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February 15, 1957

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REPORT OF ACTION NO. 37

DOC Exempt Letter On File

To: Members
Advisory Committee on Export Policy

From: Executive Secretary
Advisory Committee on Export Policy

Subject: Report of Advisory Committee on Export Policy Meeting
No. 2(57) held January 25, 1957

Attendance

Agency

Name

Marshall M. Smith, Chairman	Commerce
Forrest D. Hockersmith, Director	Commerce - EPS
J. Mishell George	Commerce - EPS
Aaron Tollin	Commerce - EPS
John D. Garrett, Executive Secretary	Commerce
Nathaniel Knowles	Commerce (BFC)
Thorsten V. Kalijarvi	State
Capt. W. B. Thorp	Defense
Adm. W. S. DeLany	MDAC
Malcolm Slaght	ICA
Frederick Winant	ODM
Morris J. Fields	Treasury
Patrick M. O'Leary	Agriculture
[Redacted]	CIA

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By Invitation

L. A. Fox	Commerce - BFC
Herbert Heberling	Commerce - BFC
Edward Rankin	Commerce - BFC
John Delaney	Commerce - BFC
G. T. Elliman	Commerce - BBSA
Douglas Henderson	State
Stuart D. Nelson	State
Carroll Woods	State
Harold A. Levin	MDAC
[Redacted]	CIA
[Redacted]	CIA

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Agenda

Export Policy Towards the Satellites of the U.S.S.R.
(ACEP Document No. 128 and OC Document No. 1314)

COMM-DC 4402

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Export Policy Towards the Satellites of the USSR
(ACEP Document No. 128)

PROPOSAL

The proposals from the Export Policy Staff (OC Document No. 1314) set forth below were discussed at the Operating Committee meeting on January 10, 1957.

A. With respect to policy conclusions, accept the following:

1. Although of limited possible influence, relaxation of U.S. export controls should be used to help implement current U.S. policy toward the satellites of the USSR.
2. In the past the use of U.S. differential export controls toward Finland and Yugoslavia have been of assistance in maintaining the relative independence of those states from the USSR and have offered examples to other satellites to seek their own independence from the USSR.
3. Differential trade controls alone can be helpful in the same way with respect to current satellites of the USSR but are of limited value if not accompanied by comparable changes in other aspects of U.S. foreign economic policy toward the satellites.
4. It would be helpful to formulate in advance general guides to assist in making promptly rational determinations as to relaxation of controls as conditions warrant.
5. In considering relaxation of controls toward a satellite, particular consideration must be given to the impact of any such proposed relaxation on (a) the U.S. public and Congressional opinion and (b) the remaining controls toward the Soviet bloc and communist China as exercised by CG members and other cooperating countries.
6. Grouping of satellites with the USSR in Sub-Group A for both external and internal control purposes, is a device to reflect policy judgments and to permit simplicity of administration. There is leeway in the degree of such association and that leeway can and should be used as appropriate to reflect any significant policy needs.
7. Reasonable leeway exists for U.S. relaxation of its unilateral controls over strategic goods toward the satellites. Various alternative courses of action must be devised to meet the needs of changing conditions and policies. Since security risks involved are serious in nature, such action should be taken only after a full review of the circumstances and issues involved.

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8. Reasonable leeway exists for relaxation of U.S. unilateral controls over nonstrategic goods to the satellites. Since only modest risks are involved and substantial gains possible, favorable consideration should be given to relaxation for qualifying satellites.
9. It would be helpful if guides were devised to assist in determining when conditions warrant treating satellites separately from the USSR and in determining which of various possible degrees of relaxation in U.S. controls should be adopted with respect to both strategic and nonstrategic shipments to any satellite. (Attachment 3 to OC Document No. 1314).

B. With respect to Poland, proposed that:

1. BFC be authorized to remove by appropriate device the requirement for individual licenses for non-Positive List items with respect to Poland.
2. If in the course of any general discussion with Polish officials concerning U.S.-Polish relations it appears feasible to do so, try to obtain Polish assurance that it will use U.S. goods received solely for indigenous purposes and will not divert or reexport such goods to the USSR or to other satellites (including communist China) of the USSR.
3. Whether or not the above official assurance is obtained, BFC be authorized to take the action set forth in 1. above and to adjust existing General Licenses in keeping with the spirit of that action.
4. BFC take the necessary steps through appropriate channels to provide appropriate explanation of this action to the U.S. public, the appropriate committees of the Congress, the appropriate U.S. Missions abroad and interested foreign friendly governments.
5. BFC provide the USIA with all relevant information on this problem.

RECOMMENDATION

The Chairman said he felt the discussion had served a useful purpose. With respect to the recommendations in Part A. of OC Document No. 1314 relative to policy conclusions, he felt that there was general agreement and that the guides set up in Attachment 3 to that document, and as amended in the meeting, were acceptable for use in considering relaxation of U.S. export controls toward any satellite of the USSR. With respect to the recommendations of Part B. of OC Document No. 1314 relative to Poland there appeared to be some divergence of views. He suggested, and State agreed, that rather than recommend acceptance of the Commerce proposals, that State would prepare a paper reflecting their views of the forthcoming U.S.-Polish negotiations and setting forth the leeway which they felt necessary (with respect to U.S. export controls) and would make it available for consideration by the ACEP members.

If no one disagreed with those views, then it would not be necessary to hold another ACEP meeting; however, if any agency would desire discussion of such a paper, he was prepared to call one quickly so that State would be in a position to go ahead. Additionally he felt State could start to negotiate with the Poles with respect to a somewhat less restrictive U.S. export control policy toward Poland. He said a determination of the list of items and the device to be used, i.e., GL to Poland or GRO, could be determined at a future date. He felt State could undertake to negotiate on all non-Positive List items but should check with the Operating Committee on C-III items on the Positive List bearing in mind not only the strategic significance of the items but the volume of trade and the method of financing. He said he assumed that State would discuss assurances with respect to transshipment with the Poles on the basis of it being a procedure followed by the U.S. with all other countries.

DISCUSSION

The Director of the Export Policy Staff presented ACEP Document No. 128 and explained the subject had been discussed at an Operating Committee meeting held January 10th and he, as Chairman, had not made a recommendation as he felt it should be reviewed by ACEP. He said that there seemed to be general agreement that the guidelines set forth in Attachment 3 to OC Document No. 1314 should be accepted except that, at State's suggestion, condition No. 9 should be eliminated because if that condition prevailed, the country would not be a satellite. He pointed out, that in view of this, Attachment No. 3 to OC Document No. 1314 should be revised to delete condition No. 9 and move the X in Step 4 of that condition to Step 4 of condition No. 10. He reported that State wished to move to Step No. 3 which would permit non-embargoed C-IV items and C-III items on the Positive List to be under General License to Poland - within the conditions set by COCOM. He explained that Commerce felt that assurances should be secured from Poland with respect to transshipment or diversion of U.S. origin goods before relaxing control and if they couldn't get them for all satellites, they certainly should be secured for Communist China.

The Chairman asked whether the proposal was clearly within the provisions of NSC 152/3 and the Director of EPS read from that document and all agreed the proposal was consistent with that statement of policy.

The Chairman said the possibility of transshipment from Poland to the Sino Soviet Bloc was an important problem to bear in mind. He referred to our commitments at COCOM and said it would be most unfortunate if any substantial amount of strategic material of U.S. origin found its way to those countries via Poland as a result of relaxation in U.S. control.

The Commerce member said BFC would feel guilty to permit shipments of strategic material to Poland unless assurances were received with respect to transshipment to the Sino Soviet Bloc. He said he didn't know the type of assurance that would be satisfactory but assumed that would be worked out during negotiations.

The CIA member said that certainly transshipment was a possibility and an evaluation would have to be made with respect to this danger and the advantage the U.S. expected to gain by proceeding with relaxation.

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The Chairman observed that it wasn't known how Poland would pay for goods it secured under the relaxed control but it would be unfortunate if purchases in some way were financed by the USSR, particularly if some of the items were strategic.

The State member explained that State had been endeavoring to evaluate the risks of relaxation in controls with the possible advantage to the U.S. that might be gained and feels that the U.S. should take what he termed a calculated risk by taking some steps towards relaxing U.S. export control towards Poland. He felt this was in line with NSC thinking and is one step towards assisting in the loosening of Poland's ties to the USSR and he cited the decision for making U.S. cotton available to Poland. With respect to negotiations, he said State wanted some leeway while discussing various subjects with the Poles. He felt State should be in a position to resolve certain individual situations and recognized that if controls were relaxed and it developed that results were contrary to expectations, it would be possible to back track. He indicated that State expected to discuss the transshipment problem but he couldn't say how far they could go towards pressing the Poles for assurances. He felt it would be very unfortunate if the Poles must be told that they must give assurances before any relaxation would take place, adding that such a situation might entirely freeze the negotiations whereas the objective of the negotiations should be to get as much from the Poles as possible. He pointed out he was only talking about Poland.

The Chairman observed that if controls were relaxed and the Department of Commerce regulations were changed before negotiations, it would reveal "our hands" to the Poles.

The MDAC member indicated concern with respect to I/L I and II items and the State member said that he doubted they would discuss those items but rather C-IV and C-III items on the Positive List as referred to on page 2 of ACEP Document No. 128. He continued by saying that when he first learned of the proposal, he was opposed to it; but after further study, felt that it was a calculated risk worth taking. He felt I/L I and II items shouldn't be entirely eliminated from consideration and maybe an Ad Hoc Group could be set up for that purpose and deal with each such item on its merits.

The Chairman pointed out that the proposal in the document is to decontrol only all non-Positive List items and he felt there should be no announcement of any relaxation until after the negotiations. He added that State wanted leeway in the negotiations to go to Step 3. He stated, however, Commerce could not give the negotiations a "blank check" and if relaxation went beyond non-Positive List items plus IV a and b items, it might conflict with the provisions of the Battle Act and possibly the intent of the Export Control Act.

The State member said he was not requesting a "blank check" or "free wheeling" but he didn't want to have to say "no" to the Poles to anything they might propose but rather wanted to be able to agree to take any proposal under consideration. He wanted the U.S. negotiations to be as responsive as possible to the Poles and said some subjects might have to be referred to an interagency group and again mentioned that there is a calculated risk involved.

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The MDAC member said the calculated risk isn't the only consideration and he failed to find any non-Positive List items on Attachment 1 to the document that the U.S. hasn't objected to PCs making a CHINCOM exception for shipment to China; and in reply to a question from State, he said the Poles could get such material elsewhere and if the U.S. agrees to decontrol these non-Positive List items to Poland, it should not object to having them made exceptions in CHINCOM.

The State member pointed out that State's objective was to relax U.S. export controls to Poland somewhat beyond the present regulations and of course COCOM should be fully informed.

In reply to a question, it was stated that USSR is extending credit to Poland and the Director of EPS stated it is important that COCOM be fully informed of any steps taken.

The Chairman queried that it might not be necessary to put all the non-Positive List items on General License.

The Commerce member said that virtually all of the non-Positive List items now have a presumption for approval of individual license applications to Poland and by putting them under GL would have a psychological advantage by eliminating the requirement for an export license. He felt some items, e.g. petroleum items, might be retained under license control and safeguards could be taken with respect to the decontrolled items, such as daily reports of clearances from customs; and added that all friendly countries had been requested not to transship to the Bloc.

In reply to a question, the State member said it would be a mistake to make the "securing of assurances" a condition for agreeing to any relaxation but thought if it were explained that it was a procedure followed by the U.S. with all other friendly countries, the Poles might agree but if they did, there would be a question as to how much implementation could be achieved.

The Chairman said the Fountain Committee must be consulted before long with respect to any relaxing of controls in view of its interest in transshipments where regulations issued to prevent it can't be enforced.

The Defense member asked if the Poles had indicated the nature of goods they would like to purchase from the U.S., and the State member said they had not but he expected it might cover quite a variety of goods.

The Defense member said that when the subject of what the Soviet Bloc might get from the U.S. was discussed at the Summit conference most all of the items were on the strategic list and the State member referred again to the calculated risk and said that he surely would be concerned if the "package" of goods desired by the Poles was all strategic material.

In reply to a question from MDAC, a State representative said a date for the negotiations had not been set but they would be held in Washington.

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The Defense member said he thought State should have some leeway beyond non-Positive List items but certainly no I/L I items should be decontrolled whether or not on an Ad Hoc basis. He agreed with relaxation Step No. 3 with the exception of C-III items on the Positive List but would be willing to give further consideration to the latter. He felt it most important that the transshipment problem be discussed during the negotiations.

The Agriculture member, in general, favored State's position and would like to sell surplus agricultural commodities to other satellites but felt that certain bulk items, such as wheat, should continue to require individual licenses in order to prevent the satellites from purchasing to such an extent of causing inflation.

The Commerce member said he saw no objection to retaining a few such items under individual license applications even though there was a presumption for approval to Poland.

The Treasury member asked that paragraph 2 on page 3 of ACEP Document No. 128 be revised by eliminating "(including Communist China)" and adding after USSR "and Communist China". He said that in view of the fact that NSC is currently reviewing its document 152/3 with the objective of modifying, Treasury prefers not to take a position with respect to the proposal at this time.

The State member said in view of the discussion, maybe it would be better if State merely cleared its position paper for the negotiations with ACEP and the Chairman commented that there seemed to be quite a divergence of views among the members.

The CIA member said he had no intelligence information to contribute that would prove helpful and took no position.

The ODM member said he had little to contribute but felt that without securing assurances from Poland with respect to transshipment, no strategic material should be decontrolled.

The ICA member said he supported State to the extent of decontrolling C-III items to Poland but agreed with Defense that no I/L I items should be decontrolled and that COCOM should be fully informed about any decontrol steps that are to be taken.

The MDAC member said he thought taking relaxation Step No. 2 should give State sufficient leeway to negotiate with the Poles although he felt that there might be some non-Positive List items that should not be put under GRO and mentioned bulk agricultural items and items requiring a long time to produce.

The Chairman suggested that a list of items to be placed under GL to Poland might be prepared for State and some items retained for individual license but with a presumption for approval in order that the volume might be constantly under surveillance. He added that the volume might very well be dependent upon the amount of economic aid ICA gives to Poland.

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The State member said he must leave but didn't think we should get into making up a list but rather State should proceed with negotiations and make up a list later and the Chairman said he saw no objection. The State member pointed out that the current licensing policy towards the satellites is actually tighter than the regulations and the Commerce member said that, with the exception of agricultural items, denials of applications to Poland have been very small.

The State member (alternate) said that State would prepare a position paper for use at the negotiations and in reply to a question from the Chairman, said State would be willing to submit it to the ACEP. He pointed out that the document being discussed (ACEP Document No. 128) had been prepared in Commerce, not State.

The Chairman then referred to the chart which set up guidelines (Attachment 3 to OC Document No. 1314) and asked for comments and if anyone saw a conflict with NSC directives.

The Agriculture member said Agriculture would like to sell all the surplus agriculture commodities the satellites could consume.

The Defense member accepted the chart as a guide as did the State member who emphasized the chart was a guide and not a fetter.

The MDAC member also accepted the chart as a guide pointing out that it was not an export policy that established U.S. foreign policy.

The CIA member suggested that it might be helpful if a document were prepared which would explain in further detail the conditions and alternate steps.

The MDAC member said that no economic aid program had been set up for Poland as yet.

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