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EDAC D-135/5

August 9, 1957

MEMORANDUM

To: Chairman, Council on Foreign Economic Policy

From: Chairman, Economic Defense Advisory Committee

Subject: EDAC Recommendations on JCS Questions

References: A. CFEP Chairman's Assignment to EDAC (Para. 5 of EDAC D-135)
 B. Current Economic Defense Policy (NSC 5704/1)
 C. Draft Revised Policy (EDAC D-135/4 -- Annex A)

EDAC has studied the points raised for consideration in paragraphs 3.b.(1-4) in the JCS memorandum to the Secretary of Defense dated 13 June 1957 (Ref. A.). Our Defense member has supplied a memorandum (attached as Tab A) designed to frame the intention of the JCS questions posed in 3.b.(1) and (2). Recommendations on each paragraph follow:

Question 3.b.(1)

"Possible application of Battle Act, Export Control Act and Trading With the Enemy Act restrictions on trade with certain of our Allies in response to their widened trade with Communist China."

Recommendation

That the proposed redraft of economic defense policy (Ref. C. above) takes into consideration appropriate application of the cited legislation for anti-frustration purposes. EDAC, with respect to multilateral controls, and ACEP, with respect to U. S. unilateral export controls, provide the appropriate means for interagency consideration of proposals on such matters.

Question 3.b.(2)

"The posture to be adopted by the United States in the face of possible action on the part of our Allies further to weaken the COCOM/CHINCOM controls."

Recommendation

That the proposed redraft of foreign economic defense policy (Ref. C. above) and the planned work program under that policy are designed to produce

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the best possible action on the part of the United States to achieve the needed international security controls.

Question 3.b.(3)

"The advisability of introducing the trade control question into the North Atlantic Council to insure that the strategic and security aspects of this vital Western cold war instrument are accorded proper emphasis vis-a-vis economic and commercial considerations. The Joint Chiefs of Staff are strongly of the opinion that this step should be taken, and that the United States should thereafter intensify its role of leadership in defending the controls."

Recommendation

1. That the U. S. draw the international security trade control (Consultative Group (CG)) structure to the attention of the North Atlantic Council (NAC) and ask that in its reporting activities, NAC bear in mind the possible pertinence of trade control matters to subjects treated in its reports, and that the whole or parts of any reports which deal with such matters be made available to the CG for guidance unless specifically objected to by NAC.
2. That NAC not be asked to make any special review of the trade control question at this time.

Question 3.b.(4)

"In event of referral of the trade control question to NATO, the procedures to be adopted for coordination with Japan."

Recommendation

That the procedures involved in the action proposed immediately above would provide appropriate coordination with Japan because Japan would participate as an equal partner in any CG deliberation on the use of NAC guidance.

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c. The growing awareness that multilateral controls are not adequately restricting the flow of strategic goods to the Communist Bloc requires a careful scrutiny of U.S. trade controls to see whether restrictions of access to U.S. material and know-how can be utilized as a means of limiting exports of friendly countries to the Bloc of goods which the U.S. believes contribute to the war potential of the Sino-Soviet Bloc.

Three types of activities for example are considered to be feasible:

- (1) Control of U.S. exports which are identical with or contribute to the manufacture of products exported by friendly country to a Sino-Soviet destination,
- (2) Control over subsidiaries or affiliates of U.S. firms,
- (3) Denial of technology, patent information or licensee privileges.

As a case in point in illustration of the above, it will be noted that over the past year the trade control participating countries have approximately tripled their shipments of iron and steel to the Bloc. This item accounted for the largest volume of shipments under the exceptions procedure to Communist China in 1956. This trade has and will improve the war potential of the Sino-Soviet bloc, which by chain action, will involve greater Defense expenditures to maintain a satisfactory deterrent position. At the same time, these same countries were large importers of heavy melting scrap from the U.S. and are continuing to press for larger allocations. This condition has created a shortage of scrap in the U.S. to the extent that it has materially affected the cost of steel products. In turn, this increasing cost has had a significant bearing on the purchasing power of the Defense dollar.

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