideas, and maybe some that you have that I haven't mentioned, bring them to bear on the economic problems so we can regain the growth that is absolutely essential if the United States is going to continue to be the leader in these very important areas.

But you've caught me on an upbeat day, a day that I am confident about the United States' leadership. It is only -- I might tell you this, and some of you can confirm this from your trips abroad -- it is only our country that the others look to now as the undisputed leader of the entire world. So we've got to fulfill those responsibilities while still trying to do what we can to assist those that are hurting right here at home.

And I am confident, with your help, with your continued imaginative leadership, that we can do just exactly that. So thank you very, very much for coming to the White House. I didn't intend to give you this much of a lecture, but I'm just -- I don't normally have such a high-talented, captive audience. Thank you all very, very much. (Applause.)

END

2:25 P.M. EDT

MORE

THE FEDERAL PAGE

Helping U.S. Businesses Move Into Former Soviet Bloc

By Stuart Auerbach
Washington Post Staff Writer

Edgar Fulton is a glutton for punishment. In 1989, he was the Commerce Department's man in Warsaw. With the fall of communism, his sleepy one-person operation exploded into a hotbed of commercial activity.

Fulton received a promotion for his work in the face of adversity.

Now he is under the gun again. In Moscow. For the Commerce Department. Again. Earlier this year, Fulton pulled out of Spanish language training where he was getting ready for a cushy posting in Costa Rica and moved to Moscow for six months of temporary duty.

He has put his Russian language skills and Warsaw experience to use helping set up U.S. commercial operations in the new Commonwealth of Independent States (CIS), the former Soviet Union. When he's finished, he'll be up for a new assignment.

The end of the Cold War and the breakup of the Soviet Union prompted the Commerce Department's 200-person U.S. and Foreign Commercial Service to open new offices and add Americans and local staff in countries once opposed to capitalism but now eager to develop trading relationships with American companies.

With a bit of luck and a nimbleness not usually displayed by government, the number of Commerce Department workers in Eastern Europe and the former Soviet Union has more than quadrupled since 1989, from 16 positions in four countries to 66 positions in seven countries. The number of Americans in those posts has more than tripled, while the number of local employees has increased more than fourfold.

These Americans and their foreign aides are responsible for helping U.S. companies do business in the former Soviet Union and Eastern Europe, helping them win orders for American products, buy or build factories and set up joint ventures for manufacturing, banking, telecommunications and other businesses.

The Bush administration sees the extension of American business as vital to U.S. interests—a tool to teach democratic values, establish a free enterprise system and improve economic conditions in nations ravaged by decades of communist rule.

But a survey released last week by the Commerce Department showed that economic and political uncertainties in the CIS make American businesses wary of investing or making a major export push there.

"They are concerned that the cur-



BY MICHAEL EVSTAFIEV FOR THE WASHINGTON POST

Edgar Fulton, right, shown in Moscow with U.S. Ambassador Robert S. Strauss.

rent business climate makes the investment risk disproportionate to the possible rewards," said Commerce Secretary Barbara H. Franklin.

She said business executives from more than 100 companies that participated in the survey pinpointed serious obstacles to greater U.S. trade and investment. These include "a discouraging series of new taxes and duties frequently adopted with little or no warning," sudden adoption of laws that conflict with other laws or regulations, and "innumerable" reviews that create a decision-making gridlock.

The complaints have been shared with the governments of the CIS. Franklin said Commerce Department officials will discuss them further as U.S. and CIS officials prepare for the first meeting of the new U.S.-Russian Joint Commercial Commission in June, at the time of the summit here between President Bush and Russian Republic President Boris Yeltsin.

Franklin said the Commerce Department is working with U.S. business to find ways to increase their investments in and exports to the former Soviet republics.

At a Rose Garden ceremony on Tuesday, Bush urged 16 U.S. business leaders to "seize this opportunity" to do business in the former Soviet republics. "I'm absolutely committed to giving American companies every opportunity to do business with these countries," he said.

To further that effort, the Commerce Department has increased U.S. commercial representation in the newly independent states.

In a period of tight budgets, the increase in money spent on commercial operations in the former Soviet Union and Eastern Europe

has been staggering—an almost fourfold increase, from \$753,000 in 1989 to \$2.7 million this year.

The budget for the former Soviet Union jumped from \$328,000 to \$900,000 while the money allocated to Eastern Europe rose from \$425,000 to \$1.8 million.

"Most government agencies spend that amount in a day. But for us it is big bucks," said Commerce Assistant Secretary Susan C. Schwab, director general of the U.S. and Foreign Commercial Service. She oversees workers in 69 regional offices in the United States and 67 foreign countries.

It is easy to see where the money went.

The Commerce Department reopened its office in Prague and established new operations in the former East German cities of Berlin and Leipzig and in Bratislava, the capital of the Slovak Republic of Czechoslovakia. A new office in Sofia, the capital of Bulgaria, opened last month, and offices in Kiev, Ukraine and St. Petersburg, Russia, will open by fall.

At present, there are four American commercial officers attached to the U.S. Embassy in Moscow compared to three in 1989. Later this year, two new officers will be sent to St. Petersburg and Kiev. From 1989

COMMERCE ACTIVITIES

■ The number of Commerce Department workers in Eastern Europe and the former Soviet Union has more than quadrupled since 1989, from 16 positions in four countries to 66 positions in seven countries.

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■ The budget for the former Soviet Union jumped from \$328,000 to \$900,000, while the money allocated to Eastern Europe rose from \$425,000 to \$1.8 million.

■ Four American commercial officers work at the U.S. Embassy in Moscow compared to three in 1989. Later this year, two new officers will be sent to St. Petersburg and Kiev.

through last year, there were just three commercial officers for the entire Soviet Union, all in Moscow.

And with new rules issued by the State Department allowing the embassy to hire local aides, the Americans will be backed up by a staff of 15 locally hired Russians and Ukrainians. As he did in Warsaw, Fulton will train the new local hires, helping them learn the local business scene, the distribution system and specific sectors of the local economy.

"We can't operate effectively without local employees. They are such an important part of our operation," Schwab said.

In Eastern Europe, the number of U.S. commercial officers has grown from three in 1989 to 13 this year.

The Commerce Department also is nudging the former Soviet Union into easing the problems that are impeding U.S. trade and investments. "The overarching barriers to trade and investment," the Commerce Department survey stated, "are the lack of hard currency and massive unpredictability in the commercial environment."

The 50-page report pointed to the different perspectives of U.S. business and officials in the former Soviet republics: "Firms see high risks and costs . . . but not large profits.

They are concerned that the governments [of the newly independent nations] believe the opposite: that investors face little risk and can make large profits overnight."

U.S. companies have their own suggestions to move forward. Among those listed in the report:

■ Guarantees by the governments of the newly independent nations to the United States or a multilateral organization that contracts would be honored, especially in natural resources such as oil, gas or timber, and the establishment of an international arbitration body to settle disputes.

■ Preservation of the current tax structure to protect investors against radical tax increases, and offer tax incentives to attract investment as other countries do.

■ Make it easier for companies to do business as the economy moves to a convertible currency by facilitating barter, lessening restrictions on currency exchange and allowing partial convertability of the ruble for some profits and needed imports.

■ Permit foreign banks to serve foreign investors.

■ Arrange to pay outstanding debts that are keeping some companies from continuing to do business in the former Soviet Union.

■ Decide who has jurisdiction to sign contracts and issue licenses and establish "at the highest level" a "vice president for foreign investment" who can settle disagreements within the government.

■ Publish laws and directives in an orderly manner.

■ Eliminate entry visas for business executives or at least make multiple-entry visas easily available.

To help persuade the U.S. business community to take the risk, the Overseas Private Investment Corporation (OPIC), an independent agency, said earlier this week it would offer insurance on sound American corporate investments in the former Soviet Union.

OPIC will cover investments up to \$100 million. The new policy will help clear the way for the kind of big money deals possible in developing the oil industry in the area.

OPIC President Fred Zeder told the Reuter news agency Tuesday that more than 300 companies wanting to invest \$12 billion in projects in the CIS have applied for OPIC insurance.