

August 4, 1988

## A YELLOW LIGHT ON U.S. JOINT VENTURES WITH THE SOVIETS

### INTRODUCTION

When 500 American businessmen arrived in Moscow this April to talk about joint ventures with the Soviets, the message was clear: joint ventures with the USSR are back on the United States agenda. They also, of course, are on the Soviet agenda. Soviet General Secretary Mikhail Gorbachev perceives joint ventures to be potent medicine for reviving a deeply ailing Soviet economy. While such joint ventures are mainly commercial deals, Washington does have the responsibility to flash a yellow warning light to caution American businesses and the U.S. public of the pitfalls in doing business with the Soviets.

Gorbachev's efforts to create a more dynamic Soviet economy ran into trouble last year, when the Soviet gross national product grew by less than one percent.<sup>1</sup> As a way out of this economic slump, the Soviet leadership has pushed aggressively to establish joint ventures with Western firms. "Joint ventures," sometimes more precisely termed "operating joint ventures," are partnerships through which a Soviet enterprise and one or more foreign firms create a separate entity for economic activity. From a Soviet perspective, these enterprises are designed to upgrade Soviet production and efficiency, resulting in better goods for domestic consumption and higher quality exports to earn much needed hard currency.

**Hard Currency or Rubles?** As part of the new U.S.-Soviet rapprochement, this April 14, the two countries concluded a protocol to the June 1974, bilateral Long-Term Agreement to Facilitate Economic, Industrial, and Technical Cooperation. The protocol states that the Long-Term Agreement specifically includes joint ventures. Activities under the protocol are to be monitored by a Joint U.S.-USSR Commercial Commission. The two countries are

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1 "Gorbachev's Economic Program: Problems Emerge," a Report by the Central Intelligence Agency and the Defense Intelligence Agency to the Subcommittee on National Security Economics of the Joint Economic Committee, April 13, 1988.

also establishing working groups to facilitate joint ventures in oil and gas equipment, construction equipment, medical equipment and supplies, textiles, and the food industry.

American businessmen interested in pursuing joint ventures must evaluate a number of factors about the commercial viability of joint ventures. Examples: How will the Western partner recover hard currency rather than rubles from products sold on the Soviet market? How will the rigid rule that there must be a Soviet majority on the company's board, under a Soviet chairman and a Soviet director general in charge of operations, affect business? How much should be paid for Soviet labor and raw materials? How will the Western partner ensure quality control?

U.S. businessmen also must consider the foreign policy and national security implications of joint ventures. Joint ventures, for example, could provide an advantage to the Soviet economy by introducing goods and services that can go on the market immediately. This would eliminate the painstaking and often flawed process of having to adapt Western technology. It could allow the Kremlin to ride out the immediate economic crisis without fundamentally reforming the economy or cutting the USSR's massive military budget.

**Facilitating Soviet Espionage.** Pentagon officials worry, moreover, that the joint ventures could obtain technology and management know-how easily adaptable to the military sector, particularly in computer-related areas. Extensive Soviet contacts with U.S. businessmen and technical experts beyond the initial stages of the venture also might lead to the inadvertent transfer to the Soviets of sensitive information and facilitate Soviet espionage.

To prevent the USSR from gaining militarily from joint ventures with U.S. and other Western firms, the U.S. must enforce rigorously the Western ban on selling or transferring to the Soviets militarily useful products. This is the so-called CoCom List, devised by the Coordinating Committee for Multilateral Export Controls consisting of all NATO countries, minus Iceland and including Japan. U.S. firms must be put on notice that they will be held responsible and penalized for any transfer of CoCom products to the Soviets.

**No Bailouts.** The Reagan Administration also must advise U.S. firms explicitly and unambiguously that they must view joint ventures with the Soviets as a purely commercial undertaking in a developing country. Contracts may not be enforced, currency controls suddenly may be imposed, labor rules may be modified, and other key assumptions upon which the deal rests can be changed abruptly. As such, it should be stated emphatically, the U.S. government will not underwrite, reimburse, subsidize, bailout, or in any other manner aid a U.S. firm whose business in the USSR fails or falls short of expectations.

## WHAT ARE JOINT VENTURES?

Over the years, a variety of cooperative business arrangements have been concluded between Western businessmen and the so-called nonmarket economies of the Soviet bloc and the People's Republic of China.<sup>2</sup> Joint ventures are a specialized type of commercial enterprise. An "operating joint venture" is defined as a partnership through which two or more firms create a separate entity to carry out or manage a productive economic activity.<sup>3</sup>

The essential characteristics of joint ventures are: 1) an agreement on common long-term objectives, such as production, purchasing, sales, maintenance, repair, research, consultations, financing; 2) pooling of assets such as money, plant, machinery, equipment, management know-how, intellectual property rights, which are called capital contributions; 3) creating a management structure; and 4) sharing of profits and risks, with liabilities being normally limited to capital contributions. Combustion Engineering, Inc., of Stamford, Connecticut, for example, will be investing some \$16 million initially and will own 49 percent of a partnership with the Soviet Ministry of Oil and Petrochemical Industries in a joint venture that will develop process control systems for refiners. Most of the employees will be Soviet, although the top management will be American. On the venture's board are three Russians and two Americans; its director general, or chief executive, will be Russian.

**Visions of a Vast Soviet Market.** The principal incentive for American businesses to engage in joint ventures appears to be the potential profit in sales to the vast number of Soviet consumers. Sarah C. Carey, a Washington-based lawyer who has represented U.S. corporations negotiating joint ventures in the USSR, told the House Committee on Foreign Affairs Subcommittee on Europe and the Middle East on April 20, 1988, that such ventures are "permitting U.S. companies to penetrate the Soviet economy, to directly access potential business partners, suppliers, customers" and offer them "a preferred supplier role in many industries." While often insisting that trade and politics be kept separate, U.S. promoters of such ventures also argue that it makes good political sense to pursue closer relations and detente and that economic ties can help achieve these objectives.<sup>4</sup>

## SOVIET OBJECTIVES IN PURSUING JOINT VENTURES

The severe problems of the Soviet economy and the sharp drop in prices of Soviet oil exports have prompted the USSR to open its economy to Western joint ventures. Oil and gas amount to about two-thirds of total estimated annual Soviet hard currency income.

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<sup>2</sup> These have included turnkey projects, license purchases, and different kinds of industrial cooperation. See Morris Bornstein, *The Transfer of Technology to the USSR* (Paris: Organization for Economic Cooperation and Development, 1985), ch. 3.

<sup>3</sup> *East-West Joint Ventures: Economic, Business, Financial and Legal Aspects* (New York: Economic Commission for Europe, United Nations, 1988), p. 1. Other commonly used names to designate such entities are "corporate joint venture" and "interfirm cooperation agreement."

<sup>4</sup> See Margaret Chapman, ed., *Forum on U.S.-Soviet Trade Relations* (Washington, D.C.: American Committee on U.S.-Soviet Relations, December 1987), notably papers by James H. Giffen, Hodding Carter III, and Donald Kendall.

Pentagon and Central Intelligence Agency experts suggest that "Moscow sees [joint ventures] as better vehicles than current trade and economic relationships for acquiring and assimilating Western technology, managerial expertise, and marketing skills. As part of Gorbachev's modernization drive, joint ventures are intended to upgrade Soviet production processes and thus spur exports of manufactured goods, reducing Moscow's reliance on energy and other raw materials as its principal foreign exchange earners."<sup>5</sup>

**Relying on Raw Materials Exports.** The primary objective of the Kremlin is to increase Soviet exports; joint ventures now account for only 15 percent to 30 percent of Soviet bloc exports to the West. One-third of these ventures export machinery and equipment, one-third export consumer goods, and the rest market either raw and semi-processed materials, such as oil, oil products, and pharmaceuticals, or technology, know-how, and licenses. The Soviets are trying to develop a diversified base of exportable manufactured goods to reduce their huge reliance on raw materials exports.

## **SOVIET JOINT VENTURE REGULATIONS**

Regulations give the Soviet partner control of joint ventures. The 49th Decree of the Soviet Council of Ministers for 1987 stipulates that the Soviet share in the statutory capital of the joint venture must not be less than 51 percent.<sup>6</sup> Both the chairman of the board and the director general must be Soviet citizens. The decree, in fact, stipulates that the personnel shall consist "mainly of Soviet citizens." Pay and benefits of foreign employees are to be settled in the employment contract, and Soviet law applies to all foreign citizens employed by the joint venture.<sup>7</sup>

Credits on commercial terms may be obtained by joint ventures in foreign currency from the USSR Bank for Foreign Economic Relations or, with that bank's consent, from foreign banks and firms and in rubles from the USSR State Bank or the USSR Bank for Foreign Economic Relations. Liberalizing Decree 49, Decree 1704, introduced by the Council of

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5 CIA and DIA Report, *op. cit.*, p. 41.

6 The Soviet partner is almost always a state-owned enterprise. Yet there are some exceptions: the new private cooperatives that are now possible under Gorbachev's reforms may, at least in theory, take foreign partners in some aspects of their activities, as in a reported venture between a Finnish firm and an Estonian clothing cooperative. See Jerry F. Hough, *Opening Up the Soviet Economy* (Washington, D.C.: The Brookings Institution, 1988).

7 See Alan B. Sherr, "Socialist-Capitalist Joint Ventures in the USSR: Law and Practice," Providence: Brown University, Center for Foreign Policy Development, May 1988).

Ministers in September 1987, stipulates that joint ventures may determine, in agreement with Soviet enterprises and organizations, both the currency to be used in purchases and sales and the manner in which these purchases and sales are effected. Finally, the regulations state that disputes involving joint ventures are to be settled according to Soviet rules either by Soviet courts — whose standards for legality differ significantly from those of their Western counterparts — or by common consent of the parties in arbitration.<sup>8</sup>

## INITIAL WESTERN RESPONSE TO THE JOINT VENTURE OPTION

There are now relatively few Western, and in particular U.S., joint ventures with Soviet bloc countries. At the end of 1986 there were only about 400 Western joint ventures with Soviet bloc shareholders.<sup>9</sup> Soviet bloc investment in these companies amounts to less than \$500 million — only a small portion of this amount representing hard currency.

Since the Soviet decree of January 1987 permitting joint ventures with Western companies, only about 36 have been formally registered. Of those, only five are American: Combustion Engineering, Inc., of Stamford, Connecticut, for the development of process control systems for refineries; Management Partnerships International of Chicago, for the assembly of computer hardware and the development of computer software; Honeywell, Inc., of Minneapolis, for automating Soviet fertilizer plants; Occidental Petroleum Corporation of Los Angeles, for two plants to make polyvinylchloride, a widely used plastic, in the Ukraine; and IDG Communications, Inc., of Framingham, Massachusetts, for a publications agreement to publish the first computer technology magazine in the USSR.

Whether joint ventures are to provide a new commercial avenue of any significance with the USSR remains to be seen. It is likely to be pursued mainly by companies with extensive experience in dealing commercially with Moscow and high-level contacts in the USSR. To take advantage of such experience, several companies have created the American Trade Consortium, which in April 1988 signed a Protocol of Intentions with its Soviet counterpart, the state-operated Soviet Foreign Economic Consortium. Consortium members may be able to obtain concessions from the Soviets that will facilitate joint ventures. For example, Consortium members will be exempt from the Soviet requirement that each joint venture must cover all of its expenses in hard currency before it can recover any hard currency profits on the world market. Membership in the Consortium reportedly costs \$1 million.

**Floppy Disks and Sweeteners.** Mercator Corporation President James H. Giffen is President of the Consortium. He reports that Archer Daniels Midland Company is

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<sup>8</sup> It is instructive to compare Soviet regulations on East-West joint ventures with those of the Chinese. In China, there are no limits to the share a foreign company may own. Some Americans operate wholly owned subsidiaries in China. Perhaps the most significant Chinese reform is the "special economic zones" (SEZ) concept introduced in 1979, which reduces customs duty, income taxes, rent, utility charges, and wage rates in selected border areas. By mid-1986, the overall effect of Chinese reforms was that China had attracted contracts for \$18.1 billion in investment and 2,500 joint ventures, 127 of which were wholly owned foreign corporations. Unless the Soviets are prepared to make similar reforms, there is some doubt that Western partners could ever become involved in joint ventures with the USSR on any similar scale. See Marshall I. Goldman, *Gorbachev's Challenge* (New York: W.W. Norton & Company, Inc., 1987), ch. 7.

<sup>9</sup> *East-West Joint Ventures, op. cit.*, p. 22.

negotiating joint ventures in agricultural processing with the Soviet Ministry Gosagroprom. Oil processing, edible oil refining, and the production of starch and sweeteners are under discussion. Chevron Corporation is discussing oil exploration and development. Eastman Kodak Company expects to manufacture and market floppy disks for personal computers and blood analysis equipment. Ford Motor Company will continue discussions on automobile manufacturing started in mid-1987. Johnson and Johnson is considering the production of pharmaceuticals. RJR Nabisco, Inc., plans to produce tobacco, cracker and biscuit products, and cereals, as well as food manufacturing processes. Mercator Corporation has emerged as the Consortium's financial manager after a reportedly controversial competition.

## **PROBLEMS FOR THE WEST WITH JOINT VENTURES**

### **Past Soviet Unreliability**

The history of U.S. commercial involvement with the USSR should make American businessmen cautious. Western business with the Soviets began in 1921 with Lenin's New Economic Policy. Prompted by grave economic problems — Russian industry having essentially ceased to function — Western capitalists were invited to help with industrial reconstruction. In the late 1920s, the Ford Motor Company constructed a huge integrated plant at Gorky to build Model A cars, trucks, and buses. General Electric Company helped develop the Soviet electrical industry. The E.I. du Pont de Nemours and Company, Inc., introduced technology to the chemical industry, and RCA Corporation, to the communications industry.

During the 1930s, the McKee Corporation of Cleveland designed the Magnitogorsk steel mill, a copy of U.S. Steel's plant at Gary, Indiana. All the refineries in the Soviet Union's principal oil-producing area at Baku were constructed by American firms, which also furnished the bulk of the drilling and pumping equipment. By 1935, however, most American companies were expelled.

### **Burdensome Financial Obligations**

The Soviet tax rate on the profits of joint ventures is a high 30 percent. This is in addition to a 20 percent tax on the foreign partner's share of profits that is transferred abroad. What is more, the joint venture is required to allocate resources to such funds as are deemed "necessary for its operation and the social needs of its personnel." This last category is particularly disquieting because of the broad definition of social development funds in the context of Soviet enterprises. Published in the Soviet newspaper *Izvestiya* on July 1, 1987, the Law on State Enterprises defines social funds to include financial contributions "used by the labor collective for housing construction, for strengthening in every possible way the material and technical base of the social and cultural sphere, the upkeep of facilities in the sphere, the implementation of health service and mass culture measures, and the satisfaction of other social needs."

## **Bureaucratic Roadblocks**

Stories abound about the difficulties of dealing with the Soviet bureaucracy. For example, West German publisher Burda Verlag, who introduced a Russian language version of a Burda magazine for women in March 1987, was unable to complete a joint venture deal because, after months of talks, according to Burda's general manager Manfred Made, the Soviets still could not answer questions about how the project was supposed to be financed or make profits.<sup>10</sup> And according to Alan B. Sherr, Director of the Project on Soviet Foreign Economic Policy and International Security at Brown University, "Western managers who depend on efficient and reliable means of communication will be frustrated by Soviet reality."<sup>11</sup> Telephone service is of low quality and unreliable — telephone books virtually unknown. Computer facilities, facsimile machines, and even telex equipment are relatively scarce. Business travel is difficult because the Soviet airline, Aeroflot, offers poor service. Hotel accommodations are scarce. Lack of office space and housing for Western personnel is especially serious, although some adjustments reportedly are being made.

## **Recovering Hard Currency**

To meet its hard currency expenses, such as salaries for foreign employees and imports of some components, a Western partner must either be able to convert rubles to hard currency or earn hard currency, generally through sales outside the USSR. According to Decree 49, all foreign currency expenditures of a joint venture must be covered by proceeds from sales in foreign markets. This means that hard currency earnings first must be applied to cover hard currency expenditures. Only then can profits be repatriated in hard currency. Soviet regulations, moreover, are vague about profits earned in rubles, and it is not clear whether and if so, at what exchange rate, such profits can be repatriated.<sup>12</sup>

## **Nonconvertibility of the Ruble**

The fact that the ruble is not convertible, that is, cannot be exchanged on the world market — and hence is useless as currency except in the USSR — is perhaps the most significant obstacle to joint ventures with the USSR. Among the questions raised by convertibility are: How much should be paid for Soviet labor and raw materials? How much should be charged Soviet customers? How should the venture evaluate the land and other noncash items contributed by the Soviets as part of their 51 percent of the venture's equity?

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<sup>10</sup> Peter Gumbel, "Soviet Plan to Let in Foreign Firms Proves Frustrating in Practice," *The Wall Street Journal*, July 17, 1987.

<sup>11</sup> Sherr, *op. cit.*, p. 42.

<sup>12</sup> "Venturing Jointly into the Russian Unknown," *The Economist*, June 6, 1987.

capital? How much profit should be excluded from dividends in a required reserve for so-called social development?<sup>13</sup> Since the official exchange rate for the ruble overestimates its real value by as much as four times,<sup>14</sup> the Soviet contribution to the joint venture as well as other payments can be overestimated.

Some businessmen seem to believe that the Soviets will turn to a convertible ruble in the near future.<sup>15</sup> Yet there is no evidence of this. As the Kremlin probably understands, one likely result of turning to convertibility, and hence, a pricing mechanism, would be severe inflation as prices for goods in short supply (the vast majority) would immediately rise. The political effects of such policies might well be severe.<sup>16</sup>

### **Uncertain Access to Soviet Domestic Markets**

While the Soviets want to become sellers on the world market, Westerners would like to sell their products in the USSR. These differing objectives of the partners in joint ventures are viewed by many experts as incompatible.

### **Legal System**

Joint venture regulations require that disputes are to be settled according to Soviet rules either by Soviet courts or by common consent of the parties, in arbitration before a Soviet arbitration tribunal. The Soviet legal system lacks Western constitutional safeguards and is often arbitrary and dominated by Soviet political authorities. There is little precedent in Soviet law to guide Western businesses.

### **Increasing Hard Currency Earnings**

A portion of the costs of Soviet expansionism throughout the world requires hard currency. As such, joint ventures that increase Soviet hard currency earnings have implications for U.S. security. In 1986, the USSR reportedly spent over one-third of its hard currency earnings to prop up Cuba, Nicaragua, and Vietnam and for intelligence activities.<sup>17</sup>

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13 Theodore C. Sorensen, "The West Can Do Business with Soviets," *The Wall Street Journal*, December 28, 1987.

14 Sherr, *op. cit.*

15 Testimony by Michael R. Bonsignore, President, Honeywell International, before the Commission on Security and Cooperation in Europe, May 10, 1988: "As you know, it is an important goal of the Eastern Bloc to achieve free market economies by about 1990, and ultimately full convertibility of the currencies by the mid-1990s."

16 Goldman, *op. cit.*, ch. 8.

17 According to former National Security Council economic advisor Roger Robinson, Western credits used for the purpose of equity contributions to such enterprises are not added to the USSR's total indebtedness, which results in a potentially misleading financial picture.



## **Relationship between Soviet Economy and Internal Reform**

Internal reform of the USSR is difficult and fraught with political risks, particularly concerning military spending. Gorbachev surely would prefer to fix his country's economic problems by tampering as little as possible with centralized economic control, and in particular with the currently high military budget. According to former National Security economic advisor Roger Robinson, major infusions of Western capital, equipment, and technology into the Soviet Union typically have not stimulated change but have substituted for genuine economic reform. Joint ventures could provide a "fix" that would preclude more serious economic reform, especially in shifting defense resources. Former Assistant Secretary of Defense Richard Perle and Soviet dissident Vladimir Bukovsky suggested at a conference on the USSR on June 9, 1988, a view that already had been stated by the Central Intelligence and the Defense Intelligence Agencies that "Gorbachev probably would be reluctant to leave himself open to charges of weakening Soviet defenses by pushing reforms or resource shifts that many in the military leadership oppose."<sup>18</sup> Continuing severe economic problems, however, might require Gorbachev to shift resources from the military to the domestic sector, thereby reducing Soviet military prowess vis-a-vis the West.

## **Increased Technology Transfer**

In the 1970s, the USSR emphasized "active" technology transfer mechanisms through commercial cooperation agreements, such as turnkey plants, whereby a Western company would build an entire factory. This is distinct from "passive" buying of licenses and importing ready-made Western goods. Assimilation of Western technology has been easier in the active cooperation mechanisms. Joint ventures, of course, are an active technology transfer mechanism and, in fact, the most effective means of assimilating Western technology, in part through extensive Western management. This is particularly dangerous in the area of computer technology. Pentagon officials are very concerned about the military applications of management techniques learned from Western partners in joint ventures.

## **Intelligence Risks**

Individual U.S. businessmen and scientists involved in joint ventures are sure to be targets for the Soviet intelligence services. Deputy Assistant Secretary of Defense David Wigg told the Congressional Joint Economic Committee on September 10, 1987: "The opening up of East-West commercial ties would provide a windfall for the Soviet and East European intelligence services and their technology acquisition programs."<sup>19</sup> Business visitors from the USSR, moreover, will travel to the U.S. under private sector auspices. Warned Wigg: "Many of these visitors would be working for the KGB [Soviet Secret Service] or GRU [Military Intelligence]. No mechanism exists in the U.S. government to

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<sup>18</sup> CIA and DIA Report, *op. cit.*, p. 33.

<sup>19</sup> See U.S. Department of State, *Intelligence Collection in the USSR Chamber of Commerce and Industry, 1987*, for an analysis of Soviet methods of technology acquisition.

evaluate the security risks associated with business visitors from the USSR." The Soviets may well obtain access to sensitive data during the course of doing business.

### **Consolidation of a Pro-Soviet Lobby in the U.S.**

American businessmen involved in joint ventures may tend to think more about the security of their investments than about long-term U.S. foreign policy and national security concerns. Perhaps the most influential organization of the pro-Soviet trade lobby is the U.S.-USSR Trade and Economic Council (USTEC), an organization composed of roughly 400 major American corporations and Soviet government trade enterprises. The list of USTEC members has not been made available to the U.S. government — despite offers to classify it so as to protect the members' privacy — although it is available to the Soviets. A USTEC co-chairman from 1977 to 1984 was the current Secretary of Commerce, C. William Verity, Jr., who then worked closely with USTEC executive committee member Yevgeny Pitovranov. Pitovranov was identified in 1983 by intelligence expert John Barron as a KGB lieutenant general. Verity has become such an uninhibited booster of trading with Moscow that he personally led the delegation of 500 American businessmen to the USSR this spring.

Some USTEC members are representatives of the USSR Chamber of Commerce and Industry, which maintains ties to the Soviet military intelligence agency, GRU. One-third of the Chamber's 140 employees are known or suspected Soviet secret service officers. Declassified portions of a recent Central Intelligence Agency investigation reveal that the USSR Chamber of Commerce and Industry is a center of Soviet industrial espionage "while acting as a trade promoter and facilitator with excellent access to Western firms."<sup>20</sup>

Yet USTEC's influence seems to be increasing. At the December 1987 U.S.-Soviet Summit, Verity invited two USTEC executives to an unpublicized meeting with Gorbachev. USTEC has lobbied extensively in favor of joint ventures. Recent issues of *USTEC Journal* reportedly indicate the interest of U.S. business executives in the prospects for this new form of cooperation with the USSR.<sup>21</sup>

### **CONCLUSION**

Joint ventures between American companies and the Soviet Union are not likely to mushroom immediately. The reasons are mainly economic: U.S. businesses will balk at regulations requiring that the Soviets retain at least 51 percent of the statutory capital of a joint venture and that both the chairman of the board and the director general be Soviet. The nonconvertibility of the ruble, meanwhile, raises questions about the prices that the joint venture can charge, how much profit should be excluded from dividends, how much should be paid for Soviet labor and raw materials, and above all how the venture can bring hard currency profits back to the West. In addition, there are predictable bureaucratic roadblocks and questions about how to reach the Soviet customer.

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<sup>20</sup> *Ibid.*

<sup>21</sup> Ira Carnahan, "USTEC: Determined to Sell Moscow the Rope That Could Hang America," Heritage Foundation *Institution Analysis* No. 39, February 5, 1988.

**Military Risk.** Nevertheless, national security concerns are growing rapidly and require immediate U.S. government attention. Increasing Soviet hard currency earnings — Moscow's principal reason for undertaking joint ventures — make more money available for foreign adventurism in Angola, Cuba, Nicaragua, and elsewhere, as well as for domestic oppression. To the extent that joint ventures help the Soviets improve their economy without having to reduce military outlays, they actually increase the threat to the West by creating an economically stronger and more dynamic adversary. By reducing General Secretary Gorbachev's need to introduce fundamental structural changes in the Soviet economy, moreover, there is less incentive to reduce the Soviet defense budget in the immediate future. Finally, there is an intelligence and technology transfer risk when Western companies with access to sensitive information begin dealing with Soviet officials, many of whom are likely to be intelligence officers.

In light of the economic problems that joint ventures with the USSR will probably face, the Reagan Administration must advise U.S. firms explicitly that they must view joint ventures with the USSR as a purely commercial undertaking with all the attendant risks. Under no circumstances should the U.S. government underwrite, reimburse, subsidize, or in any other manner aid a U.S. firm whose business in the USSR fails or otherwise encounters financial difficulties.

**Enforcing CoCom.** In order to prevent the Kremlin from gaining militarily from joint ventures, moreover, the U.S. must rigorously enforce the Western ban on selling or transferring to the Soviets militarily useful products. The list negotiated with Western allies who are members of CoCom, the Coordinating Committee for Multilateral Export Controls, should be strictly enforced, and U.S. firms must be put on notice that any transfer of CoCom products to the Soviets will be severely penalized.

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