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MEMORANDUM

NATIONAL SECURITY COUNCIL

ACTION

June 11, 1971

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MEMORANDUM FOR: DR. KISSINGER

FROM: ERNEST JOHNSTON *EJ*

SUBJECT: Henry Ford and the Kama River Project

Pete Peterson has requested your concurrence on the memorandum at Tab A, which he proposes sending to the President on Monday. It would take us one step along the way toward approving U.S. participation in the Soviet Kama River Project.

Peterson informs the President that you and he will shortly submit a memorandum to the President indicating a scenario of policy changes relaxing our restrictions on East-West trade. (I have been working on that with Peterson's staff. It gives a rank ordering on possible U.S. moves.) Peterson informs the President that the inter-agency trade potential study has been completed and concludes that a total relaxation of our East-West trade barriers would improve our balance of payments position by about \$500 million in 1975. (After the President's expression to Ambassador Beam of interest in such a study, Peterson may wish to forward it.)

Peterson states that the Soviets have made substantial progress in contracting with Renault for the Kama project but in addition have signed a protocol with the Mack Truck Company which appears to reserve an important role for that company. The protocol expires June 25 though this may be only a bargaining tool with Renault. Peterson believes it possible that should we change our policy on the Kama River Project the commercial benefits to the United States might reach \$200 million. He suggests that if there is any possibility of a relaxation on the Kama River Project in the next few months that he, you, or the President should inform Henry Ford that our policy on Kama may change and there is no objection to his renewing his contacts with the Soviets. This would not prejudice a favorable decision on U.S. participation in the Kama River

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DOS, OSD, NSS,
Reviews Completed

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Project, but merely give advance warning that we may be making decisions on formal applications by other companies for the project. I am somewhat dubious of moving in this fashion, particularly in informing one member of the business community about a possible change in U. S. policy, though certainly Ford's role, because of Secretary Laird's previous public objection, is unique. Instead of concurring with the Peterson memorandum, you might wish to suggest that this decision await the preparation of the memorandum outlining the scenario policy changes since a change in our position on the Kama River Project would be an important element in the first steps. An alternative in the scenario would be a public announcement forewarning other companies that the U. S. may shortly be considering the Kama project, rather than merely approving the existing formal applications.

Hal Sonnenfeldt believes that however optimistically we may perceive the present state of relations with the USSR, our recent decision on trade with the Soviets should stand for a while. The Soviets now have ample opportunity to avail themselves of import opportunities, for example in the agricultural sector, which is of special importance to the Administration. Hal Sonnenfeldt strongly believes that at the very least there should first be developed a coherent scenario for our trade policy, including that relating to the East Europeans; once this has been done and the political factors have been weighed, there will be ample time to move on individual projects.

RECOMMENDATION:

That you inform Peterson:

- (a) that you concur in his memorandum

APPROVE _____ DISAPPROVE _____

- (b) that further decisions on East-West trade relaxation should await the scenario

APPROVE _____ DISAPPROVE _____

- (c) that you oppose any move on Kama now.

APPROVE _____ DISAPPROVE _____

Concurrence: Hal Sonnenfeldt *HS*

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ACTION

MEMORANDUM FOR: THE PRESIDENT

FROM: PETER G. PETERSON

Subject: Henry Ford and the Kama River Project

The interagency group that has been doing a factual and estimative study of East-West trade has completed its report. While the report has not yet been reviewed at high levels, it is interesting that agreement was reached that there is room for substantial increases in our exports to the Soviet Union and Eastern Europe. Even more important, it is agreed that we could improve our annual net balance of payments position by about \$500 million by 1975 were we to align our policies closely on the agreed international COCOM standards. Even Defense, which is opposed to relaxing our restrictions, agrees that this potential exists for trade and balance of payments gains.

Henry and I will shortly be submitting to you a memorandum outlining a scenario of policy changes to relax our restrictions. To the extent that you approve, your Administration will generate more business, more jobs, and a stronger balance of payments position for the U. S. economy.

One of the early matters for your decision will be the Kama River Project. As you know, the Soviets intend - with or without U. S. participation - to construct the largest truck manufacturing complex in the world on the Kama River site.

Last year, Henry Ford decided not to pursue conversations with the Soviets which might have led to Ford assuming a major role for the Kama River Project. Ford backed off after Secretary Laird's remarks which were interpreted as indicating Administration opposition to American business helping the Soviets produce trucks. Today, the domestic political considerations may be different with the Viet-Nam withdrawal program so far advanced - again, they may not be. This is where your judgment will be required.

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In the meantime, the Soviets have advanced quite far in arranging for a French firm, Renault, to be the prime foreign contractor. While the matter is still somewhat obscure, it is likely, but not certain, that Renault will fill this role. Nevertheless, the Soviets have signed a protocol with Mack Truck which, on the face of it, appears in certain circumstances to reserve the major foreign consultant role for Mack Truck. The Protocol expires June 25. There is some reason to believe, however, that the Soviets may be using the protocol with Mack Truck to improve their negotiating position with Renault. Their earlier effort to negotiate a contract with Daimler-Benz as the prime contractor fell through when the two parties were unable to agree on terms.

The Soviets also signed a letter of intent with Swindell Dressler, an American engineering firm, which contemplates provision of about \$13 million in engineering services for design of the foundries at Kama River and the supply of about \$20 million worth of engineering equipment. An interesting feature of this proposal is that payment would be made with high-grade chrome ore, in short supply in the Free World since the embargo on trade with Rhodesia was established.

There are also indications that were our policy to change, the Soviets would be interested in other contracts with American firms related to the Kama River Project. It has been estimated by the CIA that the Soviets may spend as much as \$1 billion in hard currency purchases in the West, of which at least \$200 million in goods and services could be purchased from the U.S. before the project is completed.

While Ford may no longer be interested, and it might in any case be too late for them to enter the picture as far as the Soviets are concerned, if there is a possibility that you would favorably consider licensing applications from other American firms such as Mack Truck and Swindell Dressler, I think it would be politically desirable for you or Henry Kissinger or me to promptly contact Henry Ford and tell him, without conveying a final decision, that the situation has changed and that in these new circumstances you would have no objections to his renewing his contacts with the Soviets if he were so inclined. It is a matter of personal indifference to me who does it but if your thinking is moving in this direction, I think it would be courteous for someone from the White House to call Henry.

Approved, I will call Henry Ford _____

Approved, Henry Kissinger to call Henry Ford _____

Approved, Mr. Peterson to call Henry Ford _____

Disapproved _____