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Allied Attitudes Toward Export Controls

Special National Intelligence Estimate

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5 January 1982

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ALLIED ATTITUDES TOWARD EXPORT CONTROLS

Information as of 5 January 1982 was
used in the preparation of this Estimate.

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THE NATIONAL FOREIGN INTELLIGENCE BOARD CONCURS.

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The Central Intelligence Agency, the Defense Intelligence Agency, the National Security Agency, and the intelligence organizations of the Departments of State and the Treasury.

Also Participating:

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The Director of Naval Intelligence, Department of the Navy

The Assistant Chief of Staff, Intelligence, Department of the Air Force

The Director of Intelligence, Headquarters, Marine Corps

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PREFACE

This Estimate assesses the views of our COCOM allies concerning East-West economic relations in general and controls on exports to the Soviet Bloc in particular. It is designed to aid in the preparation for the upcoming COCOM High Level Meeting.

The Estimate examines the political, strategic, and economic factors affecting allied attitudes toward East-West trade and the manner in which these attitudes color their approach to export controls. Where feasible, it assesses the receptivity of our allies to particular US export control initiatives. In the annexes, supporting material is presented on (a) export control statutes and procedures of the major allies and (b) statistical problems in evaluating export controls.

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KEY JUDGMENTS

Western Europe and Japan approach the January High Level Meeting—and the US proposals to reform COCOM (the Coordinating Committee for East-West Trade Policy)—with attitudes toward East-West relations that differ markedly from those of the United States.

The allies see their political and security interests best served by maintaining and increasing contacts with Eastern Europe and the Soviet Union to promote political and economic stability and establish a web of interdependence between East and West.

The allies' East-West trade is small relative to total trade but is important for specific industries in each country. In the short term, with the current economic slump, the Eastern Bloc markets are particularly important in maintaining employment in key depressed industries. Over the longer term, despite problems in Poland and a general slowing of the Eastern Bloc economies which have tarnished the glitter of potential sales to the East, the allies view the Eastern Bloc as one of the few major export markets in which they can expand their sales.

Even though the United States and its allies approach COCOM with different perspectives, there is a consensus that the COCOM mechanism needs to be updated. The allies recognize that Soviet military power is growing, and they worry about the implications for their own security of what they perceive to be an increase in US-Soviet tensions.

The allies are not persuaded, however, that significantly broader COCOM controls could help curb Soviet military growth. The current NATO study on strategic technology transfer to Moscow could play an important role if it helps heighten allied sensitivities to the military application of exports. Also helpful would be a greater involvement of defense ministries in export control policymaking. The allies, however, will insist on coordinating any interministerial differences within their own governmental structure and will not agree to the creation of a military subcommittee within COCOM.

Even if the allies can be convinced that COCOM controls need to be broadened, they will not be receptive to sweeping proposals that would seem to subject whole categories of products and technologies to COCOM review. They believe that COCOM controls should

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be focused on products and technologies whose contribution to Soviet military strength can be demonstrated. The burden of this demonstration will continue to fall on the United States.

The allies will be favorably disposed to the need for tighter enforcement of COCOM restrictions. Although differences in domestic political sensitivities would complicate enforcement efforts, the allies can be expected to endorse some steps to increase national activities and to increase multilateral communication and coordination of enforcement activities.

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I. THE ISSUES IN PERSPECTIVE

1. At the Ottawa Summit, President Reagan addressed the need for tighter controls over trade in strategic goods and technologies with the Soviet Union. As a result of this initiative, COCOM members agreed to hold the first COCOM High Level Meeting (HLM) in nearly 25 years to discuss the direction of strategic trade controls. The meeting is scheduled to convene on 19 January 1982.

2. Over the two decades before the Soviet intervention in Afghanistan, the dominant trend was toward reduced COCOM restrictions—updating the COCOM lists by adding a few new technologies, dropping ones that had become obsolete, loosening administrative procedures, and granting exceptions on a routine basis. Following the intervention a number of economic denial measures were accepted by COCOM members, including a de facto “no exceptions” policy on exports to the USSR for items requiring COCOM review. In the intervening 24 months, however, support for these tighter restrictions among the COCOM partners has eroded, although the “no exceptions” policy has not formally been abandoned.

II. PERCEPTIONS AND INTERESTS

3. The West European COCOM members and Japan view export controls as a necessary but delimited element in their overall relations with the Soviet Union and Eastern Europe. All COCOM members remain firmly committed to coordinating and controlling the export of specific equipment and technology that would clearly augment Soviet military power, when such controls would be effective. However, they prefer to interpret this policy to permit exports when in doubt. Where they can find ambiguities in the guidelines, an absence of clear linkages to military applications, or uncertainty as to effectiveness, the European countries and Japan tend to subordinate export controls to other objectives of East-West policy and commercial interests. In these instances, West European COCOM members and Japan seldom interpret export controls to be in their best interests.

4. In general, West European COCOM members and Japan pursue what they perceive to be a balanced policy toward the USSR—one that accepts the adversary relationship and recognizes the vast military power of the Soviet Union but seeks to maintain and build contacts with Moscow to reduce tensions. Broad political, security, and economic considerations shape this desire for East-West detente and narrowly limit the willingness to further restrict exports to the USSR and its Warsaw Pact allies. Moreover, unique conditions within COCOM countries and specific experiences with COCOM procedures contribute to a pluralism on COCOM's role and direction.

Political Perceptions

5. The governments of Western Europe and Japan believe that detente allows them to offer the Soviet Union incentives and disincentives that will reduce Soviet adventurism and enhance global political stability. They believe that efforts to isolate or contain the USSR, especially through a program of economic sanctions, cannot restrain Soviet policy. Instead they contend that to integrate the Soviets more fully—politically, economically, and culturally—into the global system might curb Moscow's adventurism. In this view, all relations except those that directly increase Soviet military power should be expanded and COCOM controls should be limited to specific equipment and technology with reasonably clear and significant military applications. Broader controls would be perceived as counterproductive.

6. For example, the West European governments have been willing to aid the USSR in developing its natural gas and energy reserves, not only because the pipeline will supply Western Europe with needed energy and West European companies with contracts, but also because they hope that development of Soviet energy resources may turn Soviet attention away from the oilfields of the Middle East, which provide the bulk of energy to West European economies.

7. Detente with the Soviet Union also furthers specific foreign policy goals of the European COCOM

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members and Japan. West Germany, for domestic as well as foreign policy reasons, wants to maintain or improve stable relations with East Germany and with Eastern Europe as a whole. France, in the past two decades, sought to establish a special relationship with the USSR. Although the current French Government has taken a firm stand on East-West issues and has reaffirmed French commitments to the Atlantic Alliance, there remain aspirations for an independent French foreign policy including a continuation of Franco-Soviet cooperation. Japan, too, sees detente as a way to further its goal of beginning negotiations on the status of the Northern Territories, which it hopes to recover eventually from the Soviet Union.

8. The West European COCOM partners differentiate between Eastern Europe and the Soviet Union in their export policies. Promoting through trade political, economic, and social conditions in Eastern Europe that could lead to a gradual reduction of Soviet influence and military presence is regarded as contributing to Western security. Thus European COCOM members are even less prepared to further restrict trade with the East European countries than with the Soviet Union. They make an even greater differentiation with regard to China, which they view as a potentially growing export market.

Security Considerations

9. The political importance of detente as a principle of foreign policy strongly colors European and Japanese views of the security implications of trade with the Soviet Bloc. The Europeans and Japanese generally take a narrow view of the impact of exports to the Soviet Bloc on Soviet military power. Although they do not want to make it easier for the Soviets to develop their military strength, they downplay the role that East-West trade broadly speaking can play in this respect and look only for specific linkages between exports of goods and technology and the enhancement of Soviet weapons systems. They argue that the denial of large amounts of exports to the Soviet Bloc would not result in a reallocation of resources from military to civilian uses, because of the top priority Moscow gives to the development of military power.

10. Even for narrowly defined products and technologies, the allies almost always put the burden of establishing links to military uses on the United States

and are apt to grasp any evidence that the items in question have civilian uses or can be found in non-COCOM countries. Moreover, they sometimes argue for a short control list on the grounds that difficulties in administering and enforcing a long list of proscribed items weakens the effectiveness of controls.

Economic Realities

11. In general, East-West trade plays a small role in the West European and Japanese economies, although it is important to certain industries. Even for West Germany, which accounts for one-fourth of OECD exports to the Soviet Bloc, sales to the East amount to only about 6 percent of total exports and directly provide jobs for about 1 percent of the labor force. Problems in Poland and a slowdown in Eastern Bloc economies have tarnished somewhat the earlier hopes for an expanding Eastern Bloc market for Western goods. Moreover, the Soviet Union has experienced a sharp erosion in its hard currency position which is expected to continue. This has already led the Soviets to trim import plans and to cut back on imports of chemicals and industrial materials. Hard currency trade accounts for a significant amount of total Soviet trade in certain sectors (see table 1). A hard currency bind probably will affect sectors important to the allied COCOM members—especially machinery, metals, and chemicals.

12. Nevertheless, the West Europeans and Japanese believe that they cannot ignore any foreign market because they rely heavily on exports to promote growth—exports of goods and services total nearly one-fourth of their GNP compared to only 10 percent in the United States. The allies still view the Eastern Bloc as one of the few major markets in which they have an opportunity to expand their sales. Moreover, the structure of trade with the East is much different for Western Europe and Japan than for the United States. Unlike the US exports, which are primarily agricultural, West European and Japanese exports are concentrated in industrial goods, particularly steel and machine tools. Exports to the Soviet Union and Eastern Europe account for a significant share of these industries' total sales.

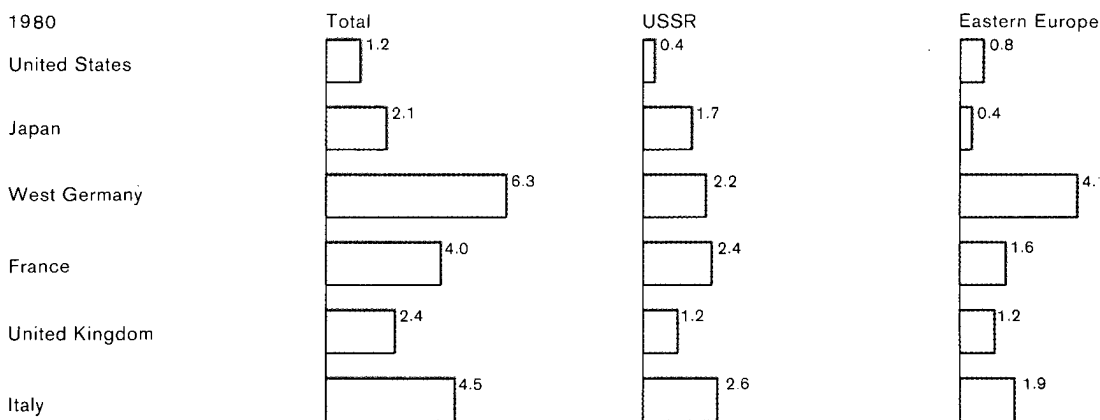
13. The West German steel industry is especially reliant on sales to the Soviet Bloc—about 15 percent of total steel exports go to that region. Steel pipe, primar-

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Figure 1

Trade With USSR and the Warsaw Pact

Percent of Total^a^aAs a percent of each country's total trade.

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Table 1

USSR: Share of Hard Currency Trade in Total Trade

(Percent)

	Soviet Exports			Soviet Imports		
	1970	1975	1980	1970	1975	1980
Total hard currency trade	17	23	31	23	38	38
of which:						
Fuels	24	36	42	4	34	NA
Crude oil and petroleum products	26	40	43	10	72	NA
Natural gas	2	34	48	0	0	NA
Machinery and equipment	5	9	3	22	37	26
Ferrous metals	10	6	7	47	77	75
Chemicals	18	25	36	34	42	42
Wood and wood products	44	37	48	34	27	15
Agricultural products	14	24	25	27	42	66
Grain	5	1	0	73	87	90
Consumer goods	23	26	13	12	9	9

Source: Soviet foreign trade data.

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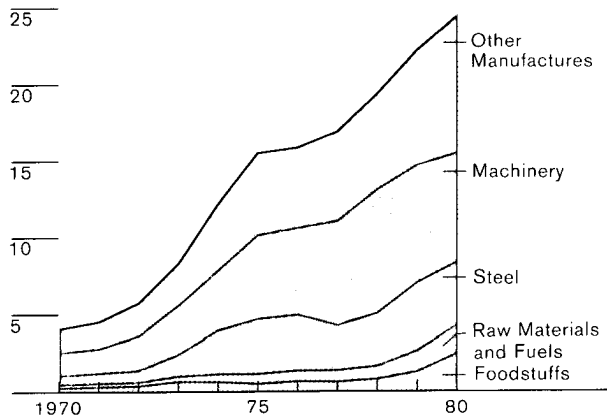
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Figure 2

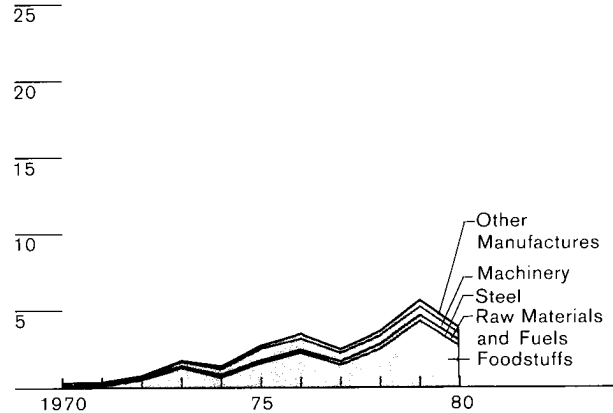
Exports to the USSR and the Warsaw Pact

Billion US \$

West Germany, France, U.K., Italy, and Japan



United States



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ily for natural gas transmission lines, constitutes a large portion of these exports; Mannesmann, AG, which has been delivering large-diameter pipe to the USSR for at least 20 years, has one plant in Mulheim producing large-diameter pipe almost exclusively for export to the Soviet Union. The recently signed West German-Soviet gas deal guarantees that the Mulheim plant will be operating at near capacity through at least the late 1980s. Italy's state-owned steel producer, Finsider, is also heavily dependent on sales to the Soviet Union and recently signed a contract to supply 250,000 tons of large-diameter pipe for the Siberian gas line. Sales to the Bloc account for about 12 percent of Italian steel exports. While the French and Japanese also have received sizable pipe contracts associated with the Siberian gas line, steel sales to the East account for a smaller share of their total steel exports.

14. Soviet and East European purchases of machinery—primarily capital goods destined for resource development projects or for upgrading manufacturing facilities—are also relatively important for West European industry. The Eastern Bloc traditionally has relied heavily on West Germany for metalworking machinery, particularly machine tools. About 14 per-

cent of West German metalworking machinery exports go to the region. Most of these machinery sales are part of larger contracts to build industrial plants. The Soviet Union and Eastern Europe are also a major market for Italian machinery exports, although sales recently have slipped because Italian firms have been unable to match the high-technology equipment offered by West Germany, Japan, and the United States.

15. West Europeans and Japanese have viewed the Eastern Bloc as a stable, if not growing, market for their industrial exports and indeed have competed actively for sales to the East. The use of subsidized export credits and export guarantees illustrates the degree of this competition. Such credits, particularly for France, Italy, and Japan provide an additional edge. In addition, Western Europe and Japan feel increasingly threatened by the possible loss of the Soviet Bloc market to newly industrializing countries, such as Mexico, Brazil, and Korea, which are rapidly developing competitive steel and machinery industries.

16. Over the last two years, the economic slump in Western Europe has increased the perceived impor-

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tance of trade with Moscow and Eastern Europe. West European governments probably especially value exports to the East because they buoy employment in industries which have been particularly hard hit by the slump. With the highest unemployment levels in 30 years, the more than one-half million jobs created by sales to the Eastern Bloc take on even greater significance.

Experiences With COCOM

17. The West European COCOM members and Japan are generally not dissatisfied with the scope of existing COCOM controls, which was narrowed considerably in the 1950s. There is little question that export controls have had a greater impact on US exports of technology to the Soviet Bloc than those of Western Europe and Japan because they apply mainly to advanced products, such as computers and micro-electronic items, in which the United States has long been a world leader (see annex B on statistics). These countries are extremely sensitive, however, to any suggestion for comprehensive controls covering industrial sectors because of the broad range and volume of their exports of machinery and other manufactures to the Soviet Bloc. Although they have supported the "no exceptions" policy in COCOM applied in the aftermath of Soviet military intervention in Afghanistan, they have criticized the United States for suggesting broad industrial controls while lifting its grain embargo against Moscow.

18. Procedures within COCOM have also become a source of concern and frustration for the COCOM partners. The West Europeans and Japanese are dissatisfied with the extraordinarily long delays experienced in waiting for completion of review of COCOM cases by the United States. These frustrations have sometimes spawned unofficial speculation in the press, including imputations of ulterior motives to the US Government.

19. West European attitudes toward COCOM have been shaped further by their perception that the United States has attempted to deprive them of national discretion, as agreed in COCOM, for lower performance equipment through the extraterritorial application of US export controls on reexports. This issue of extraterritoriality is politically sensitive and

legally and technically complex. Both the United States and the allies have avoided a clear definition of the issue.

III. COUNTRY ATTITUDES

20. Although it is possible to generalize about the factors shaping West European and Japanese attitudes toward COCOM, these factors resonate differently in particular national contexts. Each of the major West European COCOM members and Japan has its own foreign policy goals, domestic political dynamics, and economic concerns. In each governmental structure, the policy toward export controls is brewed in a unique national cauldron containing divergent views of political parties, contending positions among ministries, and pressure from industrial and labor lobbies.

West Germany

21. West Germany is particularly sensitive to signs of increased tensions in Europe and promotion of friendly and stable relations with the USSR and Eastern Europe is a major German foreign policy goal. Moreover, ties with the East are important in keeping alive the ideal of German reunification, a hope that may be unrealistic but cannot be denied by any West German government.

22. West Germany continues to be the Eastern Bloc's largest Western trading partner, with about 6 percent of its total exports flowing to the East. Over 14 percent of total exports in both steel and metalworking machinery go to the East. Although less than 300,000 of some 27 million West German workers are directly employed in producing goods for export to the Soviet Bloc, indirect employment dependence is much higher.

23. West Germany favors denying the Soviets any product that it perceives would directly enhance Soviet military power. Following the Soviet moves in Afghanistan, Bonn expressed a willingness to consider additional restrictions on trade with the USSR. It joined the "no exceptions" policy of other COCOM members and supported US proposals to strengthen specific items on the COCOM lists, notably including the computer item. The West Germans concede that a massive Soviet intervention in Poland, especially one

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Table 2

**West Germany: Trade With USSR and Warsaw Pact Allies
1980**

(Million US \$)

Exports	Value	Sector Share ^a	Imports	Value	Sector Share ^b
Total	\$12,357	6.4	Total	\$11,574	6.1
Foodstuffs	991	9.5	Foodstuffs	964	4.5
Raw materials	537	12.5	Raw materials	948	6.4
Fuels	611	8.0	Fuels	4,892	10.9
Chemicals	2,167	8.6	Natural gas	1,144	20.5
Machinery and transport equipment	3,545	4.2	Chemicals	800	5.8
Metalworking machinery	2,333	16.1	Machinery and transport equipment	533	1.5
Other semi- and finished manufactured goods	4,506	7.2	Other semi- and finished manufactured goods	3,446	5.6
Steel	1,913	16.8			

^a Exports of each sector to the Bloc as a percent of total exports of that sector to the world.

^b Imports of each sector from the Bloc as a percent of total imports of that sector from all sources.

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involving resistance and bloodshed, would provoke Bonn to apply economic sanctions against the Soviet Union.

24. West Germany believes that COCOM is useful but could be made more effective and efficient. Bonn prefers multilateral discussions aimed at streamlining the decisionmaking and improving the clarity of controls to increase uniformity and predictability of COCOM decisions. Bonn believes, however, that the COCOM mechanism must be reformed carefully: an overly ambitious program might weaken the consensus needed for the effective functioning of COCOM.

25. Broad agreement exists between the West German Foreign and Economic Ministries on the desirability for continued East-West trade and on COCOM's overall functions. The control procedures are largely run by the Economics Ministry; the Defense Ministry has little influence on COCOM-related issues. Moreover, the governing coalition and the opposition Christian Democrats also are in general agreement on the political importance of trade with the East and the limited circumstances under which it should be curtailed.

26. West German business interests see no defensible alternative to East-West trade and the business community forms a major lobby for expanded trade

with the East. Pressure for continued and expanded trade could be especially effective directed at the more conservative Christian Democrats, who receive support from the business community. The Christian Democrats also are seeking to make inroads into the Social Democrats' strong labor support in North Rhine-Westphalia—the state that would be hardest hit by a restriction in West German trade with the Soviet Union and Eastern Europe.

France

27. Since his election last May, President Mitterrand has placed less emphasis than his predecessors on fostering the Franco-Soviet "special relationship" initiated in 1966 by de Gaulle and has expressed a willingness to take a harder line with the Soviets. This view, however, does not appear to be widely held at the administrative level of the government. It also has little popular political support and could easily be altered. Like other West European members, France believes that long-term Western interests are served by increased East-West trade that reduces tensions in Europe, generates a favorable political evolution within the Soviet Bloc, and curbs the Soviet Union's interest in expanding its sphere of influence. Furthermore, Mitterrand's domestic economic policy of increasing employment would profit from increased trade with the East.

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Table 3

**France: Trade With USSR and Warsaw Pact Allies
1980**

(Million US \$)

Exports	Value	Sector Share ^a	Imports	Value	Sector Share ^b
Total	\$4,643	4.2	Total	\$5,253	3.9
Foodstuffs	1,062	6.0	Foodstuffs	219	1.6
Raw materials	96	2.2	Raw materials	389	4.9
Fuels	24	0.5	Fuels	3,120	8.7
Chemicals	943	7.0	Natural gas	467	16.1
Machinery and transport equipment	352	3.6	Chemicals	511	4.1
Metalworking machinery	538	6.4	Machinery and transport equipment	304	1.1
Other semi- and finished			Other semi- and finished		
manufactured goods	1,166	3.5	manufactured goods	710	2.0
Steel	513	7.5			

^a Exports of each sector to the Bloc as a percent of total exports of that sector to the world.

^b Imports of each sector from the Bloc as a percent of total imports of that sector from all sources.

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28. French trade with the East is not as large as West Germany's. East-West trade accounts for roughly 4 percent of both total French exports and total imports. Sales of industrial goods accounted for 70 percent of exports to the East, primarily in chemicals, steel, and metalworking machinery. Thousands of jobs in these recession-hit sectors were maintained by this trade—a factor of critical importance to the Paris government.

29. Paris's view of trade as a bilateral issue probably will encourage the French to keep up sales efforts. Bilateral trade with the Soviet Union fell into deficit for the first time in 1980, and future French energy imports threaten to make this deficit permanent. Paris is likely to try to persuade the Soviet Union to increase imports from France to offset this deficit.

30. The Mitterrand government advocates the establishment of a shortened "hardcore" COCOM list that would restrict genuinely sensitive technology exports to the Soviet Union and its allies.

France has not divulged its contents to the United States nor to COCOM. It presumably excludes items, such as communications equipment, which are produced by French firms and which France hopes to

export. France claims that current COCOM controls are too hit-and-miss, allowing the sale of some technology that has already contributed to the Soviet military buildup while restricting the sale of certain other technology that the USSR has already acquired or has no interest in acquiring. Paris contends that an effective COCOM list needs to be narrowly focused to unambiguously spell out the "rules of the game" on export controls so that they can be strictly enforced. However, France sees no contradiction between its announced desire for effective restrictions and its overall interest in increasing sales of advanced technology to the East.

31. In early October, Prime Minister Mauroy approved new administrative guidelines to provide for review by more government agencies of French exports to the Soviet Union and Eastern Europe. The Ministry of Industry now will handle the preliminary processing of export licenses and will notify other concerned agencies, including the Ministries of External Relations, Defense, Foreign Trade, and the Secretary General for National Defense—an oversight body within the Prime Minister's office. The Prime Minister will rule on a particular case if disagreement over licensing develops. The new guidelines appear to give added weight to the Ministries of Defense and External Relations and to the Prime Minister's office, which

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are believed to advocate more stringent controls than those favored by the Industry Ministry.

32. The current case of the Thomson-CSF telephone switching units and production technology illustrates the pressure now shaping French policy on East-West trade and COCOM controls. Paris's preoccupation with reducing unemployment makes it sympathetic to the argument of industrial lobbies that a cutback in French high-technology exports to the East would only benefit West German, Japanese, and US competitors. A continued delay of the sale by the government, moreover, further exposes Paris to charges that its export policy is overly influenced by US pressure.

33. The Mitterrand government may turn out to be a somewhat stronger advocate than its predecessor for increasing the effectiveness of export controls on at least the most sensitive items.

Italy

34. Italy was a pioneer in the expansion of East-West economic ties long before the heyday of detente. Relaxed international tensions in the 1970s gave Rome a further opportunity to broaden these links and parlay them into improved political relations, thus

providing further underpinning for the political rapprochement already under way. Detente remains politically popular in Italy because it is perceived as a constraint on Soviet adventurism. Moreover, many Italians believe that closer political and economic ties with the East are dictated by Europe's proximity to the USSR, while at the same time Italy's distance from the Soviet border diminishes its sense of a direct threat from Moscow.

35. Trade with the East constitutes a relatively small portion of Italy's overall trade: in 1980 Italy sold 3.5 percent of its exports to and obtained 5.3 percent of its imports from the USSR and its allies. Although the relative importance of the Eastern market for Italy has declined steadily over the past five years, sales to Moscow still provide direct employment for about 100,000 Italians. In addition, these exports are extremely important to some of Italy's largest firms, which have been experiencing severe financial difficulties.

36. Rome still prefers to think of Eastern Europe as a potentially rich market for its products, and believes trade with the Eastern Bloc to be a stabilizing factor on the Italian economy, especially during periods of slow economic growth. For these reasons, Italy has tried—sometimes unsuccessfully—to protect its market share in the East from encroachment by other

Table 4

Italy: Trade With USSR and Warsaw Pact Allies
1980

(Million US \$)

Exports	Value	Sector Share ^a	Imports	Value	Sector Share ^b
Total	\$2,729	3.5	Total	\$5,238	5.3
Foodstuffs	138	2.5	Foodstuffs	429	3.5
Raw materials	65	5.4	Raw materials	497	4.7
Fuels	112	2.6	Fuels	3,018	11.0
Chemicals	379	6.8	Natural gas	628	41.6
Machinery and transport equipment	980	3.9	Chemicals	309	3.8
Metalworking machinery	460	10.7	Machinery and transport equipment	333	1.6
Other semi- and finished manufactured goods	1,055	3.0	Other semi- and finished manufactured goods	652	3.3
Steel	440	11.8			

^a Exports of each sector to the Bloc as a percent of total exports of that sector to the world.

^b Imports of each sector from the Bloc as a percent of total imports of that sector from all sources.

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West European and Japanese firms through trade subsidies and generous export credits and guarantees.

37. Rome is committed in principle to the underlying goal of COCOM's export controls to deny specified technology to the Soviet Union. When compared with many other COCOM countries, however, Italy has little to offer Moscow in terms of sensitive technologies that can have direct military application. Rome therefore can claim strict adherence to COCOM principles, although the Italians occasionally complained that the restricted list is too long. Rome has applied for a small share of COCOM exceptions and has chided the United States for delays in ruling on their requests, even threatening "independent action" to speed up Washington's deliberations.

38. An interministerial committee chaired by the Foreign Affairs Ministry and including the Ministries of Foreign Trade, Finance, Industry, and Defense determines the specifics of Italian COCOM policy. The committee considers all requests for exceptions from other COCOM members and processes and evaluates Italian requests for exceptions.

39. The Italian Communist Party (PCI) no longer plays the role in facilitating East-West trade that it did several years ago, before domestic legislation forced all political parties to divest themselves of specially estab-

lished trading companies. PCI leaders still favor closer links between Moscow and Rome to deflect frequent disagreements in policy between the Soviet and Italian Communist parties. Nevertheless, even in this area, the PCI wishes to appear as independent of Moscow as possible.

40. As the major partners in Italy's center-left coalition, the Christian Democrats and the Socialists are extremely sensitive to the impact that trade with the Soviet Bloc has on Italian-US relations. Each party cautiously balances the importance of East-West trade against its desires to demonstrate suitability to lead a government that is closely aligned with the United States.

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United Kingdom

41. On the whole, the British Government has been supportive of US positions on COCOM matters. A number of factors have contributed to their sympathetic view. The UK has a smaller economic stake in high-technology trade with the Soviet Bloc than most major European economies. The UK also has had a

Table 5

United Kingdom: Trade With USSR and Warsaw Pact Allies 1980

(Million US \$)					
Exports			Imports		
	Value	Sector Share ^a		Value	Sector Share ^b
Total	\$2,629	2.3	Total	\$2,971	2.5
Foodstuffs	270	3.5	Foodstuffs	89	0.6
Raw materials	182	5.6	Raw materials	547	6.7
Fuels	32	0.2	Fuels	503	3.2
Chemicals	455	3.7	Natural gas	1	0.1
Machinery and transport equipment	901	2.3	Chemicals	151	2.0
Metalworking machinery	139	4.2	Machinery and transport equipment	226	0.7
Other semi- and finished manufactured goods	789	2.2	Other semi- and finished manufactured goods	1,455	3.6
Steel	126	5.8			

^a Exports of each sector to the Bloc as a percent of total exports of that sector to the world.

^b Imports of each sector from the Bloc as a percent of total imports of that sector from all sources.

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smaller political stake in detente than have countries on the continent. The UK also shares a more common appreciation of the impact that East-West trade has had on Soviet military power because of Washington's special effort to share data and analysis. Finally, there do not exist the large differences in views between the government ministries that are found in other COCOM member governments.

42. The USSR and Eastern Europe account for little more than 2 percent of Britain's overall trade. British exports to the East have grown steadily during the past decade, but London's share of the Soviet Bloc market has declined as France, West Germany, and Japan have boosted sales more rapidly. Sales of manufactured goods have been particularly weak, and Britain now faces an overall deficit in trade with the East.

43. The Thatcher government, prompted by nagging recession and a strong dose of traditional Conservative profit motive, is seeking to expand trade in Soviet Bloc markets. Despite several years of strained trade relations, London and Moscow have held a series of high-level talks that are likely to lead to new commercial agreements. British officials have also expressed strong interest in winning contracts related to construction of the Soviet-West European gas pipeline, even though the UK would not receive any of the gas.

44. Few British jobs, probably less than 100,000 directly and 25,000 indirectly, are dependent on Soviet trade. Exports are concentrated in a few commodity groups and only a few firms are especially dependent on Soviet trade. Even so London is leery of US efforts to reorder and expand COCOM controls, particularly in the strong export categories, such as chemicals. Of major concern is Imperial Chemical Industries which has been in a financial predicament in recent months. Over one-fifth of ICI employees owe their jobs, directly or indirectly, to exports to the Soviet Union. The present COCOM list has little impact on ICI but US proposals to strengthen controls in the defense priority chemical industry are of potential concern.

45. Furthermore, the UK is concerned that it may be hurt by restrictions in exports of high-technology products, such as computers, which Britain is trying to

develop. Most industrial organizations would lobby the government to resist a further tightening of COCOM controls.

46. Among British political parties, too, there has been little controversy over the application of COCOM regulations. Like the Conservatives, the Labor Party has favored a narrow application of COCOM regulations to expand employment. A Social Democrat-Liberal government also would probably seek to define controls narrowly to promote business and employment. However, a future leftist-dominated Labor government might propose a radical reduction or even elimination of COCOM activities.

Japan

47. Trade with the Soviet Bloc remains relatively unimportant to the Japanese economy despite a rapid expansion in economic relations over the past 10 years. In 1980 trade with Moscow and Eastern Europe accounted for less than 3 percent of Japanese exports (but over 7 percent of total Japanese steel exports) and 1.5 percent of Japanese imports. The Japanese have enjoyed substantial annual trade surpluses with the USSR; in 1980 the surplus topped \$1 billion.

48. Although trade with the Soviet Bloc has developed less than the Japanese had hoped, the Japanese steel and machinery industries still view the USSR as an important alternative market offsetting slower economic growth and rising protectionism in the West.

49. Until recently, Tokyo and Moscow each apparently believed that they might be able to turn this potential for trade to political advantage. The Japanese hoped that increased economic relations between the two nations would enhance the Soviet stake in harmonious relations and eventually induce Moscow to negotiate on the contentious Northern Territories issue. Moscow, at the same time, assumed that Japanese businessmen would find the lure of Soviet markets irresistible and pressure Tokyo to set aside the territorial issue.

50. In fact, the pace of Japanese involvement in Siberia has slowed sharply since the late 1970s, mainly because of Soviet heavyhandedness and international developments. By increasing its military presence in the Kuriles, Moscow flaunted its possession of the islands in a way the Japanese found particularly

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Table 6

Japan: Trade With USSR and Warsaw Pact Allies
1980

(Million US \$)

Exports	Value	Sector Share ^a	Imports	Value	Sector Share ^b
Total	\$3,585	2.8	Total	\$2,068	1.5
Foodstuffs	9	0.5	Foodstuffs	132	0.9
Raw materials	78	5.6	Raw materials	886	3.8
Fuels	73	14.4	Fuels	324	0.5
Chemicals	425	6.3	Natural gas	0	0.0
Machinery and transport equipment	1,174	1.7	Chemicals	90	1.4
Metalworking machinery	1,148	6.9	Machinery and transport equipment	81	0.9
Other semi- and finished			Other semi- and finished		
manufactured goods	1,826	3.8	manufactured goods	555	3.4
Steel	1,095	7.1			

^a Exports of each sector to the Bloc as a percent of total exports of that sector to the world.^b Imports of each sector from the Bloc as a percent of total imports of that sector from all sources.

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irksome. Furthermore Japan's interest in expanding trade with China has led Moscow to view Japan as a potential partner with the United States and China in a hostile Pacific triad. Finally, Japan strongly disapproved of the Soviet invasion of Afghanistan and Soviet support for Vietnam's aggression against Kampuchea and consequently is tightening its security ties with the United States.

51. Tokyo has adhered to the current COCOM export controls but is skeptical about their effectiveness in impeding the development of Soviet military technology. Japan would be apprehensive about expanding the present denial lists unless Western competitors were clearly under similar restrictions.

52. Japan looks to the United States to take the lead in COCOM in formulating new guidelines, applying them to US firms, and assuring West European compliance. The Japanese feel that their conscientious observance of the Afghanistan sanctions was undercut by continued European dealings with the Soviet Union and the lifting of the US grain embargo.

53. The Ministries of Foreign Affairs, International Trade and Industries (MITI), Finance, and to a lesser extent the Japanese Defense Agency, all help formulate Japanese export policy toward the Soviet Bloc. MITI, which tends to reflect the business lobby, especially can be expected to react coolly to any new

COCOM controls that threaten to restrict foreign trade. To overcome disagreements on such issues between individual ministries, a personal commitment from the Prime Minister probably would be required.

IV. PROSPECTS FOR COCOM REFORM

54. The United States has formally proposed to COCOM a revision in the strategic criteria and mechanisms to improve procedures. It has advised COCOM that the objective of the partners should be to broaden controls to restrict exports in nine defense priority industrial sectors that support the military potential of the Soviet Union. Five of these industries—computers, communications, high-technology microelectronics, aerospace, and machine building—are already subject to a significant degree of control, but existing controls on shipbuilding, metallurgy, chemicals, and heavy vehicles are not extensive. The West European COCOM members and Japan are reacting negatively to this US effort. They view it as another in a series of broad, sweeping, and therefore unacceptable proposals since the Soviet invasion of Afghanistan.

55. All COCOM members prize the principle of consensus, which has operated in the organization for 30 years. They oppose US initiatives for a formalized, permanent "no exceptions" policy mainly because it

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would reduce COCOM's future flexibility and aggravate relations with the USSR. There is no agreement yet on modifications required in COCOM procedures, except to expedite cases.

56. The European partners and Japan view the January HLM as a political meeting offering an opportunity to exchange views. They want to avoid an open confrontation with the United States. They therefore prefer to put off hard decisions for subsequent meetings. Nevertheless, they are increasingly concerned over what they perceive as increased East-West tensions which have contributed to divergences within the Alliance. They agree that in this context there is a need to ensure that the COCOM mechanism works properly.

57. The United States has three main handles in its attempt to achieve tighter and broader controls on Western exports to the Soviet Bloc. At the political level, the allies are willing to engage in a broad ranging discussion of East-West economic relations and its implications for Western security. At the technical level, they are willing to learn more about the impact of Western goods and technology on Soviet

weapons systems. At the administrative level, they are willing to try harder to stem illegal exports. But effective use of these handles is difficult because European and Japanese political objectives and security considerations in East-West trade differ greatly from those of the United States.

58. There are strong counterarguments to the European contention that trade with the Soviet Bloc has a positive effect on Western security. It can be argued, for example: that imports and credits from the West are of increasing importance to the Soviet economy; that this helps Moscow carry its heavy defense burden and burden of empire; and that to compete the West must then increase its military expenditures. Although neither the direct impact of East-West trade on Soviet military power nor the indirect impact on Western military expenditures can be quantified in the aggregate, defense spending by our allies is several times larger than their total exports to the Soviet Bloc, and is orders of magnitude larger than any fraction of exports that might be placed under COCOM controls. (See table 7.) It is also evident that the economic and security burden of overcoming or defending against

Table 7

**Comparison of Defense Spending With
Exports and Credits to Soviet Bloc
1980**

COCOM Member Country	Defense Expenditures		Exports to USSR and Warsaw Pact Allies		Official Credits Outstanding ^a	
	Billion US \$	Percent of GNP	Billion US \$	Percent of GNP	Billion US \$	Percent of GNP
West Germany	26.7	3.2	12.4	1.5	9.3	1.1
France	26.1	4.0	4.6	0.7	11.1	1.7
Italy	9.6	2.4	2.7	0.7	5.6	1.4
United Kingdom	27.0	5.2	2.6	0.5	5.7	1.1
Belgium	3.9	3.2	1.3	1.0	0.8	0.7
Luxembourg	0.1	1.2			NA	NA
Netherlands	5.3	3.3			1.4	0.9
Denmark	1.6	2.1	0.3	0.4	0.2	0.3
Greece	2.4	5.7	0.5	1.2	NA	NA
Norway	1.7	2.9	0.3	0.5	0.2	0.3
Portugal	0.9	3.7	0.1	0.4	NA	NA
Turkey	2.2	3.8	NA	NA	NA	NA
Canada	4.4	1.8	1.8	0.7	1.4	0.5
Japan	9.6	0.9	3.6	0.3	5.4	0.5
United States	144.0	5.6	3.8	0.1	2.7	0.1

^a Represents the outstanding balance of principal and interest for guaranteed credits actually drawn as well as credits committed to orders that have not yet been completed.

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improved military capabilities derived by the Soviets from Western research and development far outweighs the West's earnings from sales to the Soviets of the products and technologies on which those improvements in military capability are based. The dependence of the Soviet military buildup on Western technology and trade is detailed and evaluated in SNIE 3/11-4-81: *Dependence of Soviet Military Power on Economic Relations With the West*.

59. The modernization of Soviet tactical and strategic forces has benefited substantially from the acquisition of Western products and technology. This can mean significant savings in cost and/or development time. It can also mean enhanced weapons capabilities. Moscow uses a combination of legal and illegal channels to acquire certain products and technologies as part of a highly organized and focused program. For example, Moscow has relied heavily on imports of Western equipment and technology to systematically build a modern microelectronics industry. This newly acquired capability in microelectronics is a critical basis for large and wide-ranging enhancements in the sophistication of Soviet military systems, including ASW sensors and weapons systems and air defense and ballistic missiles. These Soviet acquisitions also have caused the United States to undertake the development of a new generation of microelectronic devices to maintain a technological lead in future weapons systems. This development program, called VHSIC (Very-High-Speed Integrated Circuits), will require an initial US investment outlay for R&D alone of over \$200 million.

60. Trucks produced at the Kama River truck plant, built with massive imports of some \$3 billion worth of Western automotive production equipment and technology, are currently the mainstay of Soviet military units above division level opposite NATO. Kama trucks also are in use by Soviet forces in Afghanistan. An imported US turnkey facility for licensed production of high-quality rock drill bits will in the long run accelerate Soviet efforts to improve the performance of tungsten-based kinetic energy armor-piercing ammunition for Soviet main battle tanks.

61. A major weakness in the Soviets' ability to incorporate advanced component technology in military systems lies in their outdated manufacturing equipment and production technology. Defense hard-

ware production continues to benefit from key technological acquisitions from the West. Large purchases of numerically-controlled machine tools from Japan and Western Europe may already have benefited some military manufacturing sectors, particularly the Soviet aircraft industry.

62. The COCOM allies have always been receptive to well-supported technical analysis which establishes links between Western exports and Soviet military power. They will welcome any stepped up US collection and analytic efforts in this area but their own technical capabilities are weak. For the most part these capabilities are found in areas of the governments—notably the defense departments—which play little part in the COCOM process and have a limited role in national decisions on COCOM policy.

63. There appear to be fewer barriers to an increased enforcement effort, but here again the key actors are normally not involved in the COCOM process itself.

Defining COCOM Strategic Criteria and Defense Priority Industries

64. The West European and Japanese Governments are genuinely concerned about the growing military might of the Soviet Union and share the desire to control tightly exports to the USSR and Eastern Europe that could directly augment Soviet military capabilities. However, West European COCOM members and Japan insist that export controls must be defined in detail to be practical, effective, and uniformly accepted. They are highly skeptical of proposals that seek to broaden the strategic criteria and expand the list of controlled items.

65. The identification of high-priority defense industries to be included under COCOM jurisdiction is extremely troublesome to the allies. They are concerned, because of the loosely worded nature of the US proposal, that they will be asked to accept a shopping list of industries to be placed under COCOM review, including shipbuilding, metallurgy, chemicals, and heavy machines, which are major exports to the Soviet Bloc from Western Europe and Japan. An expansion of the restrictions to include broad controls in such industries would be perceived as an attempt to enforce broader economic sanctions against the USSR, going

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beyond COCOM's function of restricting exports in limited but highly sensitive technologies. Making all trade in these industries subject to veto by any one member would be clearly unacceptable to West European and Japanese Governments. Furthermore, an attempt to extend COCOM controls to such broadly defined categories would heighten objections from Western Europe and Japan that the burdens of economic sanctions were being distributed unfairly, because they are the major exporters of goods that would fall into the expanded lists. Finally, the European members and Japan, already disturbed by the lengthy review process for exceptions, fear that an expansion of the lists of controlled items would result in even more delays in review, because the number of exceptions requested by Japan and Western Europe would significantly increase. The COCOM partners argue that what is really needed is a continuation of the COCOM practice of precisely defined controls with some clarifications and reductions in coverage and a shortening of the review process to improve uniformity, efficiency, and predictability in the COCOM system.

Role of the Military

66. The allies are only willing to consider a broader role for their military in export control policies and procedures in a limited context and consider even this to be an internal matter. They contend that NATO is the proper multilateral forum for discussing the military implications of export controls. They have resisted proposals for giving the military a formalized role in COCOM through the subcommittee mechanism for fear of having more than one national view being voiced at COCOM, and thereby weakening their country positions. Moreover, the foreign affairs and trade ministries are reluctant to give other ministries a greater role in decisions on export controls.

Harmonization

67. The United States has suggested that COCOM's effectiveness could be improved through the harmonization of export licensing procedures within the member states. This entails the removal of inequities among the members in the establishment of licensing requirements and in the processing of license applications. The anticipated results of this coordinated effort

would be: reducing leakage of strategic goods, decreasing competitive disadvantages, and facilitating the licensing process (that is, quicker and more accurate review and disposition of cases).

68. In general, the West European allies and Japan can be expected to have mixed reactions to such suggestions. They would be extremely receptive to any proposals that would speed up review procedures in the United States. Because our allies already deal with most COCOM exceptions within three weeks of the requests, they claim that this is really a US problem.

69. At the same time, they claim that the current discrepancies among licensing procedures are primarily attributable to the broad and ambiguous guidelines under which COCOM operates. In their view harmonization of procedures requires commonly agreed to interpretations of what should and should not be controlled.

Improving Enforcement

70. Proposals for improving multilateral and bilateral enforcement of export controls will receive broad support from the COCOM partners. They are highly concerned about the leakage of sensitive technology to the Soviet Union and will endorse cooperative efforts to stem these losses. Most of the COCOM members have been less enthusiastic in prosecuting exporting firms for evasions.

71. The implementation of enforcement guidelines is complicated, however, by political sensitivity to stronger administrative actions. The subject of strategic export controls is so politically charged that many governments try to keep the whole process as confidential as possible. This greatly influences government attitudes on publicly prosecuting violators and on increasing public awareness of the leakage problem.

72. This primarily political problem is manifested in part by differences in domestic legislation. West Germany has enacted laws with stiff penalties for illegal export of products and production technologies having direct military application and probably would support initiatives in this area. Rome enforces export controls only through the Foreign Trade Ministry's issuance of export licenses and the Finance Ministry's merchandise checks at the border. In Japan there is no

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legislative basis for the enforcement of COCOM controls, but MITI has tried to ensure Japanese compliance with COCOM restrictions. Although all COCOM members recognize that the divergence in enforcement procedures probably weakens export controls, domestic political and legal constraints limit the possibilities for further harmonization.

73. Nevertheless, there are aspects of enforcement that may attract support from some COCOM partners, including: exchanging information on suspected COCOM violations, publicizing export control enforcement activities, and strengthening procedures for rapid communication between member countries' enforcement services.

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ANNEX A

EXPORT CONTROL STATUTES AND
PROCEDURES OF THE MAJOR ALLIES**West Germany**

1. The Foreign Commerce Law of 1961 authorizes the federal government to control exports of commodities and technical data for reasons of national security. The appropriate implementing regulations are contained in the Foreign Commerce Ordinance and Foreign Commerce Licensing Jurisdiction Ordinance of 1961. These regulations stipulate that an export license is required for any item appearing on the export control list. Licenses are granted automatically except when the government can demonstrate that the export of an item would threaten national security. A separate arms export control law forbids sales of military hardware when the export could exacerbate international tensions.

2. West Germany has four export control lists. The first three lists cover munitions, atomic energy, and "other strategic goods" as well as know-how and documentary data associated with the production of these goods—essentially all items on the COCOM lists. The fourth list largely covers nonindustrial goods like botanical plants, alcohol, and raw materials, controlled either because of Common Market regulations or because they are in short supply in Germany. The list of commodities placed under export control is determined by the executive branch, but the Bundestag may remove an item from the list within four months of its promulgation.

3. Companies wishing to export a controlled item apply to the Federal Office for Industrial Economics, which is an agency of the Economics Ministry. This office grants licenses that do not need COCOM permission, and 30 to 40 percent of all applications are decided at this level. The Federal Office refers the remainder to the Ministry of Economics for further consideration. This ministry cooperates with the Ministries of Foreign Affairs and Defense in deciding whether the application should be brought up in

COCOM. Firms may sue the government if they are not satisfied that export license denial was based on a threat to national security.

4. While the Foreign Commerce Law does not apply to trade with the GDR, the special legislation governing inner-German trade effectively applies COCOM regulations.

France

5. French trade control statutes give the government rather broad powers to restrict exports. Various decrees permit additions to or deletions from the list of controlled commodities merely by publication in the *Journal Officiel*. While these notices appear in the name of the Ministry of Economics and Finance, an interministerial committee reportedly establishes the criteria for items to be included on the list. Any item listed requires an export license regardless of the destination. The list is essentially the three COCOM lists; France has few, if any, unilaterally controlled items. Only about 8 percent of French exports to Communist countries require licenses.

6. On 15 December France was to begin applying new guidelines for exports to the USSR and Eastern Europe. The new procedures move the French export licensing process closer to the US, British, and Italian systems by establishing formal interministerial review. The Ministry of Industry will continue to handle preliminary processing of export licenses for controlled exports to Communist countries. Whereas this ministry previously had some discretion in choosing to consult with the Ministry of External Relations and Ministry of Defense before granting a license, it must now obtain formal licensing approval for all cases from these ministries as well as other concerned agencies for cases involving an item on the "hardcore" list of sensitive technologies. The other concerned agencies include the Ministry of Foreign Trade, the Armed

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Forces Chief of Staff, the Ministry of Finance, and the Secretary General of National Defense. Under previous guidelines an unofficial intergovernmental committee was convened only if the COCOM representative in the Ministry of External Relations requested further consultation. As before, interministerial disputes over licensing are settled by the prime minister.

Italy

7. Italy's basic trade control document is the *Tabella Esport*. All items included in the *Tabella Esport* require export licenses regardless of the destination. All goods and technology in the COCOM lists are included in the *Tabella Esport*.

8. The Ministry of Foreign Trade bears primary responsibility for the formulation of Italian export control policy and the administration of export licensing. An interministerial committee made up of the Ministries of Defense, Foreign Affairs, Finance, and Industry and Commerce and Crafts plays an advisory role by screening all export license applications for goods subject to strategic control. Although the Ministry of Foreign Trade is not obligated to accept the committee's view on a license application, it reportedly has never disregarded the committee's position.

United Kingdom

9. UK trade controls are implemented by a statutory export control order which details those items and destinations requiring export licenses. This order is supplemented by the Consolidated List of Goods Subject to Security Export Control which specifies all items requiring licenses when sold to Communist nations. This control document, which consists of the munitions list, atomic energy list, and industrial list, incorporates all items included under COCOM. The British prohibit the export of certain additional items for domestic reasons.

10. British law presumes that the export of an item on the control list is forbidden unless an exception is granted. License applications are submitted to the Department of Trade which reviews requests, where appropriate, with the Ministry of Defense, the Foreign Office, and/or the Department of Industry. An objection from one of the ministries is sufficient to deny a license. [redacted]

[redacted]

In general, the interministerial review attempts to balance national security concerns and the possibility of third-country diversions to Communist countries against effects on domestic employment.

11. The British Government encourages industry to consult with the Department of Trade before submitting license requests so that by the time the applications are made, the probable outcome is known. The British Government, however, has turned down licenses for which COCOM approval has been granted. There is an appeals procedure for denied licenses.

Japan

12. The basis for Japanese export controls is the Foreign Exchange and Foreign Trade Control Law of 1949. The law specifies that trade should proceed without controls except when the balance of payments or national economy is threatened. On the basis of this provision, the Ministry of International Trade and Industry (MITI) has sole authority to determine which goods require export license and the administrative authority to issue such licenses. Although the law makes no mention of controlling exports for military or security reasons, MITI adheres to COCOM standards. MITI requires licenses for commodities appearing on the Japanese export control list for nearly all destinations. This list consists of all items on the COCOM lists plus a few additional goods included for reasons of domestic short supply, to prevent dumping, or to improve quality control. End-use checks are made on suspicious exports of strategic items.

13. The licensing process in Japan operates through consensus between business and government and involves a system of thorough preliminary clearance. MITI and the exporter conduct extensive informal consultations before negotiations with a Communist buyer commence. Companies brief MITI on the provisions of prospective deals, returning for further consultations at successive stages if the package alters.

14. By law and practice export licensing remains largely MITI's prerogative. No interagency boards or committees are involved. The Ministry of Finance, and less frequently the Ministry of Foreign Affairs, plays an occasional consultative role. In the rare

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instances when differences of opinion arise within MITI or one of the other ministries voices a strong objection, MITI will convene an informal committee made up of representatives from the Ministry of Finance, the Export-Import Bank, the Ministry of Economic Planning, and the Ministry of Foreign Af-

fairs. The cabinet and prime minister are only rarely involved in licensing disputes.

15. There are no provisions for public accounting in the licensing process. The government is not required to publish its decisions on export licenses nor report them to the Japanese parliament.

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ANNEX B

MEASUREMENT PROBLEM IN EXPORT CONTROLS

1. The measurement of "strategic trade" founders against two basic barriers: the intractable problem of measuring the impact of export restrictions and the lack of correspondence between proposals for enhanced restrictions and the classification of trade statistics.

2. There is no general view of the meaning of "strategic" trade. Among the possible definitions are:

- Exports subject to controls (that is, that cannot legally take place).
- Actual legal exports that contribute in identifiable ways to Soviet military power, but have not been controlled.

Obviously, the only measure of prohibited exports is the volume of illegal exports of these products. Estimates of illegal trade are necessarily extremely rough. Known cases add up only to the tens of millions of dollars, but total illegal exports could be in the hundreds of millions of dollars. Legal exports that should be, but have not been, prohibited could be defined and their past value extracted from trade statistics. Unfortunately, the US proposals for expanding COCOM controls cannot be translated into existing elements of the classification of foreign trade statistics. The basic problems are that trade classifications:

- Reflect the degree of processing and use of products rather than technological characteristics.
- Are too broad, even at the most detailed level, to correspond to export control lists.
- Are especially inadequate in describing modern industries, like computers.

3. Moreover, international comparisons of trade flows are complicated by differences at the most detailed level of classification.

4. Given these basic problems there is no good way to measure the impact of either actual or potential export controls. The nearest substitutes for such measures are calculations of the value of exports of "high-technology products." Presumably, such products are the most likely to contribute directly to the production or development of weapons systems. Unfortunately, for reasons already mentioned, "high-technology products" can only be described from trade statistics in categories that include many low-technology products while specific high-technology products contained in other categories are missed.

5. Work in the OECD and in the United Nations in the early 1970s attempted to measure the flow of goods of a "technologically advanced" nature to supplement the more traditional breakdown among capital-intensive and labor-intensive products.

6. In 1977, the US Department of Commerce proposed a list of "High Technology" items based on four- and five-digit SITC codes—a much narrower and more precise definition than that of the OECD and UN. It covers such items as machinery and instruments—probably in a too general fashion—and excludes products such as chemicals and specialty steels.

7. Although the Department of Commerce list of high-technology goods cannot be used to measure the flow of goods critical to the Soviet Bloc military, it is useful in comparing certain high-technology trade patterns with the East between COCOM member countries. This classification scheme dates from work done in 1977 by the Department of Commerce. A more recent refined scheme has been used by the Department of Commerce but the results do not vary substantially. The 1977 definition includes the following trade categories:

- Nuclear reactors
- Calculating machines and computers
- Statistical machines
- Machine tools for metal

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Telecommunications equipment
 Tubes, transistors, and photo cells
 Electron and proton accelerators
 Electrical machinery (not elsewhere stated)
 Aircraft heavier than air
 Optical elements
 Optical instruments
 Measuring control instruments (not elsewhere stated)

8. Trade with the USSR and Eastern Europe in these "High-Technology" categories for 1980 is shown in table B-1.

9. The United States is the largest exporter of these goods to the world but ranks sixth in exports of these goods to the East Bloc. Conversely, West Germany, which exports less of these products than the United States to the world, exports nearly 10 times as much to the East. This is not to say that West Germany supplies 10 times as much in goods critical for the Soviet military or even that West German export controls are more lax. It does point out, however, that even though the United States is a major producer and exporter of

high-technology goods, it is not taking as much advantage of potential markets in the East as European COCOM members would like to suggest when they point to the large number of COCOM exception requests tabled by the United States each year.

10. Table B-2 shows the proportion of high-technology goods exported to the East as a percentage of the total exports to each respective region. Although the percentage of high-technology goods in total exports is about the same for the United States as for other major industrialized countries, the percentage of high-technology goods in US exports to the USSR and Eastern Europe is well below that of all other countries except Canada.

11. Table B-3 presents high-technology exports to the USSR and Eastern Europe as a percentage of each Western country's high-technology exports to the world. It shows that US high-technology exports to the Bloc constitute a much smaller proportion of total high-technology exports to the world than for any of the other countries.

Table B-1
Exports of High-Technology Goods
1980

(Million US \$)

	World	USSR and Eastern Europe ^a	USSR	Eastern Europe ^a
United States	16,792	109	57	52
West Germany	15,852	998	566	432
Japan	12,614	300	189	112
United Kingdom	10,106	207	86	121
France	7,707	467	241	226
Italy	5,138	267	115	152
Sweden	2,687	104	53	51
Canada	1,488	24	23	1
Austria	574	77	21	56

^a Eastern Europe includes Bulgaria, Czechoslovakia, East Germany, Hungary, Romania, Poland, and Albania.

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Table B-2
Exports of High-Technology Goods
1980

(As percent of total exports to each region)

	World	USSR and Eastern Europe	USSR	Eastern Europe
United States	7.7	2.8	3.8	2.2
West Germany	8.3	10.6	12.9	8.5
Japan	9.7	8.4	6.8	13.8
United Kingdom	8.8	7.9	8.1	7.7
France	7.0	10.0	9.8	10.3
Italy	6.6	9.7	9.0	10.3
Sweden	8.7	8.7	12.7	6.5
Canada	2.4	1.4	1.8	0.3
Austria	3.3	3.6	4.4	3.4

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Table B-3
Exports of High-Technology Goods
1980

(As percent of total high-technology exports)

	World	USSR and Eastern Europe	USSR	Eastern Europe
United States	100.0	0.7	0.3	0.3
West Germany	100.0	6.3	3.6	2.7
Japan	100.0	2.4	1.5	0.9
United Kingdom	100.0	2.1	0.9	1.2
France	100.0	6.1	3.1	3.0
Italy	100.0	5.2	2.2	3.0
Sweden	100.0	3.9	2.0	1.9
Canada	100.0	1.6	1.5	0.1
Austria	100.0	13.43	3.7	9.7

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