

SUMMARY OF THE NSC DISCUSSION ON THE EAST-WEST TRADE PROBLEM

General Cutler introduced the East-West trade control problem raised by the UK proposal, summarized the NSC policy (NSC 152/3), outlined the possible courses of action, and presented the Planning Board's recommendation that a letter (contents outlined) be sent from the President to the Prime Minister. General Cutler then called upon Governor Stassen and Admiral DeLany to provide the essential background.

Governor Stassen stated that the East-West trade program had been under review in accordance with 152/3, that an item-by-item review was regarded as essential, and that they were mindful of the need to hold the list to the minimum. He believed the control program was having an important effect on the Soviet bloc.

The President asked how this British proposal affected the Battle Act. Admiral DeLany said that it would create difficult problems of accommodation but the Battle Act itself does allow considerable flexibility. The British proposal would require such a scaling down of the lists that it would create a serious problem in Congress.

General Smith stated that the State Department was now convinced that the free world can apply effective economic pressure on the bloc and that the course of action recommended by EDAC was essential to this end. He referred to Mr. Molotov's comment made to him recently in Berlin that he (Molotov) could not understand our China embargo as that just forced China to depend on USSR. General Smith

remarked that Molotov always has a purpose in making such remarks. He said the British proposal was an extreme one (50% as compared with the EDAC estimate of 10-15% on basis of present review under 152/3). He believed this was a hard bargaining position taken by the UK. He estimated that it might be possible through negotiations to come out with the list pared down by 20-25 percent which would probably be acceptable.

The DCI pointed out that the British proposal would permit Communist China to obtain many of the decontrolled items in considerable quantities by transshipment through the USSR and the Trans-Siberian Railway, and thus in effect nullify the controls on the China trade. He then read selected paragraphs (12, 14, last sentence of 15, first sentence of 17) from draft NIE 100-3-54.

Admiral Radford used the TV case as illustrative of the type of assistance that the Soviet bloc could obtain from the West under the British proposal. The Joint Chiefs were in full support of the MDAC program.

The Secretary of the Treasury said there was no doubt about the course of action that should be followed in the short run (strong opposition to the British proposal) but did say that he believed the long run did create some real problems if it became necessary to continue economic aid. In response to a question from General Smith, he said he considered the short run to be 4 to 5 years.

The President said that he was much concerned about the trade problem over the long run. He believed that trade was an essential ingredient of strength as witness achievements in the past resulting from trade incentives. As for the present he was faced with the weekly demands of the lead producers, for example, to keep out foreign lead in order to relieve the unemployment in the lead mines. Copper mines in the U.S. were on 4 day week, etc. Preventing trade with the bloc would build up other pressures. How would the U.S. handle the raw material and production surpluses of other countries if we didn't permit them to sell to the bloc?

The DCI stated that the national estimate indicated a maximum increase in exports to the bloc from the free world of \$500 million as result of relaxation and over the next year or two the increase would not exceed \$200 million.

Governor Stassen pointed out that many of these production surpluses were the result of the free world support of the Korean war over the past three to four years, that adjustments within the West were required, and that given a year or two it was quite possible to make such adjustments.

Secretary Weeks took a firm stand in support of the EDAC position. He cited the British proposal to decontrol nickel, a stockpile metal which the U.S. was having the greatest of difficulty in obtaining. In response to a question from the President he said that he did not believe that there would be great pressure from U.S. Business for relaxation to the degree proposed by the British and that U.S. business would continue to cooperate in the control program.

The Secretary of Defense stated that he felt restrictions on East-West trade were essential, and that increased trade with the bloc would not contribute much to solving the unemployment problems the President was worrying about.

General Cutler called upon the Vice-President to express an opinion about Congressional reaction to a proposal such as the British. The Vice-President stated that the Congress certainly would not accept a relaxation of controls to the degree proposed by the U.K. He indicated that some relaxation could, with difficulty, be sold.

The President indicated his agreement with the expressed recommendation of the NSC.

General Cutler stated that it was proposed to assign the drafting of the President's letter to the Department of State.

It was agreed to defer consideration of the China control paper until after the bilateral negotiations with the UK and the Geneva Conference. General Smith suggested action on one point, that having to do with the recommendation that the U.S. agree to the gradual relaxation of Japan's trade restrictions to the ChinCom level. The Council expressed agreement with this recommendation.

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