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ECONOMIC DEFENSE POLICY REVIEW

Use of Inducements or Pressures on Free World Countries In Support
Of the U. S. Economic Defense Program

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Executive Secretary

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ECONOMIC DEFENSE POLICY REVIEW

Staff Study No. 11
Draft of May 20, 1955

"USE OF INDUCEMENTS OR PRESSURES ON FREE WORLD COUNTRIES IN SUPPORT
OF THE U. S. ECONOMIC DEFENSE PROGRAM"

INTRODUCTION

This paper describes the various techniques which the U. S. has used or may consider using to obtain the closer cooperation of other free world countries in the Economic Defense Program. An evaluation of these techniques is attempted, based upon examples shown in Appendix A, and general criteria for their use are suggested.

In view of the many variables present in real situations, no attempt has been made to develop definitive rules for the selection or application of the techniques described. In general, however, it is suggested that it is better to use the "Carrot" of possible benefit rather than the "Stick" of possible loss of benefit or actual punishment, where the alternatives are open.

Study of the various techniques and of examples of their use has also brought out that some of them, whether of a positive or negative nature, are general in impact. They may be used effectively in creating an atmosphere in which agreement to take specific actions can be more readily obtained, but may be quite ineffective where specific acts or items are concerned. Others, on the other hand, may be used so as to bear directly and solely on the particular problem. However, in the latter instance action on specific problems may influence positions of governments, firms or individuals on more general issues both within and outside of the Economic Defense Program.

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The judgment that certain of the techniques described below cannot be usefully employed in solving specific problems of Economic Defense is not to be taken to mean that the action could not or should not be taken in support of other important Government objectives.

DISCUSSION OF TECHNIQUES

1. There is reproduced in the Appendix B, a check list of the individual techniques constituting the types of inducements and pressures which have been utilized by the United States up to the present time and including a few which, although not as yet utilized, are theoretically possible.

2. In general, these techniques fall into two categories:

- a. Methods of expanding or contracting U. S. Government procurement of foreign goods and services;
- b. Methods of expanding or contracting the availability abroad of U. S. goods and services.

3. In this first group i.e., expansion or contraction of Government procurement of foreign goods and services, are included the various techniques such as off-shore procurement, stockpiling, the Formosa Clause, and use of the selection of spots for military bases as an inducement. In the second group i.e., the expansion or reduction of the availability of U. S. goods and services, are the techniques such as the making available of short supply items, withholding of export licenses, off-shore bunkering controls, punitive actions under the administrative action program, (although certain of these punitive actions such as the withdrawal of FOA contracts are of the nature included in Item A), denial of visas, financial loans and grants

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(here there will be occasions where this technique will fall into the first category such as the procurement of locomotives in one foreign country for shipment to another foreign country under the FOA program), technical assistance projects, use of agricultural surpluses and health and sanitation projects.

4. Some of these are applicable on a country basis (such as action under the Battle Act or under the Department of Commerce Anti-Frustration policy, i.e., PD 810), while others are directed at an individual or company.

5. It will be noted that some of these techniques involve lines of action undertaken solely in order to obtain greater conformity in other countries with the U. S. Economic Defense policy. Other of the techniques involve already established U. S. government actions which are being undertaken originally for other reasons and where their increased or decreased use in an attempt to obtain closer adherence to the U. S. Economic Defense policy is collateral to their main purpose. It is believed that in general those techniques which are solely applicable to our effort to obtain closer adherence to our Economic Defense policy are generally superior to those techniques which infringe upon other policy objectives of the U. S. Government since, in the latter case, the Economic Defense benefits obtainable may frequently be more than offset by the possible losses to other programs.

6. It will be noted that certain of the techniques are specific in their application in that they are designed solely to meet a given situation while others are much broader in their implications and may have adverse collateral effects. An example of this latter situation is to be found in the possibility that the use of the Battle Act may be more damaging to the military program than the economic defense gain which might result.

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CRITERIA

7. The following are suggested as guidelines for the use of any or all of the techniques discussed above and described in detail in the Appendix. These relate solely to considerations in connection with supporting the Economic Defense Program and in no way are intended to imply that certain of the actions described should not or could not be taken completely apart from that program.

8. Guides in considering possible use of any or all of the techniques described in support of the Economic Defense Program:

- a. Is there an economic defense problem warranting special attention?
- b. Would the use of one or more of these techniques be effective in producing a net gain to the Economic Defense Program? (continue use of any particular technique only where past results in somewhat similar circumstances justify its continued or expanded use).
- c. Would the net gain to the U. S. outweigh the resulting costs to other U. S. programs and objectives?
- d. If the particular problem permits a choice between the use of inducements or pressures, costs permitting, it is preferable to use inducements. (Inducements of relatively high cost to the U. S. to be employed only on determination that the objective cannot otherwise be attained by means such as mild pressures).

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CONCLUSIONS

9. The techniques described in the Appendix are of varying degrees of usefulness in influencing other countries and their nationals to cooperate more closely with the U. S. Economic Defense Program.

10. With reference to East/West trade there is a broad field of items where trade interests conflict with security objectives. These items shade from those of minor strategic importance to others approaching the importance of items directly related or principally used for military materiel production. In this area some of these techniques are being or can be used to influence other free world countries to support the U. S. views of an adequate Economic Defense Program.

11. Clearly those techniques listed as inducements which provide alternate markets for the materials or products for which restrictions on sale to the Soviet Bloc are desired, are the most effective as they lessen the pressures to ship such items to the Bloc. Off-shore procurement in connection with FOA or defense programs ^{1/}(5,6 & 7); and/or increased stockpile procurement (4 & 15), provide such free world markets and can be very effective tools in support of this program.

12. The pressures which could be related directly to the Economic Defense Program mostly are the reverse of those described above. In general, it is preferable to take such actions only as a last resort; rather using the implied threat of the use of such techniques than actually employing them.

^{1/} These numbers relate to the items in the attached Appendix A, which provides examples of the particular techniques.

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13. In this category falls: Withholding export licenses (18, 23); reducing availability of short-supply items (24, 19); curtailment or withdrawal of off-shore purchasing (16, 22); and reducing stockpile purchases (21, 26).

14. Another pressure technique is the withholding of export licenses for specific commodities (19, 23), where the country of destination is shipping the same item to the Bloc or shipping a strategic product made therewith or therefrom.

15. Reference should be made to the actions taken under the inter-agency "Administrative Action Program" (28, 29). Here where it is determined that individuals are negating the objectives of the U. S. Defense Program various disciplinary actions are taken until agreement is obtained from the individual for conformance with that program. Related to this is the denial of visas (27), to persons who flagrantly disregard the objectives of the U. S. security program and as a result cannot expect such considerations.

16. Two other techniques listed: Treasury overseas bunkering regulations (31); and the Formosa Clause (30), are aimed at hampering the transport of items to the Bloc or precluding the use of ships by the Bloc, where such ships are gainfully employed in carrying aid goods to friendly areas.

17. With these points in mind it is believed that the following techniques are those most advantageous in that they attack directly the problem confronting us and also in that they are less likely to have undesirable indirect reactions.

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- a. Procurement (5,6,22,16)
- b. Stockpiling (4, 15, 21, 26)
- c. Availability of short-supply items (19, 12, 24)
- d. Withholding of export licenses (23, 28, 18, 20, 25)
- e. Formosa Clause actions (30)
- f. Bunkering restrictions (31)
- g. Punitive actions under the administrative action program (28, 29)
- h. Denial of visas (27)

18. On the other hand, the following types of actions are felt to be of less value because either they do not directly address themselves to the problem at issue or because they may have indirect reactions of an unfavorable nature:

- a. Financial loans and grants (1, 2, 3, 14, 17)
- b. Technical assistance (3)
- c. Military bases (7)
- d. Agricultural surpluses (9)
- e. Health and sanitation projects (10, 11)
- f. Disposal of military surplus materials (8)

APPENDIX A

Listing techniques and examples of each.

APPENDIX B

Check list of techniques

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Appendix A

Examples of Pressures or Inducements which have been, or may be used, to obtain foreign support of the U. S. Economic Defense Program.

1. Inducements which may be offered to countries or individuals to persuade them to cooperate with the U. S. Economic Defense Program.

a. Country-wide

(Examples of aids and grants)

1. \$10 million has been made available to Japan in the form of a grant for the support of defense production industries.
2. Approximately \$45 million has been used to finance the transportation, relief and resettlement of refugees from North Vietnam to Free Vietnam.

(Example of technical assistance)

3. Afghanistan. An American technical advisory group, called the Helmand Valley Advisory Service, has been created to assist the Afghan administration in all phases of engineering, agriculture, health and sanitation, community development, public administration, and training, in connection with the Helmand Valley Development program. A Community Development Training School and Demonstration Farms have also been established in the Helmand Valley.

(Example of increasing stockpile procurement)

4. It has been suggested that Turkish cooperation in the denial of borax to unfriendly countries might be improved by arranging to purchase from Turkey, for the U.S. Strategic Stockpile, quantities of chromium or copper greater than would otherwise be acquired from this source, in such fashion as to be of more benefit to Turkey than the sale of this material in the open market.

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(Example of off-shore procurement)

5. The U.S. Armed Forces buy approximately \$200 millions of goods and services abroad, per year, for subsistence and maintenance of troops and installations. It is suggested that the placement of contracts for such items might be used to increase cooperation with the Economic Defense Program.
6. The FOA sold U.S. coal to private individuals in France and with the francs bought cement in Tunisia for shipment to Iran; tires and tubes in France for Turkey; logs in French West Africa for Israel.

(Establishment of US bases abroad)

7. The US has expended approximately \$250 million in Germany and \$100 million in Italy, as well as large sums in other countries, for the construction of military bases. It has been suggested that the location of bases and the letting of construction contracts may be used, to some extent, to obtain greater cooperation with the US Economic Defense program.

(Disposal of military surplus materiel)

8. The U. S. Armed Services possess thousands of tons of surplus materials of many kinds, which may be disposed of locally. The sale of such surplus material should be confined to countries which maintain satisfactory controls over the movement of strategic materials to the Soviet Bloc.

(Disposal of agricultural surplus commodities)

9. The 1956 budget estimate of MSA proposes that \$30 million in agricultural surplus commodities be given to India, and that the

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sales proceeds of these commodities be used for agreed economic development purposes such as local costs of irrigation, flood control and power. Such aid might also carry a condition relating to the Economic Defense program.

(Health and sanitation programs)

10. Through the work of the Iran-US Public Health Cooperative, malaria has been brought under control and should be virtually wiped out within a few years, and serious epidemics of contagious diseases are now less frequent.
11. Substantial progress has been made in malaria control in Indonesia. For example, in one area sample tests on infants made before the program was undertaken showed that 30% had malaria. Two years later, a similar test showed no cases of malaria.

(Increasing availability of items in short supply)

12. A supplemental allocation of copper alloy scrap was made to West Germany for the second quarter, 1955. It is expected that this allocation will strengthen West German support of the US in COCOM and other Economic Defense activities.

b. Inducements for individuals.

(Loans and grants)

13. \$3 million have been made available for the making of technical surveys and engineering reports for the Tata steel company expansion project, India.
14. A loan of \$1.2 million to the Rio Tinto pyrites mine, Spain, was made for the general purpose of increasing production. The

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licensing of certain equipment for the mine, however, and the final implementation of the loan were held up until it could be ascertained that this development would not increase the availability of pyrites to the Soviet Bloc.

(Increasing Stockpile Procurement)

15. The GSA might direct its purchases toward particular mines or companies, if so directed by ODM, in the interests of the Economic Defense program.

(Off-shore procurement)

16. Both Defense and FOA purchase large quantities of materials and services of many types, in foreign countries, either for use locally or for shipment to some other country. The nature of other business carried on by the prospective suppliers could be taken into account in the placement of FOA or Defense contracts.

II. Pressures which may be exerted to persuade countries or individuals to cooperate with the US Economic Defense Program.

a. Countries

(Curtailement or withholding of US aid)

17. The preparation of an aid program for Ceylon was interrupted because of failure of Ceylon to discontinue its exports to Communist China of rubber and rice.

(Withholding of export licenses)

18. Export licenses were withheld on certain excavating machinery for the UK, under the provisions of PD 810, following upon the withdrawal by the UK Government of assurances with regard to the possible transshipment of such items to the Soviet Bloc.

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Licensing was resumed upon receipt of the necessary assurances from the UK Government.

(Reducing availability of commodities in short supply)

19. Licenses for the export of dusting sulfur required for rubber production were denied to Ceylon, because of the refusal of Ceylon to discontinue its exports of rubber to Communist China. This was unsuccessful as other friendly countries supply the required sulphur dust without demanding discontinuance of shipments of the resulting rubber to Communist China.

(Restricting availability of technical data)

20. The export of technical data relating to metal rolling mills was made subject to obtaining validated export license, and such information is being withheld from the UK pending satisfactory agreement upon the export control of metal rolling mills.

(Reducing stockpile purchases)

21. The GSA might, upon direction from the ODM, reduce purchases for the stockpile from a particular country, if such action seemed in accord with US economic defense objectives.

b. Individuals.

(Curtailment of offshore procurement)

22. During the final year 1955 two offshore procurement contracts totalling about \$25 million were cancelled in Italy by the Defense Department because the Communist labor union gained control in the plants concerned after the contracts had been placed.

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(Withholding of export licenses)

23. Export licenses were withheld from the Italian firm SALEM until the firm furnished information regarding its transactions in molybdenum, and gave assurances that its future activities would be in accord with applicable export regulations.

(Reducing availability of short supply items)

24. The known trading activities of applicants may be taken into account when short supply quotas are allocated among the applicants.

(Withholding technical data)

25. An application was made by several American firms to export technical data relating to metal rolling mills to FIAT, Italy. The advisability of denying this application was studied in view of the large Communist membership in the FIAT labor force and of past trade between FIAT and the Soviet Bloc. It was finally decided to approve the license, in view of the compliance by FIAT with trade controls, during recent years, and of the possession of Defense Department contracts.

(Reducing stockpile purchases)

26. The GSA might, upon direction from the ODM, reduce purchases for the stockpile from a particular company, if such action seemed in accord with US economic defense objectives.

(Denial of US visas)

27. Individuals known to be conducting trade not considered to be to the security interests of the US might be denied visas, for themselves, or for company representatives, thus hindering their business activities.

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(Administrative Action)

28. The denial of offshore procurement contracts and the withholding of US export licenses to the firm of Wheelock, Marden, has resulted in the opening of negotiations with Mr. Marden to obtain adequate assurances that he will comply with applicable regulations with respect to trade with Communist China.

(Administrative Action Watch List)

29. The BFC maintains a file of firms and individuals whose applications for export licenses are either subjected to special scrutiny, or denied without further consideration, in view of known undesirable activities of these firms or individuals.

(Formosa Clause)

30. The Formosa Clause (restrictive charter) was instituted by MSA to insure that foreign flag vessels chartered MSA would not be placed in an advantageous position to trade with Communist China. This clause provides that vessels chartered by MSA may not go to Communist ports within 60 days after discharge of MSA cargo at Formosa. There is a provision for holding back 25% of the freight payment as a means of enforcement.

(Treasury overseas bunkering regulations)

31. Under Treasury Department regulations, American firms abroad may not supply bunkers to vessels bound for Communist China if such vessels are carrying strategic cargo. The vessel Les Glieres, operated by the French line Messageries Maritimes, was denied bunkers under this regulation.

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CHECK LIST OF TECHNIQUES

<u>INDUCEMENTS</u>	<u>EXAMPLE NO.</u>
Aids and grants (country wide)	1 & 2
Technical assistance (country wide)	3
Increasing stockpile procurement (country wide)	4
Off-shore procurement (country wide)	5 & 6
Military bases	7
Military surplus disposal (country wide)	8
Agricultural surpluses (country wide)	9
Health and sanitation programs (country wide)	10 & 11
Availability of short supply items	12
Loans & grants (individual)	13 & 14
Increasing stockpile individual orders	15
Offshore procurement specific suppliers	16
<u>PRESSURES</u>	
Curtailement or withholding US aids from specific countries.	17
Withholding export licenses for particular country	18 & 19
Restricting availability of technical data to named countries.	20
Reducing stockpile purchases	21
Curtailement of offshore procurement from non-cooperative firms	22
Withholding individual export licenses	23
Reducing availability of short supply items	24
Withholding technical data from individuals	25

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PRESSURES (Cont'd)

EXAMPLE NO.

Curtailling stockpile purchases from
specific individuals

Denial US visas

Administrative action

Formosa clause

Treasury overseas bunkering regulations

26

27

28 & 29

30

31

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