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Senior Interdepartmental Group No. 15

To:	OVP	- Ms. Nancy Bearg Dyke
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	JCS	- LTC Edward Bucknell
	OMB	- Mr. William Schneider
	Treasury	- Mr. David Pickford
	Energy	- Mr. Henry E. Thomas

Subject: Meeting of the Poland SIG

A meeting of the SIG on Poland will convene on Friday, January 29, at 3:00 p.m. in Room 7228 of the Department of State. Acting Secretary Stoessel will chair. Attendance will be Principal Only. Addressees are requested to furnish the name of their representative to Sheila Lopez, 632-5804.

The attached paper will be the subject of discussion.

Tani P. Tompkins for

L. Paul Bremer, III
Executive Secretary

Attachment:

As stated.

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STRATEGY ON POLAND: POSSIBLE NEXT STEPS AGAINST THE U.S.S.R.

I. ANALYSIS OF THE SITUATION

We are approaching a crossroads over Poland, and our handling of the situation will have far reaching implictions for U.S. foreign policy, particularly the future of our relations with the Soviets, the Poles, and the Western Alliance. Unless we continue clearly to demonstrate our seriousness in this crisis, the Soviets may draw conclusions that could lead them to test our resolve at other critical points over the next three years.

The Soviet Stake in Poland:

The Soviets consider a "friendly" Poland absolutely critical to the U.S.S.R.'s vital security interests. Poland has historically been an avenue for invasion of Russia, and, since the war, it has been the essential line of communication to Soviet ground forces in Germany. From the political perspective, maintenance of the status quo in Poland preserves the post-war division of Germany and ensures the continued existence of a "world socialist community".

Although the Soviets have historically been willing to tolerate some deviations from the Poles, the Soviet-instigated Polish crackdown demonstrated that Moscow remains prepared to risk bloodshed and increased international tension in order to retain control over events in Poland. This was true after Yalta; it is still true after Helsinki.

West European Dimension:

In defending what it sees as its critical interests in Poland, Moscow seeks to play upon divisions of the West. The Soviets see West Europeans as inclined to accept Soviet hegemony in Eastern Europe and less willing than the United States to forego the benefits of "detente." These divisions in the West were one among many reasons why the USSR rejected the option of a direct invasion--which would have united us and the allies--instead pressuring the Polish Government into brutal repression. This suggests that allied support for U.S. policy toward Poland can have an important effect on Soviet conduct.

The Outlook in Poland:

Moscow will continue to press the Polish martial law regime to crush Solidarity and restore the kind of orderly, if economically inefficient, Polish dictatorship the Soviets feel they can comfortably control. The martial law regime has achieved its initial objective of suppressing active resistance, but is perplexed as to where to go from there. Even regime spokesmen admit privately that the generals in charge have neither a policy for solving the country's problems nor the political talent to develop and implement one. Despite the decapitation of Solidarity, passive resistance continues and there are signs that it could become active. The economy was in shambles before December 13; it has steadily worsened since. Little or no progress has been made in rebuilding the shattered Polish communist party, and conflict continues between orthodox hardliners and more pragmatic elements within the leadership. The regime has been moving to fend off resistance and further Western sanctions by cosmetic adjustments of the martial law regime, but the generals know they have not yet begun to deal with Poland's overwhelming problems.

The short-term (12-18 months) future in Poland is uncertain, but there are at least three possible scenarios:

--One is large-scale bloodshed, which could bring a Soviet invasion that would rip apart what is left of the fabric of East-West relations. This could result from increased repression, but it could also result from open acts of resistance that triggered the release of all the pent-up bitterness and frustration of the Polish masses. In this case Western leverage would be least effective.

--A second possibility, which appears to be suggested by Jaruzelski's January 25 speech, would be for the situation to remain unchanged--at least on the surface. Martial law restrictions would remain in place, and while economic deterioration would continue, the government might succeed in keeping the lid on by heavy reliance on its security organs. Despite its potential instability, such an outcome would represent a victory, albeit perhaps temporary, for the Soviets. At the same time, it would be a situation of maximum vulnerability to Western leverage.

--A third possible outcome is a partial return to dialogue and reform, holding open the possibility for further evolution. This would require that the Polish regime (and the Soviets) see no viable long-run alternative to developing a relationship with the Church and the working class that preserves a significant number of the gains made since August 1980, while guaranteeing the Soviets' basic interests. If popular pressure and Western leverage created real latitude for trade unions and the Church, this outcome would best preserve the possibility of future peaceful change in Poland and other East European countries. The record of the last 18 months suggests that the restoration of such liberties in Poland would not be likely to stimulate or precipitate Soviet intervention, but instead might revive a period of calculated Soviet pressure.

It is becoming clear that the Soviets now foresee a lengthy process with an uncertain outcome. Whatever the next year brings for Poland, the Soviets face inevitable long-term pressure for change throughout Eastern Europe. However, recent events in Poland suggest that the Soviets will continue to react to such pressures by taking whatever steps are necessary, including the use of force, to preserve their hegemony in Eastern Europe. Gromyko's categoric rejection of Secretary Haig's presentation on Poland at their Geneva meeting is further evidence of Soviet determination to implement this view of its security interests in Eastern Europe. Thus, Poland in the near term, and the entire region over time will remain a source of tension in East/West relations.

II. U.S. OBJECTIVES

Poland relates to so many fundamentals [the future of Eastern Europe, the Alliance, Soviet security, American political and moral leadership] that our objectives must be placed in the context of our overall foreign policy. Our overall objective is to maintain U.S. capacity for world leadership by halting and if possible reversing adverse trends in the world power balance over the last decade or more. But we recognize that we must navigate through a period of some vulnerability as we rebuild our strength.

Thus we seek to establish a sense that the U.S. is prepared to accept the responsibilities of political and moral leadership --without provoking confrontations with the USSR which could carry unacceptable risks in the nuclear age. Since our response to the Polish crisis will inevitably be regarded as a critical test of our ability to meet this longer-term challenge, our policy must be both prudent and effective. In this sense, we face an historic juncture in Poland, and our actions will have profound consequences for the future across a broad front of basic U.S. interests.

This strategic objective and the analysis of the concrete situation set forth in Section I dictate the following specific objectives for the U.S. response to the Polish crisis:

-- Toward the situation within Poland, to secure the agreed Western objectives of lifting martial law, release of detainees, and restoration of a minimum of freedom (e.g. for trade union activity), without creating a public perception that we are responsible should there be a violent ending.

-- Toward the Soviet Union, to drive home that the USSR will pay a heavy price in U.S.-Soviet relations if it continues on its present course in Poland, without seeming to threaten vital Soviet security interests to the point of direct confrontation.

-- Toward the Alliance, to exert strong pressures and leadership for concrete measures, without pushing so hard that we tear the Alliance apart (recognizing that a divided alliance deprives us of much of our ability to affect Soviet behavior).

-- Toward the American people, to demonstrate that we are living up to our moral and political responsibilities, without creating expectations that cannot be fulfilled given the present balance of forces, Poland's geographical situation, the State of the Alliance, our economy, etc.

III. ACTIONS AND IMPACT TO DATE

We must view the situation to date both in terms of our own actions and the overall situation facing the USSR and Poland.

A. Specific Actions

The specific actions we and our Allies have taken to date represented a measured response which has imposed a cost on the USSR.

-- The package of economic and political measures against the Soviet Union announced on December 29 was deliberately restrained in order to send a primarily political signal to Moscow of our readiness to impose more substantial costs if the repression was not brought to an early end. Specifically, we: (1) suspended Aeroflot service; (2) closed the Soviet Purchasing Commission; (3) suspended issuance of licenses for high-technology exports; (4) halted exports for the oil and gas industry; (5) suspended talks on a new maritime agreement and imposed strict controls on Soviet access to U.S. ports; (6) refused to set a date for talks on a new long-term grains agreement; (7) decided not to renew three bilateral cooperation agreements that expire this year. We also have stepped up VOA broadcasting to the U.S.S.R. by the introduction of medium-wave frequencies.

-- At the January 11 Ministerial and follow-up meeting on January 23, the Allies moved closer to getting on board with modest political actions versus the Soviets. A number of Allies, under EC-10 aegis, are prepared to limit selected imports of manufactured and luxury goods from the USSR (although not oil or other raw materials). The EC Foreign Ministers have decided to recommend to the OECD a more restrictive status for the USSR, effectively raising the interest rate for credits to that country. Several Allies are considering tightened travel controls on Soviet diplomats and nonrenewal of exchange agreements. On the most prominent economic issue, the Siberian Pipeline Project, the Italians have advocated "a pause" in negotiations, but French companies on January 23 signed a major contract with the Soivets for purchase of natural gas from the future pipeline. Meanwhile, the Allies have agreed to suspend rescheduling of the Polish debt, as well as to suspend all export credits to Poland.

B. IMPACT

This listing of specific actions misses the larger consequences for the Soviets. Prior to the December 13th repression, US-Soviet INF negotiations were moving ahead, it appeared that a beginning date for START might be announced at the Haig/Gromyko meeting, there were massive demonstrations in Europe primarily directed against U.S. nuclear deployments, and the Soviets' "Peace" offensive threatened to drive a wedge between the Allies. Since then, START has been postponed indefinitely and another burden added to INF, there have been significant demonstrations against the repression, the "peace movement" in Western Europe is, at least for the moment, less effective, and the Allies have been moving albeit slowly and unevenly in an anti-Soviet direction. Allied Ministers will be at our side condemning the Soviets when the CSCE meeting resumes.

In terms of Poland itself, pre-December 13th the West was committed to helping Poland deal with its massive economic problems. Now the future of Western aid is much more problematical, thus adding to the economic drain of the Polish crisis on the Soviet Union. It is clear that the Polish regime is already feeling pain as a result of this stance. We should, of course, do everything possible to maximize these economic and political costs to the Soviet Union.

Within Poland, even our modest response has given heart to those who wish to save as much of the achievements of the past year and a half as can be saved. The Polish Council of Bishops and leading Polish intellectuals denounced the regime over the weekend in language that reads like an echo of the President's December 23 statement and the January 11 NATO declaration.

On the other hand, the Soviets have achieved their minimum objectives in Poland -- restoring order and Soviet control over the situation -- without having to resort to direct military intervention. Thus they have staved off, at least for the present, a strategic loss in Poland at the cost of exposing the bankruptcy of the Soviet-imposed system, as well as a potentially serious turn-down in East-West relations, and a new crisis in relations with the largest communist party in Western Europe.

IV. OPTIONS

The following general considerations will have to be taken into account as we review our options:

1. It is possible that nothing we can do in the short term will be enough to induce Moscow to back away from its determination to crush Polish renewal. However, over the longer term there is a chance that, by imposing real costs on Moscow, we can exert some leverage in inducing Soviet and Polish moderation.

2. There is no reason to hold tough economic measures in reserve pending direct Soviet military intervention. Once a Soviet decision to intervene is made, we will not be able to reverse it by imposing additional economic and political sanctions.

3. We will also be under considerable domestic pressure to move forward with more energetic measures in the near future. If Lane Kirkland should follow through on his threat to create a de facto embargo through labor action (which he may not be able to do), the costs to the domestic economy would be as great as if we had instituted an de jure embargo but we would have gained little or no leverage vis a vis our allies or the Soviets. The result would be a blow to our international credibility which could have far reaching implications.

4. The primary, although still marginal, leverage available to the West is economic, but the U.S. alone cannot do enough to produce an effective response (although leverage can be exercised unilaterally on the debt issue). If we cannot bring the Allies along, we may well not be able to achieve the objectives outlined above.

5. There is no hope of getting European agreement on tough and painful action, unless they believe we are making corresponding sacrifices ourselves. Specifically, they see a direct relationship between the kind of tough European sanctions we are asking for and our grain sales -- without a grain embargo we have no hope of stopping or even suspending the pipeline or of gaining European agreement to other tough measures, such as a partial embargo. At the same time, while tough U.S. action is necessary to achieve comparable European measures, it still may not be sufficient. We may also have to express our willingness to share the costs of sanctions that penalize our Allies disproportionately.

6. We will have to wrestle with the thorny question of reversibility. Our sanctions are linked to Soviet behavior toward Poland and should be reversible, to give the U.S.S.R. an incentive to moderate its repression, but the sorry post-Afghanistan experience suggests that erosion is almost inevitable over time, whether or not the Soviets change the behavior which caused sanctions to be imposed. We and the Allies are certain to disagree on when the lifting of sanctions is justified, and these differences undoubtedly will be exacerbated by Soviet and Polish adjustments of the martial law regime designed to create an appearance of improvement. Moreover, erosion of sanctions over time could force us to consider a reversal of our policy without evidence of real improvement in Poland, thus acknowledging the defeat of our strategy.

7. It may not serve our interests to suggest that all sanctions should be reversible. This is particularly true of the pipeline, since we would continue to oppose the project (while working to develop energy alternatives) independent of the

Polish situation. On balance, however, the Europeans will only agree to sanctions if they are linked explicitly to Poland, and we will have to accept the principle of reversibility if we are to obtain the cooperation of Europeans -- and Americans -- who will be asked to sacrifice. Thus, we have to be prepared to accept a reversible halt to the pipeline.

Polish Debt:

Two possibilities which should be considered whatever else we choose to do are to continue to refuse to reschedule Poland's 1982 debt and to use implicitly our ability to call in the debt to the United States at any time as leverage with the Soviets and our Allies.

The act of calling in Poland's debt would have highly negative consequences. The Soviets may have to choose between paying off the Polish debt or permitting a default that could trigger a formal-default on Poland's other loans and thereby undermine the credit position of the entire Eastern Bloc. However, an SSG paper (at TAB A) concludes that the Soviets in all likelihood would be affected only indirectly (through reduced availability of Western credit) by a Polish default and that the international monetary system would suffer a severe blow if the default spread to other Eastern European countries. The irreversible step of calling in Poland's debt or an overt threat to do so would also provoke a serious fissure in the Alliance. An overt threat carries the additional risks of panicking private creditors into precipitating default and encouraging the Allies to settle with the Polish Government as preferred creditors.

The implicit recognition by our Allies that the USG could precipitate default unilaterally gives us important leverage in our efforts to induce the Europeans to take tough measures like cancellation of the Siberian pipeline project or a partial export embargo. We should be aware, however, that this is an imperfect instrument for generating leverage, since some allies may regard it as a bluff. Therefore, to make this prospect seem credible and responsible, the U.S. would need to consider means of containing the problems created by default, and in particular to share the burdens that this would pose on European Central Banks. Individual banks must not be allowed to exploit such a system by declaring a default on their own, but default may occur in any event and safeguarding mechanisms could assure that it did not spread throughout the Eastern Bloc. The NSC should commission, on an urgent basis, a study of the means for creating such alliance safeguarding and burden sharing mechanisms.

A Presidential reiteration of our established policy that Government-to-Government debt cannot be rescheduled until internal conditions in Poland warrant and use of the leverage created by our ability to precipitate default should be considered as an adjunct to the following specific options.

OPTION 1

Continue with our current efforts to gain Allied agreement to take specific actions against the USSR, while for the present holding in abeyance new unilateral U.S. steps. Our interim objective would be to bring the Allies as close as possible to the point we reached with our December 29 measures, while holding open our options for future U.S. actions either with or without the Allies. At the same time, we would use events such as Poland Solidarity Day and the resumed Madrid meeting, on which we have already achieved a considerable degree of Allied unity, to keep public pressure on the Soviets.

Pros:

This course would build upon the degree of Allied unity already achieved, and thus maximize the likelihood of united Western action against the Soviets and the Polish military. It would avoid the political fire we would come under if we announced another series of "half-measures." It would not preclude our taking more severe steps at a later stage, if conditions in Poland warrant.

Cons:

This option would expose us to further charges that we are long on rhetoric but short on action. It might also lead to increased pressure or unilateral action by Kirkland. Depending on how long we delayed and on the course of events in Poland, this course could have profound consequences for our credibility with the Poles, the Soviets, the Allies and the American people.

OPTION 2:

Further intermediate measures against the U.S.S.R. There are several actions we could take short of a total export embargo to follow-up on our December 29 actions. (Because of the provisions of the new farm bill, any measures affecting grain trade, even partially, would require compensation to grain producers unless we imposed a full embargo on exports). A list and brief discussion of a number of such measures is at Tab C. In order to make clear that U.S. policy is steadily building, these could be implemented almost immediately and accompanied by a Presidential reiteration of the existing policy to suspend Polish debt rescheduling. They include:

-- embargoing all industrial exports to the U.S.S.R. or at a minimum imposing more selective economic sanctions, such as a ban on chemical exports (especially phosphates), revoking already-issued licenses for exports such as International Harvester/Combine technology, suspending joint-venture fishing operations, etc.

-- declaring a state of national emergency and imposing of an embargo on all non-strategic imports from the Soviet Union;

-- discouraging tourism to the USSR;

-- reducing Soviet commerical representation in the U.S. to a skeletal force;

-- suspending activities under existing bilateral exchange agreements, or even abrogation of all remaining agreements;

-- not setting date for grain consultations scheduled this spring. Up to now we have avoided violating any existing agreements with the USSR. This step and the one above would be a departure from this policy.

Pros:

An embargo on all industrial exports, particularly on chemicals, would impose significant costs on the Soviets, although it would not affect the item that accounts for two-thirds of our exports to the U.S.S.R., grain. The other measures would enhance the political impact of this step and would involve only minimal costs to us. Taken together, however, these steps would seem to foreshadow a full embargo, thus possibly increasing our leverage.

Cons:

Singling out industrial exports would be a departure from the President's position that all sectors should share equally the burden of any future economic sanctions against Moscow. At the same time this would not entail U.S. sacrifices sufficient to induce the Allies to curtail their own far more extensive exports to the U.S.S.R. Cuts in exchanges and commercial representation might be emulated by the Allies, but these steps could be criticized by the U.S. public as inadequate half-measures that fail to live up to our rhetorical condemnation of Soviet actions in Poland.

Option 3:

A ban on all exports to the USSR not covered by existing contracts either covering all items or exempting agricultural trade. Exempting agricultural trade would involve less domestic costs, but would make our action less credible to allies, who allege that the U.S. is only taking actions which don't hurt itself. Including agricultural trade, however, could trigger the legal obligation to compensate producers under the Farm Bill, which is not clear on this point.

Pros:

This would impose substantial ecomomic costs on the Soviets (particularly if agricultural trade were included) by grinding U.S. trade with the USSR slowly to a halt without forcing suppliers with signed contracts to abrogate legal obligations. It would be consistent with our early 1981 discussions with the Allies in NATO, and thus easier for them to accept. If followed by Allies this would give real meaning to their pledge not to undercut U.S. restrictions.

Cons:

It would not have an immediate impact because of the exemption for deliveries under existing contracts. If it included grains, they would be affected faster than industrial goods. It could encourage our allies to increase pressure on us to exempt existing contracts from our previously announced oil and gas sanctions. Though this step would have a real bite over time, it might not be seen as forceful enough by our domestic critics. It could trigger the obligation to compensate producers under Section 1204 of the Farm Bill.

OPTION 4:

Total export embargo against the Soviets. One bold action would be for the U.S. to embargo all exports, including grain, to the U.S.S.R. Under current legislation, in order to embargo grain without triggering USG parity price payments (30 billion dollars per year), there must be a total export embargo. (see Tab B).

Pros:

This would impose the greatest economic costs on the Soviets of any option available to us. By demonstrating our readiness to make substantial economic sacrifices (especially in grain sales), it could help induce the Europeans to take comparably tough measures against Moscow such as suspension of the pipeline project or a partial but significant embargo on their own industrial trade with the Soviets. Taken together, the U.S. and Allies actions might be costly enough to the Soviets, if sustained over time, to influence them to ease the repression in Poland.

Cons:

A total export embargo may not be enough to bring the Europeans along, and if implemented unilaterally, could exacerbate severe strains in the Alliance. Even if the Europeans did take parallel action, the Western embargo could begin to erode quickly with the Europeans undercutting or circumventing the restrictions as they did after Afghanistan, and with U.S. farmers ending up sacrificing billion of dollars in grain sales without comparable sacrifices by the Europeans.

This is certain to amplify already growing anti-European sentiments in the U.S., leading to demands for U.S. troop withdrawal and ulitmately weakening the Alliance to the point of irrevelancy. Moreover, to be fully effective, other grain exporting countries would have to join in. This may be possible with Australia, but unlikely with Canada and Argentina. Finally, a grain embargo could cost thousands of jobs in the U.S., and increase USG farm price support payments by 3 billion dollars per year.

OPTION 5:

Actions to hit the Soviets in other regions. Recognizing that even the most serious sanctions may not work, we may want to consider actions in other regions. These could be an alternative to the most severe economic sanctions under Option 4, as a complement to them or to the more modest measures under options 1, 2, and 3. This would punish the USSR for its actions in Poland and elsewhere. Possibilities include (some already being addressed separately):

-- Sharply increased military assistance to the Afghan resistance, in coordination with the Pakistanis.

-- Military pressure against Cuba. Compress the phase two actions in the Cuban scenario by imposing an immediate embargo or naval blockade.

-- Stepped-up action against Libya.

Proceed simultaneously with the imposition of an embargo upon the importation of Libyan oil and all U.S. trade with Libya. Early conduct of a new naval exercise in the Gulf of Sidra.

Pros:

These actions would have the advantage of not requiring direct NATO cooperation, which could be difficult to achieve in the case of a total export embargo or an effort to call in Poland's debt. The option might therefore pose fewer risks of creating profound fissures within NATO (depending on their severity), and would drive up the cost to the Soviets more than the modest measures of option 1 and 2, without dismantling the framework of the U.S.-Soviet bilateral relationship (in effect, challenging the Soviets to take a dose of their own "no-linkage" medicine). These actions are very likely to be required in any event, on their respective merits. In the case of Cuba we have been restrained by lack of public support. The anti-Soviet sentiment aroused by the Polish situation would ensure greater public understanding and support for actions against Cuba.

Cons:

These actions would entail the dangers/costs of the actions themselves, risks of a wider confrontation with Moscow, and a backlash on the part of Allied publics and Governments. By acting against Cuba and Libya, we could shift attention from Polish and Soviet repression to "U.S. military aggression" (this would not be true of actions toward Afghanistan, but in this case our actions could not be publicly linked to Poland); and such actions could be seen more as an attempt to exact retribution than to moderate Soviet behavior in Poland. Because these actions may be justifiable on other grounds, they could be difficult to reverse and thus questionable as effective levers on Soviet behavior regarding Poland.

This disadvantage would be compounded because we could not, as a legal matter, rely on an asserted linkage to Poland to justify our actions against other countries. Moreover, a blockade of Cuba would, as a legal matter, be regarded as an unlawful use of force absent a Cuban use of force against the U.S. or authorization from the U.N. security council of the OAS.

TAB A

Report of the SSG Working Group on Polish Debt

Background

When the group of fifteen creditor governments agreed to reschedule the interest and principal payments due during 1981 by Poland on its official debt, it was agreed that any one of the signatory governments could unilaterally (although after appropriate consultations) rescind its agreement to the rescheduling if "exceptional circumstances" occured. It was understood that this referred to foreign intervention (obviously with the Soviet Union in mind) or domestic repression of the Polish people. This is commonly referred to as the "Tank Clause". The legal effect of the invocation of the Clause by the creditor government would be to have the 1981 Polish debt service obligation to that government become due and payable immediately in accordance with the terms of the original loan contracts. That government would then legally be in a preferential position vis-a-vis the other creditor governments unless they also invoked the Clause.

One practical effect of these developments would be a *de jure* declaration of the present fact that Poland is in default on its debts. Under these circumstances, it is likely that some of the private banks would declare Poland in default of its private debt and attempt to seize Polish assets through court action (assuming that there are available assets to be seized), which they can do now, if they wish. Experience has shown that chances of success in doing so would be very small in foreign jurisdictions. Another effect would be for the Poles to stop payment to official or private entities declaring default. If the default were widespread, it would precipitate total cessation of interest payments to the West. There would be no effect on Poland's ability to borrow, since it cannot borrow now. Polish trade, however, would be hampered in the short run.

In sum, no action that could be taken after the invocation of the Tank Clause cannot be taken now by any public or private creditor. The use of the Tank Clause would thus have political effect only, with no attendant adverse effects on Poland or significant adverse effects on other Soviet Bloc countries.

Probable Implications

Obviously there are many imponderables with reference to the after-effects of a step such as the invocation of the Tank Clause. The major creditor governments agree that conditions exist for invoking the Clause. The same governments have stated that they oppose doing so at this time. Whether the USG should invoke the Clause must be assessed in the light of the following considerations:

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(1) Is the implicit possibility of the USG unilaterally invoking the Clause at any time or the threat of doing so a more powerful weapon to influence events in Poland than actually invoking it?

> The fact that we have not yet invoked the Clause keeps Poland and to some extent the USSR under pressure to continue to make some payments. It also provides leverage with our Western European allies, in such meetings as NATO, COCOM, G-5, etc. during the next few weeks in order to induce greater cooperation by them with our post-martial law sanctions.

(2) What would be the probable effects of invoking the Clause on the financial system of the Western world?

If default were to be declared against Poland, the impact on the Western financial system would be severe, but containable. Budget and financial effects in certain countries, especially West Germany, could be substantial. If technical default were to spread to other Eastern European countries, the costs to the Western financial system increase, with potentially long-term consequences.

(3) What would be the impact of invoking the Tank Clause on the Soviet Union?

? All pressure to assist Poland to make at least token payments would be removed. The USSR would be unlikely to pay off the Polish debt because of its own financial considerations. Our invocation of the Clause would be declared by them a "political act."

(4) Are there other steps which could be taken which would permit us to exert similar or stronger leverage on Poland, the Soviet Union and some of our allies without effects on us and our allies as pernicious as those which might follow invocation of the Clause?

A refusal on our part to participate in a rescheduling of Poland's official 1982 debt at this time would have much the same effect in reducing the availability of Western credit to the Soviet Bloc while not forcing private bank action on default. This would give the appropriate signal to the financial markets, while making a ripple effect much less likely and permitting the banks to deal with the situation in a more orderly manner.

Recommendations

(1) That the USG not invoke the Tank Clause at the present time.

(2) That our ability to do so at any time be used as leverage with our allies and with the Soviet Bloc in various negotiations over the next few weeks.

(3) That we refrain from participating in negotiations on the rescheduling of the Polish official 1982 debt at this time.

SECRET

IMPLEMENTATION OF A TOTAL EXPORT BAN

Under section 1204 of the Agriculture and Food Act of 1981, any controls on grain except as part of "a suspension or restriction of all" U.S. exports require compensation to producers through 100% parity or direct payments -- with an initial budgetary price tag of $30 billion or more.

-- The most certain legal ground for suspending all U.S. exports to the USSR would be for the President to declare a national emergency and use the resulting Presidential emergency powers under the International Emergency Economic Powers Act ("IEEPA"). Declaring an emergency would require the President to find that the Polish situation is an unusual and extra-ordinary threat to U.S. national security or foreign policy. The law requires prior consultation with Congress "in every possible instance," and a report to Congress explaining the President's action.

-- If required, IEEPA could also be used to authorize such additional measures as bans on Soviet imports; bans on financial transactions with the USSR; or even bans on expenditures for U.S. citizens' travel to the USSR.

-- Under the President's action, exports contracted for but not yet delivered could be stopped. This would halt the shipment of some 5 million tons of grain that the Soviets have purchased but which will not have been delivered. Since the bilateral Grain Agreement guarantees the Soviets 8 million tons and by the end of January they will have shipped only about 6 million tons, the embargo would violate the Agreement. However, since the agricultural exports would be banned only as part of a substantially complete embargo, compensation to farmers would not be required under the 1981 Farm Bill.

POSSIBLE ADDITIONAL MEASURES

-- US ports could be closed completely to Soviet commercial vessels. After the December sanctions some Soviet commercial ships were still allowed to call on US ports. In particular ships loading US grain were to be allowed in.

-- All Soviet commercial representatives (diplomatic and non-diplomatic) in the US will be instructed to leave. Soviet commercial organizations would close and the joint-venture fishing operation on the Pacific Coast would stop. Presently there are seventy-two non-diplomatic Soviet commercial representatives in the US operating the following seven organizations: Aeroflot, Amtorg, Intourist, Belarus, Sovfracht, US-USSR Marine Resources, and US-USSR Trade and Economic Council. There are also twenty-one

Soviet officials operating the Office of Trade Representative. We do not have domestic legal authority to compel the closing of some of the purely commercial organizations but the Soviets are likely to obey our directive for their personnel to depart. We would also take the initiative in closing the US Commercial Office in Moscow and withdrawing our diplomatically accredited staff.

-- We would refuse to issue visas to Soviet businessmen to the extent permitted by law. While our legal basis is restricted by the McGovern Amendment, the Soviets are not likely to challenge us and the domestic legislative mood might well facilitate a change in or elimination of that Amendment.

Initially we should limit the embargo to the movement of goods and services and not extend it to include the seizure of Soviet assets in the US. Such a step would be so extreme as to jeopardize diplomatic relations and to panic other foreign investors.

Implementation of any embargo would involve detailed regulations and a variety of subsidiary policy decisions regarding sanctity of existing contracts and retro-activity, extraterritoriality, regulation of financial transactions, etc. Accordingly, a full analysis should be undertaken as soon as possible.

POLAND: POSSIBLE MEASURES AGAINST THE USSR SHORT OF A TOTAL EXPORT BAN OR EMBARGO

A. Near-Term Measures

The following are possible measures which we could take against the Soviets in a matter of weeks, and which would have a greater political than economic impact. Of course, measures taken against the Poles can also impose costs on the Soviets.

1. Embargo on export of all industrial products. Under the Export Administration Act we could prohibit the export of all US manufactured commodities or technology. This would have an economic impact on the Soviets and add to our credibility in our efforts to gain similar sanctions from our Allies.

2. Embargo on chemical exports This step would hurt Soviet fertilizer production; [redacted] 25X1 This combined with an import embargo would torpedo the twenty year $20 billion deal Occidental has with the Soviet Union.

3. Embargo on all imports from the Soviet Union. This step would require a declaration of national emergency by the President. It would cut off a source of hard currency that earned the Soviets $453 million in 1980 and $312 million through October in 1981. Imports consisted mainly of petroleum and products, agricultural chemicals, and metals. Our greatest dependency on the USSR for imports is in palladium and titanium . Alternative supplies could be arranged to replace these imports.

4. Revoke already issued licenses for export of high-technology items to the USSR, including the license for transfer of International Harvester combine technology. This step is parallel to the actions we hope the Allies will take in regard to their pipeline companies' contracts, but would be inconsistent with our earlier NATO agreement on the sanctity of contracts. Foreign firms could pick up the deal unless we had firm commitments from the Allies not to undercut us. Revoking the International Harvester license would cost the firm earnings of $300 million, and could send it into bankruptcy.

5. Suspend Soviet-American joint-venture fishing operations. There is at present one such joint venture on the Pacific Coast; its suspension would be a low-cost gesture and would

have a financial impact on the Soviets. However, the U.S. fishermen are having a difficult year already and suspension of this joint venture would hurt them. Soviet purchases under this arrangement were $4 million in 1980.

6. Not set dates for semi-annual grain consultations. Under the US-USSR Grains Agreement we are required to consult with the Soviets on further grain availability semi-annually and whenever either party requests consultations. Curbing Soviet grain purchases through refusing consultations might trigger law suits from farmers demanding compensation under the Farm Bill. However the Soviets have never requested consultations and are not likely to now. The semi-annual consultations are due to take place this spring. We should take no steps to set dates at this time. We should simply let the meeting slide until we receive a request from the Soviets to hold the consultations. This decision should not be publicly announced; a public announcement could trigger claims for compensation under the Farm Bill. By not setting dates we are able to put off an untimely meeting with the Soviets on grain sales.

7. Abrogate existing exchange agreements. Our December 29 announcement means that three of the eleven technical agreements will be allowed to lapse during the first half of 1982. The others are not up for renewal until much later. Abrogating them would send a tough signal, but would not seriously hurt the Soviets in a practical way. It would also violate our legal obligations, since the agreements have no provision for unilateral termination.

8. Suspend activities under existing scientific and technical agreements. Such activities were cut to the bone after Afghanistan, but full suspension would be feasible and would further underline our outrage over the Soviet role in Poland. The cost to the Soviets of such a step, on the other hand, would be relatively minor.

9. Seek U.N. condemnation of the Poles and Soviets. Security Council consideration of the Polish crisis, or General Assembly action under the Uniting for Peace Resolution, would not be possible except in the event of Soviet military intervention.

10. Further reduce Soviet commercial representation in the U.S. (See also Tab B)
Explusion would have primarily a political impact, but it would be appropriate for us to eliminate those commerical representatives whose economic activities have been curtailed by other sanctions. There are three Soviets here

with the shipping organization Sovfracht and some representatives at Amtorg who work on maritime and shipping affairs. Also, Aeroflot staff is still present in the U.S. and there is one representative who works with the fishing joint venture. Reciprocal cuts in diplomatically-accredited commercial representatives could be considered later. If the Soviets retaliate by expelling U.S. private commercial representatives, a loss of $10-15 million in investments and the loss of some export sales is likely.

11. Discourage tourism to the USSR. A public USG statement urging Americans not to visit the USSR could reduce Soviet hard-currency earnings and would tend to brand Moscow an international pariah. Such a move, however, could spur domestic and foreign criticism as an attempt to interfere with the free movement of persons.

12. Seek discussion of Polish and Soviet actions in the U.N. Human Rights Commission. Initial soundings indicate that it would not be difficult to get the Polish crackdown on to the UNHRC agenda. (This would not necessarily lead to further consideration by other U.N. bodies, which may not be feasible short of direct Soviet military intervention.)

13. Reciprocal cuts in diplomatic representation in Moscow and Washington. We and the Soviets presently have about the same numbers of diplomatic personnel in our respective Embassies. Large-scale staff cuts would hurt our Embassy more because of the closed nature of Soviet society, the Soviets' large U.N. presence in New York, and our Embassy's greater vulnerability to retaliation due to our reliance on Soviet employees for non-sensitive support functions. The Embassy could endure cuts in certain sections -- e.g., culture, science, commercial -- where activities have been reduced because of our other sanctions.

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