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TRADE CONTROLS

I. WHAT IS THE EXTENT OF PRESENT CONTROLS ON TRADE WITH COMMUNIST CHINA? WHAT ARE THE CONTROLS IMPOSED BY VARIOUS NATIONS, HOW ARE THEY ENFORCED, AND WHAT ARE THE MAJOR TYPES OF CIRCUMVENTION OF THE CONTROLS?

A. EXTENT OF PRESENT CONTROLS

Present Western controls on trade with Communist China consist chiefly of (1) controls on the export of arms, ammunition, and implements of war, (2) controls on trade in strategic commodities, (3) transport and cargo-carriage controls, and (4) financial (foreign assets) controls. Most of the non-Soviet nations now apply some form of export controls against Communist China.

1. US CONTROLS

In January 1948, the US banned the export of arms, ammunition, and implements of war to China. After the outbreak of hostilities in Korea, the US revoked on 28 June 1950 all outstanding licenses of US Positive List items with a North Korean destination and on 20 July 1950 with respect to licenses for Manchuria, Communist China, and the Soviet Far East. After the Chinese Communists actively intervened in Korea, a total embargo went into effect. Transportation Order T-1, issued on 8 December 1950 prohibited the carriage by any US-controlled ship or aircraft of any Positive List items to the Soviet Bloc, including Communist China, North Korea, and to Hong Kong and Macao. Transportation Order T-2, issued on 16 December 1950, suspended specifically the movement of US-controlled carriers, by sea or air, to Communist China. The Maritime Administrator's General Order No. 59 (Revised) was issued on 22 January 1951 to prevent the use by aliens of US flag tankers or merchant vessels, under demise or bareboat charter, for trade with the Soviet Bloc.

The Treasury Department instituted foreign assets control regulations under the Trading with the Enemy Act of 1917 (Amended) for trade with North Korea on 17 December 1950 and for trade with Communist China on 15 August 1951. These regulations deny to the Chinese Communists potential foreign exchange earnings and, concomitantly, limit their ability to procure essential commodities

1/ The Positive List is the US official public list issued by the Department of Commerce comprising those items the export of which to all, or most, destinations requires a validated license issued by the Office of International Trade of the Department of Commerce. The Positive List includes all of the items covered by the US security lists (except for a few on the I-C list) and also all items controlled for reasons of short supply.

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in third areas. The foreign assets control regulations also were used to formalize on 4 August 1952 an arrangement, previously sponsored by the Department of State, by which US oil companies, on a voluntary basis, deny bunkers to vessels trading with Communist China and North Korea. Under the recent ACEP Program Determination No. 955, US security trade controls now apply also to bunkers.

The Battle Act of 1951 served to reinforce the COCOM and UN embargoes described below by making the granting of American military and economic aid conditional upon a country's application of strategic trade controls against the Soviet Bloc.

2. International Controls

(a) COCOM

Following the Communist victory in China in 1949, the US and UK agreed in December of that year to control, besides the export of arms, also the export of additional strategic commodities, subject to the cooperation of other OEEC countries. The Coordinating Committee (Paris), organized prior to the outbreak of hostilities in Korea, redefined in July 1950 the Soviet Bloc to include Communist China and North Korea. COCOM controls toward the Soviet Bloc consist of (1) embargo, except for prior commitments or hardship cases, of I/L I items, (2) restriction of exports of I/L II items for agreed quantitative quotas or to a quid pro quo basis, and (3) exchange of information and surveillance on shipments of I/L III items.

2/The countries participating in the Coordinating Committee (COCOM) as of June 1950 were Belgium, Canada, Denmark, France, German Federal Republic, Italy, Luxembourg, the Netherlands, Norway, the UK, and the US. Portugal was admitted to COCOM in the summer of 1951, and Japan in September 1952.

It has been agreed in principle that the controls exercised by these countries should apply to their overseas territories. However, there has been a considerable time lag in the full application of controls in certain overseas territories, most particularly in the Far East.

3/International List criteria generally applied are:

I/L I - embargo: (1) Items which are designed or used principally for the production and/or development of arms, ammunition, and implements of war; (2) items which would contribute significantly to the war potential of the Soviet Bloc where the items incorporate advanced technology or unique technological know-how; and (3) items which would contribute significantly to the war potential of the Soviet Bloc in that the items, if embargoed, would maintain or create a critical deficiency in the war potential of the Soviet Bloc.

I/L II - quantitative control: Items which are highly important from the point of view of their contribution to the war potential of the Soviet Bloc and of which the high strategic character is directly related to the quantitative extent to which they may be exported to the Soviet Bloc.

I/L III - exchange of information: Items of potential strategic significance for which information currently available on the Soviet Bloc needs is insufficient to establish clearly the necessity for control of types indicated.

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The US-UK munitions list is used as "Reference" by COCOM members to guide the enforcement of their own parallel embargoes. Warships, tankers, floating docks, and ice breakers over 2,000 horsepower are on I/L I. Merchant vessels (except tankers), dredges, and ice breakers under 2,000 horsepower are on I/L II. All COCOM members now embargo for Communist China all items on the International Munitions Lists, the US Atomic Energy Commission List, and on I/L I, II, and III. All COCOM members apply a selective embargo for Communist China to items on US lists other than US I (identical with I/L I), short supply items on the US Positive List, US Non-Positive List items, and items on the UK Supplementary List. Of 36 broad categories on the UK Supplementary List, COCOM countries have accepted for embargo to China 12 categories; the remaining categories are now being considered for embargo.

A five-power conference, held in Washington in July and August 1952 and attended by representatives of US, UK France, Canada, and Japan resulted in the establishment of a China Committee (CHINCOM) within the COCOM structure, which now serves as the principal forum for the discussion of Far Eastern security trade control problems.

The informal COCOM agreement to deny bareboat chartering of non-Bloc vessels to the Bloc, in circumvention of sale controls, has affected but by no means obviated the ability of the USSR, and particularly of Poland among the Satellites, to augment greatly the ocean-going fleet serving the Bloc.

(b) United Nations

Pursuant to the Resolution of the UN General Assembly, of 18 May 1951, forty-five nations have applied selective embargoes on the shipment to Communist China of the following categories of goods:

- (1) Arms, ammunition, and implements of war
- (2) Atomic energy materials
- (3) Petroleum
- (4) Transportation materials of strategic value
- (5) Items useful in the production of arms, ammunition, and implements of war

3. Unilateral Measures of Other Non-Bloc Countries

The embargoes on the China trade of Canada and Japan have matched the US controls in coverage and effectiveness, although some SCAP controls have been discontinued in the latter country since the end of the occupation in April 1952. The UK, which originally joined the US in imposing the ban on arms shipments to China in January 1948, ranks next in terms of control coverage. All other non-Soviet industrial countries have adopted some measures

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restricting the movement of strategic goods to Communist China, with the UN resolution and the COCOM lists serving as guides. Most significant was the imposition of stricter controls, in July 1951, on the movement of strategic commodities from Hong Kong to Communist China.

Costa Rica has similar controls as the US on the chartering of vessels to the Soviet Bloc. Panama, Costa Rica, Honduras, and Liberia have regulations similar to the US prohibition of flag vessels calling at Communist Chinese ports. Japan controls the allocation of its shipping, while in short supply, by a registration requirement for the establishment of new liner services. In the absence of further formal regulations, it is the avowed policy of the Japanese Government not to permit chartering to Bloc interests. In the late fall of 1951, the UK arranged to have British oil companies collaborate - on a voluntary basis and insofar as existing contracts would not be affected - with US-controlled oil companies in enforcing a denial of bunkers to vessels carrying strategic cargoes in the trade with Communist China.

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B. EFFECTIVENESS OF ENFORCEMENT OF CONTROLS

US regulations are strictly applied and are effective in denying US-controlled trade and shipping services to Communist China. Western European controls are effectively enforced with respect to the export of strategic commodities for Communist China, but differences in control coverage among the various countries, the lack of transit-trade and trans-shipment controls, and the haphazard nature of transport controls leave available many avenues for circumvention and control evasions.

US consuls, pursuant to instructions issued at the request of the governments of Panama, Costa Rica, Honduras, and Liberia, have cooperated in the enforcement of their shipping regulations by determining routings of suspect vessels and assisting in the actual seizure of ship's papers.

There are no formal controls over the bunkering of vessels returning from Communist China; even in the case of the US, the problems of application of controls to cases of "triangular routing" (e.g. an intermediate call by a vessel at Yokohama prior to requesting bunkers at Singapore following an original China-bound voyage) are still under study. In pursuing their policy of collaboration with US bunker controls

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carried aboard non-Bloc vessels for a Communist Chinese destination. Bloc-controlled vessels originally denied bunkers by both US and UK companies have been supplied in Pakistan and Indonesia from government stocks or by the companies under local government pressure.

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The number of British-flag vessels on China runs (i.e. vessels over 1,000 GRT) continues to increase, and for 1953 increased China services were being planned by Dutch, Danish, Norwegian, Finnish, and French shipping firms.

C. CIRCUMVENTION OF CONTROLS

India, Pakistan, Burma, Ceylon, and Indonesia have continued to trade

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with Communist China on a significant scale. Their policy has been dictated in large part by internal economic exigencies and geographic propinquity. The UN embargo and particularly the security trade controls of COCOM and CHINCOM countries yielded to these countries a market which they did not previously have. These Southeast Asian countries did not go beyond a general undertaking not to supply strategic materials to Communist China or refused to commit themselves publicly to support the UN embargo resolution. This trade, of which the rice-for-rubber deal of Communist China and Ceylon is typical, is facilitated by the unrestricted movements of Bloc-controlled vessels, the continued availability of a large tonnage of western-controlled shipping for the China trade, and a large volume of uncontrolled nearseas shipping which has traditionally served the Chinese mainland. Except perhaps for smuggling, and very essential cargoes, overland transportation from India, Pakistan, and Burma, and carriage by air of cargoes destined for Communist China do not at present appear as major factors, probably owing to cost considerations, the state of ill-repair or unavailability of roads, and shortages of transportation equipment.

From 3,000 to 6,000 tons of cargo moves into and out of Communist China each day aboard ocean-going vessels (1,000 GRT or above). In the first half of 1952, fifty-four ocean-going Bloc vessels (1,000 GRT or above) and 189 non-Bloc vessels (1,000 GRT or above) traded with Communist China. The latter non-Bloc total was composed of the following registries: UK 120, Pakistan 15, Greece 14, Denmark 13, Norway 11, Italy 8, Finland 2, France 2, Costa Rica 1, India 1, Philippines 1, and Sweden 1.

During the first half of 1952, estimated Communist Chinese imports by sea from non-Soviet Bloc countries amounted to about \$122 million. Most prominent source countries and commodities were: Pakistan, \$57 million, mostly raw cotton; Hong Kong, \$25 million, chemicals, mostly fertilizers; India, \$8 million, mostly gunny bags; and Ceylon, \$8 million, mostly rubber.

There appears to be no significant difference between types of cargo carried by Communist-owned and Communist-chartered ships. Available evidence indicates that the main types of goods carried from Eastern European ports, are roughly as follows:

<u>Category</u>	<u>% of Total, by Weight</u>
Iron and Steel	22
Machinery	21
Transportation Equipment	6
Petroleum Products	6
Chemicals (excluding Fertilizer)	5
Instruments and Apparatus	1
Non-Ferrous Metals	1
Sugar, Fertilizers, Paper, Textiles	32
Miscellaneous	6
	<u>100</u>

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The first three categories include such important items as railway material, machine tools, motor vehicles, and tires. The instruments and apparatus include industrial and other electrical and electronic equipment, also of strategic interest. It may be presumed that these cargoes, as a whole, included at least a high proportion of the recorded exports of Western Europe, which were not shipped to China from Western ports, and they probably included goods exported from the West to European Communist countries and then re-exported to China in order to evade the stricter Western European controls on direct exports to China.

The transportation of some strategic cargoes and virtually all non-strategic trade for Communist China by sea has released the capacity of the Trans-Siberian railroad for the carriage of strategic cargoes chiefly bound for the support of the Korean war.

Communist Chinese imports by smuggling from other Far Eastern points occupy an important position chiefly where lighter-weight and smaller-size commodities such as antibiotics, dyes, etc., are concerned. This traffic is accomplished by smuggling between Hong Kong and Macao specifically, and by means of the China-coast junk traffic in general.