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11 October 1955

EDIC/R-2

INTELLIGENCE ADVISORY COMMITTEE

Third Annual Progress Report of the
Economic Defense Intelligence Committee

1 July 1954 - 30 June 1955

The Third Annual Progress Report of the Economic Defense Intelligence Committee (EDIC), circulated herewith for noting, will be placed on the agenda of an early meeting of the IAC.



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Acting Secretary

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THIRD ANNUAL PROGRESS REPORT OF THE
ECONOMIC DEFENSE INTELLIGENCE COMMITTEE
1 July 1954 - 30 June 1955

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TABLE OF CONTENTS

	Page
I. Introduction	1
II. Summary of Activities.	1
III. EDIC Activities: July 1954 - June 1955.	2
A. Reports and Reviews.	2
B. Efforts to Improve Collection.	4
C. Efforts to Improve Dissemination	5
D. Assistance in Downgrading COCOM Documents.	6
E. Programming of Research Requirements	7
IV. Future Activities.	7

TABS

A. List of Completed EDIC Studies and Reviews	8
B. List of Cases Pending, 30 June 1955.	9
C. List of Cases Closed, Other than by Completed Study.	10
D. List of All Information Documents Distributed.	11
E. Special Activities	13

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ECONOMIC DEFENSE INTELLIGENCE COMMITTEE

THIRD ANNUAL PROGRESS REPORT

1 July 1954 - 30 June 1955

I. INTRODUCTION

The Economic Defense Intelligence Committee (EDIC), formerly the Intelligence Working Group (IWG), completed three years of operation on 30 June 1955. The name "Intelligence Working Group" was changed to "Economic Defense Intelligence Committee" on 26 October 1954 to reflect more accurately the mission and functions of the unit. The EDIC continues to be responsible under its Terms of Reference ^{1/} for arranging the mobilization of intelligence resources and data to meet the needs of the Economic Defense Advisory Committee (EDAC), for recommending measures designed to improve the collection of intelligence for economic defense purposes, and for providing a forum for production and review of intelligence to meet the requirements of the economic defense program.

II. SUMMARY OF ACTIVITIES

During the year intelligence support of EDAC operations reached a higher level of volume and quality than ever before. For the most part, however, this support was provided directly, in each case, by the agency primarily responsible for the intelligence required (as outlined in DCID 15/1) and was not fully reflected in the activities of EDIC.

^{1/} The IWG was established at the request of the Director of Mutual Security and the Secretary of State, and with the approval of the Director of Central Intelligence and the Secretary of Defense. Its Terms of Reference were approved by the IAC on 25 July 1952 (IAC-D-53/1, revised by IAC-D-53/3.1 of 25 February 1953).

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The need for expeditious enforcement action on diversions of strategic goods to the Bloc led to the establishment, in January 1954 of the Diversion Control Net (DCN). As a part of this effort CIA, in accordance with EDIC recommendations, was assigned the central responsibility for direct and rapid transmission of current intelligence to the DCN. For similar reasons of urgency, "commodity" intelligence in support of the 1954 COCOM list review was furnished directly by the individual producing agencies to the Joint Operating Committee rather than through EDIC. Several other interagency arrangements were made at the initiative of the economic defense community to provide direct intelligence support by individual agencies without EDIC coordination. The most notable of these was the preparation of some 20 staff papers for the "Dodge" Council review of U.S. economic defense policy. In general, neither the action agencies nor the intelligence agencies have felt in these cases that the contribution of substantive intelligence coordination was sufficient to justify the time and effort involved.

With the full realization that economic defense requirements for intelligence reports were being met very satisfactorily through the direct contributions of individual agencies, EDIC, while producing only a relatively small number of coordinated reports, concentrated its efforts on other problems. As a consequence, the major accomplishments of EDIC centered on efforts:

- a. To review and comment on selected reports of individual agencies;
- b. to exchange information on the economic defense support activities of individual intelligence agencies;
- c. to improve the timely collection and dissemination of information;
- d. to assist in the downgrading of COCOM documents; and
- e. to program intelligence research jointly with policy and action agencies.

III. EDIC ACTIVITIES: July 1954 - June 1955

A. Reports and Reviews

1. General

During the fiscal year there was a marked decrease in the number of coordinated reports prepared by EDIC in relation to the previous period, although a number of reports were reviewed and by the end of the fiscal year a number of additional reports were nearing completion. (TABS A, B and C) Reports currently in process cover several problems of importance to the policy agencies, such as Bloc uses of boron compounds

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for rocket, missile and jet fuel, and pending Bloc shipbuilding orders with the West. In addition to this coordination and review of reports, EDIC continued to distribute and discuss selected papers prepared by individual agencies. (TAB D)

2. Support for Commodity Controls

In the spring of 1954 a comprehensive review of international security list ratings was undertaken in COCOM. EDIC facilities were not employed for the production and coordination of intelligence required for this review because of the "crash" nature of the operation; however, following the list revisions of 16 August, EDIC set out to assess the adequacy of the intelligence support which had been provided. EDIC considered also the establishment of a permanent record of the intelligence contributions made to JOC during the list review but concluded that such an interagency effort was not warranted. CIA subsequently compiled a "black book" of such "spot" commodity intelligence contributions and noted that this compilation would be available to the entire intelligence community.

3. Support for Analysis of Soviet Trade Tactics

This Committee's previous annual report indicated EDIC interest in appraising Soviet trade tactics and described the Consultative Group resolution of April 1954 to devote increased attention to this subject. At the request of FOA/MDAC, OIR/State prepared a paper on Soviet Bloc exportation of petroleum. This paper was reviewed in EDIC and CIA/ORR subsequently furnished additional data incorporating estimates of future Soviet capabilities for production and export of petroleum and petroleum products.

Another aspect of the trade tactics problem occupied EDIC attention during April and May. CIA suggested the need for examining the pattern of Soviet Bloc exports of capital equipment and industrial materials to the West. EDIC undertook to review such trade with a view to detecting possible significant changes in commodity composition, amount, or Western countries involved.

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B. Efforts to Improve Collection (TAB E)

1. General

EDIC has sought continually to improve collection of economic defense intelligence needed for purposes of commodity negotiations, trade policy determinations, and implementation of enforcement measures. It will be recalled that national policy places increased emphasis on improving the availability and utilization of current intelligence in matters relating to enforcement of free world controls. EDIC has a special mission in this field since under its Terms of Reference it is responsible for recommending to appropriate agencies collection requirements designed to fill specific gaps in available intelligence.

Central Intelligence Agency - Surveying the status of intelligence collection, EDIC agreed in April discussions that CIA collection of enforcement intelligence was of major importance in this field. With this in mind, CIA took certain important steps to strengthen field collection arrangements and collection guidance in order to improve its support to the policy and action agencies. Concurrently, an Economic Defense Intelligence Reporting Guide was prepared as a means of informing appropriate Agency officials of the nature and scope of intelligence information which is needed to support U.S. economic defense programs and policies.

Department of Defense - In April 1954 the Secretary of Defense had requested the Secretaries of the Army, Navy and Air Force (and other Defense elements) to assist OSD (International Security Affairs) "in connection with multilateral consideration of East-West trade control problems." In August 1954 he further requested an indication of the contribution which the several elements of the Department of Defense could make to the various projects in the export control program.

In response to this directive, the three military intelligence agencies prepared intelligence collection guides for their respective attaches abroad, which outlined the U. S. economic defense program pertaining to East-West trade controls and focused attention on reporting intelligence related to this program.

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2. Surveillance of Decontrolled Commodities

By July 1954 it was apparent that action agencies would need information on the movement of decontrolled items to Soviet Bloc destinations, in order to assess the effects of decontrol on the export control program. It was considered important to watch such trade to determine its nature and magnitude and the benefit derived by the Soviet Bloc economy. The significance of the problem was highlighted by the placing of large Soviet orders in Western countries for copper wire and boring machines.

In view of the evident reluctance of some COCOM members to report their exports of unlisted commodities to the Bloc, an EDIC subgroup was assigned the task of determining which decontrolled items moving in West-East trade should be kept under surveillance and of devising ways and means of obtaining information on such trade. At the request of this Subgroup, the Joint Operating Committee (JOC) prepared a list of significant items and the Department of Commerce furnished the Department of Defense with the names of foreign manufacturers of the items on the JOC list. Defense undertook to explore the possibility of obtaining information on free-world exports of listed items from any firms on the Commerce list which hold MDAP contracts, but reported that Defense personnel are placed in MDAP plants for the sole purpose of expediting production, and have a very limited capability for reporting trade information. The Department of State will consider the desirability of special reporting arrangements on selected items of particular importance.

C. Efforts to Improve Dissemination (TAB E)

1. Current Intelligence

The intelligence process involves not only collection of information but measures to insure that information once collected is made available to action and policy agencies. EDIC determined that through such mechanisms as the Diversion Control Net (DCN), enforcement intelligence is adequately collated, analyzed and transmitted from intelligence to action agencies. EDIC's problem was to determine whether dissemination of current information reports other than those required for enforcement purposes was being promptly and effectively accomplished. After a series of discussions on the subject, EDIC concluded that distribution of intelligence from CIA and State to action agencies was already being adequately handled. Moreover, it agreed that adequate

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requirements for distribution of intelligence had been submitted by the Departments of State and Commerce to the military intelligence agencies. However, the military services indicated that they had not received the requirements of FOA/MDAC. As a result of this EDIC survey these requirements were promptly transmitted.

2. Shipping Intelligence

Another EDIC problem concerned ONI reports of ship movements. Early in 1954 it was learned that owing to budget and personnel reductions the publication and dissemination of such reports by ONI had been delayed and was considerably in arrears. At the request of MDAC, EDIC reviewed the requirements of the economic defense community for shipping and cargo data (ref: IWG/AM-22 of 4 August 1954). At an EDIC-sponsored meeting of 16 August ONI agreed to make monthly reports on movements and cargoes of Soviet and non-Soviet registered merchant ships, and on arrivals of all merchant ships in Communist Chinese ports; to maintain central files of such information; and to meet, within its personnel limitations, spot requests from EDAC for special compilations and analyses of such information.

EDIC agreed that these allocations of activity were consistent with IAC directives, which assign to ONI the bulk of responsibility for this category of intelligence support. CIA's responsibility in this field, and its collaboration with ONI in the production of shipping and cargo intelligence, was acknowledged. It was noted that the availability of cargo intelligence was still not adequate. Steps have been taken in recent months to improve the exploitation of manifest information, particularly with regard to cargo moving between Western Europe and Communist China. In the meantime, ONI has resumed production and distribution of its serial reports on vessel movements.

D. Assistance in Downgrading of COCOM Documents

In November 1954 the U.S. Delegation to COCOM suggested that EDIC examine the intelligence implications of downgrading CG/COCOM/CHINCOM documents to Confidential. It was recognized in EDIC, however, that each individual agency was obliged to discharge this responsibility under its own regulations and within its own area of competence. With a view toward protecting intelligence sources and methods, CIA undertook to review the documents. The EDIC Secretariat identified thirteen categories of documents, established criteria to determine their classification as either

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Secret or Confidential, and with the assistance of appropriate offices in CIA completed the item-by-item review of 3,094 CG/COCOM/CHINCOM documents. The CIA position of downgrading of CG/COCOM/CHINCOM documents, which was adopted by other responsible agencies, was transmitted to the Chairman of the Executive Committee in May.

E. Programming of Research Requirements (TAB E)

The second annual IWG (EDIC) report called attention to the substantial improvement which could be effected in intelligence support for economic defense if the Executive Committee would undertake, in collaboration with EDIC, advance programming and planning of ETAC intelligence needs. At the request of the Acting Chairman of EDIC, the Executive Committee in September agreed to develop with intelligence representatives a statement of research requirements, based in part on the "Schelling" report and its evaluation. This statement could then serve as a basis for discussion and informal allocation in EDIC of agency production responsibilities. An ad hoc committee (the Wright Committee) consisting of both policy and intelligence representatives was subsequently established under State chairmanship to formulate research requirements on the basis of the "Schelling" report entitled "Soviet Economic Trends and Their Implications for East-West Trade." Further EDIC action has been postponed pending completion by the ad hoc committee of its project.

IV. FUTURE ACTIVITIES

During the period of this report there has been an increasing tendency for the economic defense community to deal directly with individual intelligence components. Recognizing that there may be some merit in this trend, EDIC nevertheless, felt that its functions should be re-evaluated; and in April the Secretariat prepared a "Balance-Sheet of EDIC Accomplishments and Shortcomings under its Terms of Reference." In the light of this evaluation, it is believed that in the coming year EDIC can make a greater contribution to the economic defense program through more active participation in both the programming of intelligence research for economic defense and in the production of coordinated intelligence. Furthermore, it is felt that EDIC can continue to serve effectively as an intelligence "catalyst" in studying and recommending solutions to problems of general interest to the economic defense intelligence community.


Acting Chairman

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TAB A

List of Completed EDIC Studies and Reviews

1 July 1954 - 30 June 1955

Studies

<u>Designation</u>	<u>Title</u>	<u>Date Issued</u>
IWG/R-19	Second Annual Progress Report of the Intelligence Working Group	1 September 1954
IWG/ID-32	"China's Trading Agency in East Berlin"	19 July 1954
EDIC/R-1	Final Report on "Soviet Production of Jeeps"	17 February 1955
EDIC/ID-9	CIA/AFOIN/OIR Statement of "Strategic Significance of Indium to the Soviet Bloc"	9 December 1954

Reviews

EDIC/ID-6	"West European Exports of Copper Wire and Cable to the Soviet Bloc"	December 1954
EDIC/ID-13	"Exports of Capital Equipment and Industrial Materials from the Soviet Bloc"	April 1955
EDIC/Case 3	"Soviet Trade Trends and Tactics: Soviet Bloc Exportation of Petroleum"	December 1954

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TAB B

Cases Pending, 30 June 1955

<u>Designation</u>	<u>Title</u>
EDIC Case 3	Soviet Trade Trends and Tactics: Soviet Bloc Exportation of Petroleum (Draft Paper for COCOM Presentation)
EDIC Case 4	French COCOM Delegate Proposal for Exchange of Information on China Trade
EDIC Case 5	Pending Bloc Shipbuilding Orders
EDIC Case 6	Information on Firms Reportedly Purchasing and Operating Ships for Communist China: (a) (b)
EDIC Case 7	Export of Ortho-Toluidine to Communist China
EDIC Case 8	Soviet Bloc Use of Borax Products (Boric Acid and Borate - I/L 3715) for Rocket Fuel and Other Jet Plane Application
EDIC Case 9	Intelligence on Trade in Decontrolled Commodities
EDIC Case 10	Pattern of Soviet Bloc Strategic Exports to the West

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TAB C

List of Cases Closed, Other Than by Completed Study

1 July 1954 - 30 June 1955

<u>Designation</u>	<u>Title</u>
IWG Case 7	Collection Requirements on East-West Trade
IWG Case 36	Intelligence Data for U.S. Delegate to CHINCOM
IWG Case 56	Proposed Study of Soviet Trade Activities and Tactics in Non-COCOM Areas
IWG Case 62	Intelligence Support for U.S. Delegation to Eighth General Assembly of the United Nations, and Other International Forums
IWG Case 76	Intelligence on Trade in Decontrolled Commodities (superseded by EDIC Case 9)

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TAB D

List of All Information Documents Distributed

1 July 1954 - 30 June 1955

<u>Designation</u>	<u>Title</u>	<u>Date Issued</u>
IWG/ID-33	OIR Intelligence Report on "Significance of Soviet Bloc Petroleum Shipments to the Free World, 1951 - 1954"	4 August
IWG/ID-34	ONI Contribution -- Sale of Tanker to Communist China	28 September
IWG/ID-35	ONI Contribution - "Polish-Flag Merchant Ships Believed Owned by Communist China"	4 October
IWG/ID-36	OIR Intelligence Report on "Recent Developments in Soviet Bloc Trade with South Asia"	11 October
IWG/ID-37	ONI Contribution - Shipment of Life Belts to Communist China	11 October
EDIC/ID-1	ONI Contribution - Communist China Trade and Soviet Bloc Merchant Ships	29 October
EDIC/ID-2	Translation of Article Revealing Finnish Communist Plans to Use Eastern Trade for Political Purposes	2 November
EDIC/ID-3	Soviet Procurement of Technical Data, Models and Prototypes in the United States	3 November
EDIC/ID-4	OIR Intelligence Report on "Current Trade of West Berlin Electrical Industry with East Germany"	3 November
EDIC/ID-5	ONI Contribution - Soviet Bloc Merchant Ships Bunkering and Loading Cargo at Balikpapan	10 November

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TAB D (Cont'd)

<u>Designation</u>	<u>Title</u>	<u>Date Issued</u>
EDIC/ID-6	OIR Intelligence Report on "West European Exports of Copper Wire and Cable to the Soviet Bloc"	1 December
EDIC/ID-7	ONI Contribution - Arms Shipment to Communist China	7 December
EDIC/ID-8	Comments on Security Trade Controls and Conditions in Soviet Satellites	8 December
EDIC/ID-9	ONI Contribution - Finnish Merchant Ships for Communist China	10 February
EDIC/ID-11	ONI Contribution - Soviet Bloc and Non-Bloc Vessels Calling at the Port of Balikpapan, Borneo	18 February
EDIC/ID-12	CIA Contribution - Russian Ship Orders for Japanese Yards	17 March
EDIC/ID-13	CIA Statement on "Exports of Capital Equipment and Industrial Materials from the Soviet Bloc"	27 April

NOTE: In addition to the foregoing listed Information Documents, a series of OIR intelligence reports were distributed informally to EDIC.

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TAB E

Special Activities

1. Exchange of information on economic defense support activities of the individual intelligence agencies.
 - A. Briefing on economic defense activities in CIA. (IWG/M-67)
 - B. Briefing on economic defense activities in OIR/State. (EDIC/M-1)
 - C. Briefing on the production and revision of MDAC fact sheets. (EDIC/M-7)
 - D. Discussion of intelligence support for Economic Defense Officers Conference. (EDIC/M-2)
 - 25X1X7 E. Discussion of [REDACTED] Bloc imports of copper. (EDIC/M-6 & 7)

2. Efforts to improve collection and distribution of information.
 - A. Approval of continued dissemination of EDIC/ID series. (EDIC/M-4)
 - B. Examination of the transmittal of current economic defense intelligence to the EDAC agencies. (IWG/AM-4)
 - C. Transmittal of an alphabetical index of strategic commodities. (EDIC/M-6)
 - D. Discussion of means to improve the receipt by action agencies of information from military intelligence agencies. (EDIC/M-4)
 - E. Examination of the development of covert collection requirements. (EDIC/M-8)
 - F. Review of the problem of acquiring information on trade in decontrolled commodities. (EDIC/M-7, 8 & 9)
 - G. EDAC requirements for cargo and shipping data. (IWG/AM-22 and EDIC/M-1)

3. Proposed exchange of information with foreign governments.
 - A. Inquiry into possible multilateral or bilateral exchanges of enforcement information with other COCCOM countries. (IWG/M-63)
 - 25X1X6 B. Consideration of exchange of information on Communist China trade [REDACTED]. (EDIC/M-6)

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TAB E (Cont'd)

4. Downgrading of COCOM documents.
 - A. Discussion of the downgrading of CG/COCOM/CHINCOM documents in accordance with U.S. security requirements. (EDIC/M-7 & 10)
5. Joint programming of intelligence research with policy and action agencies.
 - A. Discussion of intelligence research program for EDAC. (IWG/M-67 and EDIC/M-9)
 - B. Examination of criteria and intelligence support for possible review of China Controls. (EDIC/M-4, 5 & 7)
 - C. Proposed FY 1955 OIR Economic Defense Staffing Program. (IWG/AM-26)
 - D. Program requirements to cover "External Financial Operations of the Soviet Bloc" (EDIC/M-5, 6 & 7)
 - E. Discussion of "Balance-Sheet" of EDIC Capabilities and Deficiencies. (EDIC/M-8 & 9)

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