THE FOLLOWING DOCUMENTS
ARE ATTACHED:
(Please do not remove)

ER 3963X a/1 88

SUBJECT:

EXECUTIVE SECRETARIAT

ROUTING SLIP

TO:

		ACTION	INFO	DATE	INITIAL
1	DCI		X		
2	DDCI		X		
3	EXDIR				
4	D/ICS				
5	DDI		X		
6	DDA				
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9	Chm/NIC		X		
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16	D/Ex Staff				
17	D/SOVA/DI		X		
18	D/EURA/DI		X		
19	NIO/ECON		X		
20	D/OGI		X		
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22					
	SUSPENSE		Date		

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DCI EXEC REG

L-231-IR

Remarks

D/OCA plans to prepare response for his signature.

ER 88-3963X

HS

Executive Secretary

18 Oct 88

Date

3637 (10-81)

ECRETARIAT
ROUTING SLIP

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	SUSPENSE	Date			

Remarks Follow-up letter from Senator Symms to his 13 October letter on similar issues (See ER 3963X from ES dated 18 Oct.) D/OCA preparing response for his signature.

DCI EXEC REG

L-231-IR

ER 88-3963X/1

Executive Secretary

~~22~~ 21 Oct '88

Date

3637 (10-81)

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EXECUTIVE SECRETARIAT

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SUSPENSE ______________ Date

Remarks

~~D/OCA plans to prepare response for his signature.~~

ER 88-3963X

Executive Secretary

18 Oct 88

Date

3637 (10-81)

-231-1r

8 OCT 1988

From: John L. Helgerson

___We plan to prepare an answer for your signature.

✓ We plan to prepare an answer for my signature.

___No answer expected or required

___John, I prefer to___________

Declassified and Approved For Release 2013/12/05 : CIA-RDP90G01353R001400130027-8

EXECUTIVE SECRETARIAT

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ER 88-3963X/1

Executive Secretary
~~22~~ 21 Oct '88
Date

3637 (10-81)

STEVE SYMMS
IDAHO

United States Senate

WASHINGTON, DC 20510

October 17, 1988

Hon. William H. Webster
Director, Central Intelligence Agency
Washington, DC 20505

Dear Mr. Director:

Attached is a copy of a letter I have sent to Treasury Secretary Nicholas F. Brady today. I am forwarding a copy to you because of the very serious national security implications of the issues discussed in my letter to Treasury.

I would appreciate your comments on the issues raised in that letter.

Sincerely,

Steve Symms

Steve Symms
United States Senator

SS/jmc

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EXEC
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 31-IR

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United States Senate

COMMITTEE ON ARMED SERVICES
WASHINGTON, DC 20510-6050

October 17, 1988

Hon. Nicholas F. Brady
Secretary of the Treasury
1550 Pennsylvania Avenue, N.W., 3419
Washington, DC 20220

Dear Mr. Secretary:

On October 13, I wrote you to inquire of your success in Berlin raising the issues you promised Senator Wallop that you would raise with the G-7 finance ministers. Today the Financial Times of London carried two news stories about further efforts on the part of the Soviet Union and its client states to secure hard currency among the allies of this Nation. According to the World Trade Editor of that newspaper, the Soviets are seeking $1.7 billion in London -- an amount roughly equal to the funds they raised in West Germany last week. The reporter in Moscow reported that the Italians have extended a $762 million line of credit to the Soviets.

These developments are alarming -- particularly the rapid pace of Soviet negotiations and the utter eagerness of the Western governments and their capitalists to grant these lines of credit.

It is absolutely essential that the United States establish a clear and achievable timetable and agenda for results now concerning an Alliance consensus on phasing out untied, general purpose lending to Warsaw Pact countries and Soviet client states and the redressing of other major financial security problems.

As anyone experienced in Alliance consultations and economic summit preparations knows, a six month lead time is the minimum necessary to gather data, analyze and negotiate an allied consensus on a major new family of issues before it is adopted by Ministers at the Ministerial of the Organization for Economic Cooperation and Development (OECD) to be held in April 1989.

It is also well established that an issue has to be formally discussed on the agenda of the OECD Ministerial meeting if it is to be on the formal agenda of the upcoming Economic Summit in Paris in May/June 1989. Although there are exceptions to this rule, the allies would be tempted to use the argument of "insufficient preparation time" to foreclose an OECD and Summit discussion and agreement.

Concerning precedents, it took a full year to produce an Alliance agreement on discouraging taxpayer subsidized interest rates on government-backed credits to the USSR (July 1981-July 1982).

It took almost two years to achieve an Alliance agreement in the International Energy Agency (under the auspices of the OECD) to, in effect, limit Soviet natural gas deliveries to Western Europe to 30 percent of total West European gas supplies and to accelerate successfully the development of the huge Norwegian gas project (Troll) to substitute for Soviet supplies into the 1990s and twenty-first century.

Finally, it took well over six months to reach an Alliance agreement in the OECD on discouraging foreign assistance "tied credits" or the excessive use of grant money in development loans.

Congress and the Administration have been aware of the untied loan issue and other financial security issues (e.g. the entry of the Soviets into the international securities markets, etc.) for over two years and, to date, no Alliance consultations have taken place.

There have reportedly been only two mid-level interagency meetings on this subject within the Administration (the last of which took place in July 1988) and they have been faint-hearted to say the least.

The issue has not been brought to the Cabinet's attention since 1985 and then it was in the context of responding to legislation (S. 812), not a multilateral, voluntary initiative with our allies on more disciplined and transparent lending of hard currency to adversaries.

On June 2, 1987, eighteen leading Congressmen and Senators, on a bipartisan basis, wrote the President urging him to raise the untied loan issue and impending Soviet entry into the Western bond market prior to the Venice Economic Summit. There was no result and the issue was not raised.

On September 24, 1987, twenty-four Congressmen and Senators, on a bipartisan basis, wrote the President urging him to raise the untied loan issue and impending Soviet entry into the Western bond market prior to the Venice Economic Summit. There was no result and the issue was not raised.

On September 24, 1987, twenty-four Congressmen and Senators, again on a bipartisan basis, wrote the heads of the IMF and the World Bank asking them, for solid commercial banking reasons, to call for a phasing out of undisciplined cash lending to sovereign borrowers in the East Bloc because this practice has been proven to be one of the principal causes of the current trillion-dollar international debt crisis.

The Administration was sent copies of that correspondence at the Cabinet level. Again, this issue was ignored during the IMF/World Bank sessions that immediately followed the letter.

On June 15, 1988, the Senate passed a unanimous resolution (96-0), sponsored by Senators Bradley and Sasser, calling on the President to raise the untied loan issue and related problems at the Toronto Economic Summit. Simultaneous to this effort, Congressmen Schumer and Roth sent a letter to the President with over fifty signatures (evenly divided between Democrats and Republicans) arguing strongly that this issue required urgent Presidential attention in Toronto. Again, the issue was never raised, even at lower levels.

In the earlier Defense Appropriations bill and in a letter to Defense Secretary Carlucci, Senator Sasser requested a comprehensive interagency study of all available data on credit flows to the Soviet bloc and certain client states which was to be completed by September 30, 1988, and presented to the Congress. No such study was produced and no self-generated initiative within the Administration was undertaken.

During your confirmation hearings, Senator Wallop requested that you raise the untied loan issue at the G-7 meetings in Berlin last month. I am sorry to report to you that some of my sources familiar with the G-7 sessions in Berlin are telling me the issue was never seriously discussed. I am looking forward to your response to my letter of October 13, in order to rebut and put to rest these disturbing allegations.

I am certain you understand that the data collection from our allies and thorough analyses prior to the OECD Ministerial meeting requires this Alliance exercise to begin immediately.

The diversion of the proceeds of Western borrowings to finance purposes inimical to vital U.S. and Western security interests is almost certainly costing the American people billions of dollars annually in additional defense and foreign assistance spending to counter the consequences of thess unwise banking practices. It is not just bad for our national security, it is bad banking.

Why has there not been one high level alliance consultation on this obviously strategic subject since World War II? Why has there not been one National Security Coucil meeting devoted exclusively to the subject of how the Soviet Union funds itself and its global empire?

Why have Bonn and Tokyo totally ignored the strategic and security implications of multibillion dollar credit flows annually to Warsaw Pact nations from their countries?

Why has this subject eluded every major discussion of defense burden-sharing with our allies?

Could it be that we are deliberately looking the other way on untied loans and other public and private sector financial transfers to adversary nations because it keeps the Soviets and our allies in a better humor?

Could it be that we are more interested in avoiding a potentially contentious discussion with our allies than advancing the national security of the United States and the preservation of freedom around the world?

Could it be that our free market principles are overriding the need of this government and those of our allies to intervene to correct these financial abuses, data gaps, and lending practices that have such serious strategic implications for the Free World?

To further illustrate why we must immediately commence formal Alliance consultations at the Assistant Secretary or higher level now, as opposed to further obfuscation and delay, consider the amount of data that has either never been collected at all or not pulled together in a systematic way for analysis. Among the numbers urgently needed are the following:

(1) What have been total Western private and public sector credit flows to Warsaw Pact countries and Nicaragua, Vietnam, Libya and Cuba over the past ten years (1978-1988), breaking out tied and untied loans, with projections five years forward? These numbers should also be broken out both by lending countries and borrowing countries as well as in aggregate form.

(2) What have been all loan and deposit exposure to the Comecon banks (the International Investment Bank and International Bank for Economic Cooperation) over the past ten years, with particular focus on credit flows from West Germany over the past three years?

(3) What have been all "private placements" of debt between Western and middle East banks and non-banks and Soviet Bloc-owned banks? These private placements could either take the form of bank-to-bank deals or so-called "club deals" involving 3 to 10 banks.

(4) What has been total credit exposure (Western banks and non-banks) to Warsaw Pact Borrowers in the forfait market, broken down by country lenders (e.g., the total amount of the banks of a particular lending nation) and country borrowers?

(5) What is total Western non-bank credit exposure to Soviet Bloc countries and the client states referenced?

(6) What would a break-out of total Middle East exposure to Soviet Bloc borrowers and the client states referenced look like? Both public and private sector flows should be cited and whether the funds were tied or untied.

(7) We need an analysis of the volume and quality of the Soviet hard currency loan portfolio (estimated by PlanEcon at over $40 billion) to Third World countries. What is the true market value of these loans -- 25-30 cents to the dollar?

(8) We need a listing of all public and private sector contingent liabilities to Soviet bloc borrowers and the client states referenced, including government guarantees, and lines of credit that are committed and could be drawn down by the borrower at any time.

(9) We need a listing of all Western bank, government, and multilateral development bank loans and deposit exposure to Nicaragua, Cuba, Vietnam, and Libya over the past ten years, (broken down by lending and borrowing countries) as well as every debt rescheduling to these countries, including the respective terms and conditions.

(10) We need a summary of the Soviet position in or overtures to all international economic and financial organizations for observer status or membership, including the Asian Development Bank.

(11) We should have a break-out of all West German and Japanese loan and deposit exposure to each Soviet bloc country (including the USSR itself), Comecon banks, and the client states referenced, for the past ten years (1978-1988).

(12) Finally, we should have a break-out of aggregate U.S. bank deposit exposure to Soviet Bloc-owned banks located in the West.

The above data requirements listed for proper evaluation of the security implications of Western credit flows to Soviet Bloc countries and client states is by no means complete. Other data are also needed but time and space do not permit a more exhaustive list here.

If we are unnable to obtain from our allies all of the data listed above and/or of additional data that will be required, the Administration should clearly reference the data gaps that could not be closed, so that the Congress can better evaluate the commercial and security implications.

The explanations offered in the past by the Administration to explain reluctance in pursuing an Alliance solution to this problem have been weak, particularly given the unilateral imposition of capital controls against Panama earlier this year. Surely the threat to America from the Soviet Union is at least as serious as the threat from a drug-pushing head of state in Central America.

This exercise that I believe should begin immediately, however, is not about controls, it is about data collection and disclosure and a multilateral, voluntary initiative to implement more discipline and transparency in lending to adversary nations for solid national security, commercial, and human rights reasons.

As the enumeration above of the data that needs to be gathered indicates, it will take at least six months to prepare for the OECD Ministerial meetings in April.

If we fail to act on this critical and urgent issue at this time, I think it would be tantamount to a declaration by the United States that we really do not care if our allies pour out billions of dollars to make the Soviet Union stronger. If that is the case, then I must simply ask, in all sincerity, why did this Nation expend billions of dollars in the past eight years to build up our own defenses? Why do we spend billions of dollars each year for foreign aid and other international security initiatives, if we are willing -- in the last analysis -- to let the enemies of the United States borrow all the capital they need to match us dollar for dollar from our supposed friends?

I am very eagerly awaiting your reply to my letter of October 13, 1988, and I would further appreciate your discussion of the particular items of data enumerated above that I believe should be gathered prior to the OECD Ministerial meetings in April.

Sincerely,

Steve Symms

Steve Symms
United States Senator

SS/jmc
cc: Hon. George P. Shultz
Hon. Frank C. Carlucci
Hon. Colin L. Powell
Hon. William S. Sessions
Hon. William H. Webster

EXECUTIVE SECRETARIAT

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SUSPENSE ____________ Date

Remarks

D/OCA plans to prepare response for his signature.

ER 88-3963X

Executive Secretary

18 Oct 88

Date

3637 (10-81)

United States Senate

WASHINGTON, DC 20510

October 13, 1988

Hon. William H. Webster
Director, Central Intelligence Agency
Washington, DC 20505

Dear Mr. Director:

Attached is a copy of a letter I have sent to Treasury Secretary Nicholas F. Brady today. I am forwarding a copy to you because of the very serious national security implications of the issues discussed in my letter to Treasury.

I would appreciate your comments on the issues raised in that letter.

Sincerely,

Steve Symms

Steve Symms
United States Senator

SS/jmc

United States Senate

COMMITTEE ON ARMED SERVICES
WASHINGTON, DC 20510-6050

October 13, 1988

Hon. Nicholas F. Brady
Secretary of the Treasury
1550 Pennsylvania Avenue, N.W., 3419
Washington, DC 20220

Dear Mr. Secretary:

As this session of Congress comes to a close, I wish to reiterate to you my deep concern, and that of my Senate colleagues, regarding continued multibillion dollar flows of undisciplined bank credits annually to the Soviet Union, Eastern Europe and Soviet client states. We read in The New York Times yesterday that West Germany has now granted the largest-ever line of credit of this type -- despite original assertions of it being directly tied to German exports.

During your confirmation hearings, I had requested Finance Committee members to ask you about this issue, and Senator Wallop did so. Senator Wallop and I were pleased with your response to his question about raising the issue with the G-7 in Berlin. We believe there are serious national security implications of these credit flows, particularly untied, general purpose loans to Warsaw Pact countries. Our schedules are quite full in the next month, but at the earliest possible opportunity, we would appreciate a briefing on the specific nature of your demarche and the reaction of each of our allies to help us evaluate the prospects for Alliance consensus over the next few months.

Although 1987 showed a pause in the pattern of relatively heavy borrowing by Soviet bloc countries in 1985 and 1986, depressed hard currency earnings may be creating a new surge of borrowing this year and in 1989. The Congress, on a bipartisan basis, has repeatedly and strongly requested such Alliance consultations for over two years without any apparent result. Senator Wallop and I, as well as several other Senators who have taken a public interest in this issue I trust, would like to be kept informed of any such consultations that may have commenced, and when they began.

The Soviet entry into the international securities markets (e.g., the issuing of bonds) is a particularly troubling development, allowing the Soviets to recruit, for the first time, Western securities firms, pension funds, insurance companies, corporations, and even individuals as lenders of untied funds to Moscow. Over time, hundreds and even thousands of non-banking institutions and potentially millions of Western citizens could be knowingly and unknowingly holding Soviet paper in their bond portfolios and pension funds. These institutions would have a financial vested interest in supporting continued Western economic, financial, and even political concessions to the U.S.S.R. In addition, credit exposure to the Soviet Union from non-banks is not even recorded as part of the total indebtedness of the U.S.S.R., compounding the already serious problems of collecting and disclosing data on the volumes and uses of Western credits.

Beyond the national security dangers, countries like Poland and Hungary, with combined debt of roughly $57 billion, have encountered serious difficulties in managing the repayment of debt to the West. Undisciplined lending to sovereign borrowers has proven itself to be a commercially unsound banking practice with costly consequences for Western taxpayers as the trillion-dollar international debt crisis has revealed. Why would this or any Administration not sound the alarm when banks return to this imprudent practice, particularly given the ease with which our adversaries can divert the proceeds of untied credits for purposes inimical to vital Western security interests?

This problem can no longer be ignored. The Senate resolution of June 15 on this subject passed by a unanimous vote of 96-0. Economic and financial security policies must become the next major defense burden-sharing obligation of the Alliance. It is almost surely costing the American people billions of dollars annually in additional defense spending to counter the consequences of undisciplined financial flows to the Soviet empire primarily from West Germany and Japan. The Soviets can use untied money more flexibly to finance their military build-up, fund arms sales to countries engaged in regional aggression, underwrite the failed economies of client states, and for other harmful purposes.

Once an Alliance agreement is reached on more disciplined and transparent Western lending to adversaries it must be enforced energetically -- unlike the Administration's performance concerning U.S. capital controls directed against Panama. The latest scandal concerning the activities of the Bank of Credit and Commerce International (BCCI) related to the laundering of drug money and the diversion of funds to General Noreiga is part of our broader concern over the damage that can be done to important U.S. interests by financial abuses. Accordingly, this family of financial security issues should be at the top of the agenda of the April Ministerial of the Organization for Economic Cooperation and Development. The Alliance agreement that is forged between now and the OECD Ministerial should be specifically endorsed at the next Economic Summit in Paris scheduled for May/June 1989. Should this Administration, or the one to follow, continue to resist the creation of an Alliance consensus and formal agreement on phasing out untied lending and redressing other financial security concerns, the Senate will be compelled to examine legislation to make this Alliance burden-sharing obligation a reality.

I am confident you share our concerns and will work with your counterparts in the G-7 and the OECD to avoid consideration of legislation directed against offending Alliance banks operating in the United States.

Sincerely,

Steve Symms

Steve Symms
United States Senator

SS/jmc

cc: Hon. George P. Shultz
Hon. Frank C. Carlucci
Hon. Colin L. Powell
Hon. William S. Sessions
Hon. William H. Webster