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EDAC D-136/2

August 2, 1957

TO : Chairman, Economic Defense Advisory Committee
FROM : Department of State Member *Wet*
SUBJECT : Possible Battle Act Exception for Finland.

Problem

To determine the EDAC position in implementation of the OCB's recommendation of June 12 that the possibility be explored of granting a Battle Act exception to Finland.

Discussion

1. The Finnish Government has requested that the U.S. lend for Finnish economic development purposes the Finnmark proceeds of previous PL 480 programs. Up to now Battle Act considerations have been deemed to preclude such loans. We have unsuccessfully sought to dispose of these Finnmarks (the equivalent of approximately \$25 million) through U. S. purchases in Finland, and, as a result of our inability to spend them, they are subject to loss of value through inflation and/or possible devaluation. Such a loan would be denominated in dollars and would contain provisions designed to maintain the dollar value of loan disbursements. Further, the Finns have offered to repay the loan in dollars. Of equal importance, disposition of the Finnmarks in this fashion would facilitate consideration of additional Finnish requests for PL 480 programs.
2. It is generally agreed that a Finnmark loan to Finland is highly desirable for both foreign policy and economic reasons. The political need for helping the Finnish economy is recognized in NSC 5403 which calls for consideration of a waiver of the Battle Act if necessary to permit the extension of assistance to the Finns. It may be expected that Finland's ability to obtain American loan assistance will strengthen her in dealing with the Sino-Soviet bloc countries.
3. Over and above the advantage of solving the problem of maintaining the value of our Finnmarks, lending them to the Finns to make investments in development projects should tend to reduce Finnish economic dependence on the Soviet bloc. Since the war the Finns have built up a number of new industries for deliveries to the USSR under the reparations program. It is hoped that by developing other resources, enabling Finland to tie its economy more closely with the West, the emphasis on these uneconomic industries will be lessened.

4. The question

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4. The question can be raised that the efficacy of the Battle Act might be weakened by granting an exception to Finland under conditions where Finland would not provide the usual assurances of cooperation, would not be in a position to reduce strategic shipments significantly, and would not consult with the U. S. and provide statistics on shipments in the manner which is customary for other aid-recipient countries. There is also concern over the volume of Finnish shipments of Title I B items to the Soviet bloc. (Finland has assured us that she does not export any Title I A goods to the bloc.) Analysis of information received indicates that these shipments had a value of some \$20 million during 1956, almost as great as the value of all items for which exceptions have to date been granted. However, the \$20 million includes exports to Poland of about \$2 million which might qualify as exceptions under our new Polish policy. Further, the Department has been informed that shipments to the bloc, particularly of vessels, have been declining, and putting resources into the development projects financed from our loan might tend to reduce the amount of goods available to the bloc.

5. With regard to the effect of an exception for Finland on the implementation of the Battle Act, the Department of State urges that this consideration be viewed in the light of the fact that Finland's Title I B shipments to the bloc will continue regardless of whether or not aid is extended. These shipments are a consequence of Finland's geographic location and the political situation resulting from World War II. While the Battle Act might be effective in preventing the establishment of new strategic trade with the bloc, it cannot (and should not) be expected to bring about the complete cessation of trade such as that in which Finland is forced to engage. Although the circumstances are not the same as in the case of Finland, it may be noted that our refusal for several years to extend aid to Ceylon had no effect on that country's desire or ability to ship rubber to Communist China; and our eventual extension of assistance was not accompanied by assurances that such trade be discontinued. Since it is recognized that Finland's strategic shipments to the bloc cannot be stopped, it would be unrealistic for the Battle Act to continue to be a deterrent to the extension of assistance which the NSC and the OCB have already agreed is desirable.

Conclusions

6. While Finnish shipments of Title I B items are admittedly large in relation to previous exceptions, the Department of State is of the opinion that, on balance, there are strong foreign policy and economic considerations which favor the granting of a Battle Act exception for

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Finland. The Department feels that other countries' cooperation under the Act would not be appreciably affected since almost everyone is aware of Finland's vulnerable position vis-a-vis the USSR. They would, therefore, not expect similar treatment. If necessary, it might be advisable to inform COCOM of our intended action and the reasons therefor in order that there would be no misunderstanding at some later date.

7. The Department believes that an exception for Finland would be viewed sympathetically by Congressional leaders. The general good reputation of Finland in the United States would tend to outbalance the broad interpretation of the Battle Act. In advance of any publication of the action, the Executive Branch should discuss it with appropriate members of Congress, or Congressional committees, so as to enlist support. The results of this discussion should be reported to the President, and taken into account in any public announcement. Care should be taken to avoid undue publicity.

Recommendation

The Department of State recommends that EDAC

a) agree that for overriding foreign policy considerations Finland is eligible for assistance under the Battle Act in spite of continuing shipments of Title I B goods;

b) review its position on Finland's eligibility in the light of current conditions at the time a Presidential exception is required.

Attachments

1. Finnish Embassy Memorandum of July 12, 1957
2. List of Items Exported by Finland to the Soviet Bloc.