

WITHDRAWAL SHEET (PRESIDENTIAL LIBRARIES)

194

FORM OF DOCUMENT	CORRESPONDENTS OR TITLE	DATE	RESTRICTION
#2 memo	Ben Read to McGeorge Bundy re reply to NSAM 304 Secret 2 pp <i>open 6/10/99</i>	6/4/65	A
<i>[Duplicate of # 58, Papers of AmSolomon, "E-W Trade," Box 3]</i>			
#3 report	re NSAM 304, Action Program for US Relations with Eastern Europe Secret 11 pp <i>OPEN 9-24-98 NLW 97-204</i>	n.d.	A
#3a report	Pages 7-11 of above report Secret 5 pp <i>OPEN 9-24-98 NLW 97-204</i>	n.d.	A
#4 report	re NSAM 304, Tab A Travel Controls Secret 2 pp. <i>OPEN 7/19/02 NLJ/PAL 00-101</i>	n.d.	A
#5 report	re NSAM 304 Tab B "Relations with the Soviet Union and East European Bloc Countries In the Industrial and Copyright Fields" Secret 7 pp <i>open 6/10/99</i>	n.d. n.d.	A A
#6 report	re NSAM 304 Tab C "Shipping" Secret 2 pp <i>open "</i>	n.d.	A
#7 report	Tab D "Aviation Bridges to East Europe" Secret 3 pp <i>open "</i>	n.d.	A
#8 report	Tab E "Facilitation of Travel: Expediting Visa Procedure" Secret 3 pp <i>open 2/20/01</i>	n.d.	A
#9 report	Tab F "Humanitarian Assistance" Secret 3 pp <i>open 6/10/99</i>	n.d.	A
#10 report	Tab G "Bridges of Ideas" Secret 5 pp <i>open 6/10/99</i>	n.d.	A
#11 report	Tab H "Arms Control and Bridges to East Europe" Secret 3 pp <i>open 6/10/99</i>	n.d.	A

FILE LOCATION

NATIONAL SECURITY FILE, National Security Action Memorandums, "NSAM 304,
U.S. Relations with Eastern Europe" Box 4

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FORM OF DOCUMENT	CORRESPONDENTS OR TITLE	DATE	RESTRICTION
#12 report	Tab I "Legal Framework for Economic Relations with East Europe" Secret 8 pp OPEN 9-24-98 NLJ 97-204	n.d.	A
#13 report	Tab J "The Question of East European Membership in IMF and IBRD" Secret 9 pp open 12-9-99	n.d.	A
#14 report	Tab K "The General Agreement on Tariffs and Trade (GATT)" Secret 6 pp open 6/10/99	n.d.	A
#15 report	Tab L "Relations with East Europe Through European Organizations" Secret 11 pp open 6/10/99	n.d.	A
#16 report	Tab M "Albania" Secret 2 pp open 6/10/99	n.d.	A
#17 report	Tab N "Bulgaria" Secret 4 pp OPEN 9-24-98 NLJ 97-204	n.d.	A
#18 report	Tab O "Czechoslovakia" Secret 4 pp OPEN 9-24-98 NLJ 97-204	n.d.	A
#19 report	Tab P "Hungary" Secret 4 pp OPEN 9-24-98 NLJ 97-204	n.d.	A
#20 report	Tab Q "Poland" Secret 6 pp OPEN 9-24-98 NLJ 97-204	n.d.	A
#21 report	Tab R "Rumania" Secret 6 pp OPEN 9-24-98 NLJ 97-204	n.d.	A
#22 report	Tab S "Yugoslavia" Secret 4 pp OPEN 9-24-98 NLJ 97-204	n.d.	A

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#23 report	Tab T "The Soviet Union" <i>open 6/10/99</i> Secret 9 pp	n.d.	A
#25 memo	Dup. of #2 " "	6/4/65	A
#26 rpt	Dup. of #3 <i>OPEN 9-24-98 NW 97-204</i>		
#28 rpt	Dup of #4 <i>open 4-17-89</i>		
#30 rpt	Dup of #5 <i>open 6/10/99</i>		
#32 rpt	Dup of #6 " "		
#34 rpt	Dup of #7 " "		
#36 rpt	Dup of #8 <i>open 2/20/01</i>		
#38 rpt	Dup of #9 <i>open 6/10/99</i>		
#40 rpt	Dup of #10 " "		
#42 rpt	Dup of #11 " "		
#44 rpt	Dup of #12 <i>OPEN 9-24-98 NW 97-204</i>		
#46 rpt	Dup of #13 <i>open 12-9-99</i>		
#48 rpt	Dup of #14 <i>open 6/10/99</i>		
#50 rpt	Dup of #15 " "		
#52 rpt	Dup of #16 " "		
#54 rpt	Dup of #17 <i>OPEN 9-24-98 NW 97-204</i>		
#56 rpt	Dup of #18 <i>OPEN 9-24-98 NW 97-204</i>		
#58 rpt	Dup of #19 <i>OPEN 9-24-98 NW 97-204</i>		
#60 rpt	Dup of #20 <i>OPEN 9-24-98 NW 97-204</i>		
#62 rpt	Dup of #21 <i>OPEN 9-24-98 NW 97-204</i>		

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#64 rpt	Dup of #22 <i>OPEN 9-22-98 NLJ 97-204</i>		
#66 rpt	dup of #23 <i>open 6/10/99</i>		
#68a memo	Charles E. Johnson to Secretaries of State, Defense, Commerce, Director of CIA, AID Secret 1 p <i>open 9-10-93 NLJ 93-65</i>	6/10/64	A
#68b memo	NSAM 304 " " Secret 1 p	6/3/64	A
#69 memo	David Klein to Mr. Bundy Secret 1 p <i>open 6/10/99</i>	8/11/64	A
#70 memo	Dup of #68a <i>open 9-10-93 NLJ 93-65</i>		
#70a memo	Dup of #68b " "		
#71 memo	Dup of #68b " "		
#71a memo	Draft of #68b " " Secret 1 p	6/1/64	A
13a rpt	Annex to Tab J Secret 4pp. <i>open 2/28/02 NLJ 00-76</i>	undated	A
46a	duplicate of 13a		

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Polly:

4

The enclosed copies of NSAM
No. 304 are for Mr. Bundy and Mr. Smith.
In addition to those listed on the memo, I
have also sent copies to David Klein, NSC
files and I kept one for CEJohnson.

Florence 6/12/64

JUN 4 1965

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MEMORANDUM FOR MR. MCGEORGE BUNDY
THE WHITE HOUSE

Subject: Reply to NSAM 304 on United States
Relations with East Europe

In response to your request, the Department submits program of specific actions to move forward on a policy of building bridges to East Europe.

The highlights of this program are:

1. New moves to broaden bilateral relations with each country.
2. Measures to expand peaceful trade and tourism.
3. A new civil aviation policy for the area.
4. Proposals for larger cultural exchanges.
5. Steps to promote coordination of Western policies toward East Europe.
6. Proposals for associating East European countries with the work of various multilateral organizations in the economic field.

These programs of specific action should be considered as goals to be achieved rather than as a series of particular policy decisions taken now. We should however decide now to seek legislation which will give the President authority to take advantage of such opportunities for "bridge building" as may present themselves and which are considered to be in our national interest.

DECLASSIFIED
E.O. 12958, Sec. 3.5
State Dept. Guidelines

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By rf, NARA, Date 6-9-99

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This flexible, case-by-case approach to "bridge building" should increase our chances of getting support here at home for the legislative authority which we need and, on the other hand, enable us to consider individually and carefully the many questions of substance, priorities and timing that are involved in a program as broad and far-reaching as this.

The Treasury Department disagrees with the proposal to support East European membership in international monetary institutions. No decision on this point is necessary at this time.

The Director of USIA agrees fully with the broad policy lines proposed in this paper. Since USIA's action responsibilities in Eastern Europe would be significantly expanded if the Action Program, or even only parts of it, should become US policy, he will submit detailed comments in the course of inter-Agency consultations on the Department's submission.

Other Departments and Agencies concerned have been consulted and their views taken into account, but in keeping with the nature of the program indicated above no attempt has been made to obtain concurrences in all aspects of the proposed program.

Under Secretary Mann and Ambassador Thompson have reviewed and approved this report. Secretary Rusk and Under Secretary Ball, however, have not reviewed it.

/s/ Benjamin H. Read

Benjamin H. Read
Executive Secretary

Enclosure:

NSAM 304 Action Program

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This consists of pages.
No. of Copies. Series A.

NSAM 304
ACTION PROGRAM FOR US RELATIONS WITH EAST EUROPE

3

Policy Considerations

We believe that the quiet revolution now in progress in the East European countries will continue and gather momentum in the years ahead. The current changes in East Europe are characterized by four important features varying in degree from one country to another: (1) internal liberalization; (2) establishment of a certain degree of national independence from Soviet control; (3) pragmatic innovations designed to cope with pressing economic problems; and (4) progress in reassociation with the West.

Our basic purpose in building bridges to East Europe is to facilitate and sustain these changes. We seek thereby progress toward the realization of our ultimate objective in East Europe, that is: the establishment of conditions under which the people of each country may determine its own society; and where each country may enjoy national independence, security, and a normal relationship with all other countries. This will mean the final dismantling of the Iron Curtain and the free association of East Europe and the West. It will entail the establishment of a viable relationship between the East European countries and the Soviet Union consistent with the security of both.

To weave the fabric of reassociation with East Europe is to lower barriers, strengthen ties and broaden relations with the countries of that area. We seek to promote and influence the evolution of Communism in the area and to obtain the agreement and positive cooperation of Communist governments in spheres of mutual interest.

We must focus and rearticulate our policy in keeping with the developing East European situation. We must also closely relate our moves in East Europe to the solution of the German problem and the achievement of a durable relationship with the Soviet Union. Our policies for achieving West European unity, East European evolution and secure peace with the Soviet Union must move forward together.

There are two great needs:

- a. One is coordination--of US policies toward the various parts of Europe; among Western countries in building relationships with East Europe; within the Executive agencies; and among the Executive Branch, the Congress and the American public.
- b. The other is further tools for the purpose--in legislative authority giving the Executive Branch greater means and flexibility to influence developments in the European Communist countries.

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E.O. 12958, Sec. 3.6

NLJ 57-204

By ico, NARA Date 9-24-98

Recommendations

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Recommendations

The Department recommends a comprehensive program of: (1) actions affecting East Europe as a whole; (2) actions to achieve a common Western approach; (3) steps in multilateral association; and (4) country initiatives.

The program includes actions that can be taken now as well as measures that will put us in a better position to take advantage of opportunities as they emerge in the various countries of East Europe. Timing and priority are shown in specific cases.

I. Actions Affecting East Europe as a Whole

Since this paper is concerned with East Europe (as well as the Soviet Union), it does not cover East Germany and none of the recommendations are intended to apply to East Germany.

1. Extension of Official Relations

We should prepare the way for fresh initiatives in East Europe by clearing up certain outstanding issues. Specifically:

- a. Negotiations of claims settlements. (Country Programs for Czechoslovakia and Hungary)
- b. Removal on a reciprocal basis of travel restrictions and limitations on the size of diplomatic staffs. (Tab A)
- c. Settlement of specific consular problems and conclusion of consular conventions. (Country Programs)
- d. Opening of Consulates in USSR, Poland and Czechoslovakia. (Country Programs)

2. Negotiating New Bilateral Agreements

We can support such initiatives by entering into commercial agreements with individual European Communist countries on the basis of a mutual exchange of benefits. Such agreements need not be limited to trade. They should be used as an opportunity to resolve outstanding problems in matters concerning trade, such as: the protection of industrial property (Tab B), settlement of commercial disputes, and expansion of trade and tourism opportunities. Such agreements could also be related to the settlement of financial claims and consular problems. They can be used as a means of bringing US relations with an individual country under regular review and consultation procedures.

We can move in this direction through bilateral negotiation on the pattern of the Rumanian talks in 1964. For this purpose, we must be prepared to liberalize our export licensing practices and to guarantee commercial credits as part of the process of broadening relations with an individual country.

If we are to expand trade with these countries on a sound basis and maintain forward momentum in our relations with them, it will be necessary for the US to grant most-favored-nation tariff treatment where the situation warrants.

3. Shipping (Tab C)

a. We should gradually admit ships of the European Communist countries to an increasing number of US ports.

b. We should partially and gradually relax surveillance of Polish and other East European ships in US ports insofar as US security arrangements will permit.

c. We should scrupulously treat commercial transactions with the European Communist countries outside US preferential shipping requirements.

d. We should not apply the preferential shipping requirements of PR 73-17 to transactions involving Export Import Bank guarantees of commercial bank credit of 5 years maturity or less.

4. Civil Aviation (Tab D)

We should adopt a new course in this field by:

a. Fostering the exchange of aviation officials and technicians with selected East European countries.

b. Seeking to obtain rights, unilateral if possible, but through reciprocal agreements if necessary, for US air carriers to serve selected East European points.

c. Relaxing current barriers to sales of US civil aircraft and aviation equipment to East European countries and within security limitations encouraging such sales.

d. Supporting applications from individual East European countries for adherence to the Chicago Convention and urging East European countries to apply the ICAO standards.

5. Facilitation of Travel

We should encourage the flow of tourist travel both ways by civil aviation links, by establishment of tourist offices where appropriate and by a more expeditious procedure for issuing visas to temporary visitors from East European countries. The last proposal (Tab E) would also facilitate the conduct of official relations with the East European states since many of the visitors have official status. The Agencies involved should reduce drastically the time required to complete the prescribed security name checks on applicants.

6. Humanitarian Assistance (Tab F)

We should be in a position to respond promptly and effectively to disaster situations and other requirements for humanitarian assistance in East Europe. Present authority to provide food assistance for needy persons through voluntary agencies is adequate. However, we have only limited authority to meet disaster situations in East Europe. We should also be able to cover on a selective basis longer term requirements for rehabilitation and reconstruction after the immediate emergency.

7. Bridges of Ideas (Tab G)

a. We should systematically expand our programs of cultural exchanges and exchanges of persons with East Europe. We should also seek a better balance by arranging more exchanges in the arts, humanities and social sciences. We require more funds, both public and private, for these purposes.

b. We specifically propose:

- to increase grants and scholarships;
- to promote the export of US publications, television and motion picture films;
- to establish additional libraries in our diplomatic missions, US cultural centers and reading rooms;
- to distribute cultural and scientific bulletins as well as an America magazine in the local language;
- to assist East European countries to improve the teaching of English in their schools and universities and where possible to establish chairs of American studies (Country Programs).

c. We have concluded a Fulbright agreement with Yugoslavia. We should be prepared at the right time to conclude Fulbright agreements with Poland and Rumania if those countries are ready to undertake the standard obligations under such agreements.

8. Arms Control (Tab H)

In the absence of a basic European political settlement, efforts to develop understanding with East Europe in the field of arms control and disarmament should be focused on:

a. Persuading East European leaders and people of the peaceful purposes and defensive posture of the US, the Federal Republic and other Allies, especially as concerns the MLF and Allied nuclear strategy as well as Bonn's policy toward East Europe.

b. Limited steps of a "bridge-building" character within the arms control and disarmament framework including: (1) greater contact

with

with individual East European delegations at the ENDC and UNGA for exchange of views; (2) the welcoming and careful consideration of East European initiatives such as the Gomulka plan even if they are inadequate; (3) visits of US experts to East Europe for presentation of US positions or possibly exchange of visits of specialists; (4) exchange of documents and provision of US research studies; (5) increased public information activities including if possible placement of articles on US disarmament policy in East European publications.

9. Articulation of Policy

The President's "bridge-building" speech in 1964 and his reference to the subject in the State of the Union speech as well as the Secretary's earlier speech on "Why We Treat Different Communist Countries Differently" have been of great benefit in explaining to the American people the US approach to East Europe and in helping to build support at home for a positive policy. Such authoritative statements on our purposes in East Europe in relation to our policies in West Europe, especially Germany, and toward the Soviet Union are essential in order to make clear to all parts of Europe the design of our policy and the interrelationship of its parts. The US should continue to enunciate, and build support for, our policy through such presentations on opportune occasions.

10. New Legislation (Tab I)

In the field of trade, our greatest need is for the President to have discretionary authority to grant most-favored-nation tariff treatment where he believes it is in the national interest. With this authority, the US could negotiate commercial agreements with individual European Communist countries that would enable us to make maximum use of trade as a means of broadening our relations with these countries and influencing the evolution of their societies.

As a further means of facilitating trade relations with European Communist countries, the legislation should also clarify the existing authority for the Export-Import Bank to guarantee commercial export credits.

In separate legislation, we should propose an amendment of the Battle Act which would permit greater flexibility in the use of our PL 480 funds in Poland to support US programs and trends there to our advantage. The present PL 480 legislation should be amended to remove the five-year limitation on Title IV sales to Poland. (Poland Country Program)

To meet disaster situations in East Europe, we should seek to amend the Foreign Assistance Act so as to give the President authority to provide emergency famine relief and other forms of humanitarian assistance.

II. Actions

II. Actions Toward Achieving a Common Western Approach

We should strengthen our effort to develop a common Western approach to East Europe: (1) to increase the possibilities of realizing our policy objectives in the area; and (2) to insure that the drawing together of East and West Europe occurs in association with, not to the exclusion of, the US.

We should:

1. Cooperate closely with the Federal Republic in the evolution of Western policies toward East Europe without permitting Bonn a veto on such policies.

2. Work with Bonn and other West European governments as appropriate in promoting understanding and a better relationship between the Federal Republic and the East European countries especially (a) by discouraging public pronouncements by Bonn officials on claims to the "lost territories" or Germany's 1937 frontiers in the East; (b) by encouraging the FRG to consider undertaking discussions with the Poles looking toward a definitive understanding, in advance of a German peace treaty, on the ultimate boundary between Poland and a unified Germany; and (c) by supporting any disposition shown by the FRG to modify or by-pass the Hallstein Doctrine insofar as it serves to impede the development of Bonn's relations with East Europe.

3. Cooperate with the FRG and other Western states in ways to increase the differences between the GDR and East Europe and to make the reunification of Germany more acceptable to the latter.

4. Consult with West European states on how relations of the West with East Europe, especially with Poland, can be utilized to build bridges from there on to the Soviet Union.

5. Concert with NATO members on utilizing developing opportunities to bring selected East European states into a feasible working relationship with certain multilateral organizations.

6. Seek in NATO a closer coordination of trade and credit policies toward East Europe.

7. Begin a systematic exchange of views with the EEC Commission on East-West relations.

8. Explore the possibilities of quadripartite consultations on policies toward East Europe and of periodic meetings of Western officials responsible for dealing with East Europe.

9. Explore the suggestion made by West Berlin's Governing Mayor Willy Brandt in a New York City speech in June 1964, when he declared that the West should propose "common projects" to the peoples of East Europe, such as joint construction of continental highways, waterways, etc.

III. Actions in Multilateral Organizations

We should make more active use of specialized multilateral organizations to influence the evolution of East European countries and to enlarge the area of peaceful engagement between them and the West. Individual East European countries are becoming increasingly interested in full membership, partial membership, or observer status in multilateral organizations composed wholly or almost wholly of non-Communist countries. They are also likely to seek various types of links with the supranational European Communities.

We should seek to utilize this interest, examining each opportunity on a case-by-case basis and responding appropriately to specific overtures from East European countries. We must balance the risk that entry of East European countries could dilute the operational effectiveness of the organization concerned against the gain in advancing our goal of reassociation of the East European countries with the West.

Action recommendations on specific organizations follow.

A. Where the US is a Member

1. The IMF and the World Bank (Tab J)

When political conditions are evolving favorably, we should be prepared to support the application of an individual East European country for membership in the IMF. The condition should be that the East European country is prepared to meet the basic requirements for membership. To join the Fund an East European country would have to commit itself to moves leading to nondiscrimination in payments and trade and thus to greater multilateralism in its external economic relations. It would also have to furnish financial and economic information, consult the Fund in certain financial matters, and accept Fund missions to study its exchange system and general economic and financial position.

Carrying out these responsibilities would inevitably lead to a more decentralized and market-oriented economy and a more open society. By the same token a willingness to accept such responsibilities would signify a far-reaching commitment toward political evolution.

Under these circumstances, we would expect that there would be support and understanding in the Congress and among the US public for broadening our relations with an individual Communist country, including specifically US support for its membership in the Fund.

Membership in the Fund is a requirement for, and is usually followed by, membership in the International Bank and the International Development Association.

(The above discussion pertains only to countries of East Europe and not to the Soviet Union. The Treasury Department has dissenting views which are contained in the Annex to Tab J.)

2. GATT (Tab K)

We should adopt a positive attitude toward expressions of interest by East European countries in closer relations with the GATT. The GATT is not designed to deal with trade between market economies and centrally-directed Communist economies. Nevertheless, it is a flexible instrument, which could be modified to cover special circumstances without necessarily diluting its basic purposes. As the volume of trade with East Europe expands, the GATT can be useful as a means of developing new forms of multilateral arrangements to replace the existing bilateral framework of East Europe's trade.

In each case, we should consider the possibility of using an East European country's interest in the GATT as a means of encouraging that country to conform to GATT rules and standards on an evolutionary basis. We could consider a variety of possibilities ranging from limited association with the GATT to full accession. Any of these possibilities could encourage useful forms of East European association with the West.

3. The OECD (Tab L)

The OECD should not be diverted from its essential role in coordinating the economic policies of the more highly industrial countries of the Free World.

Nevertheless, the organization could also be a forum for regular but specialized consultations with individual East European countries and the US should encourage utilization of such opportunities. Consultation initially would have to be limited to technical matters, such as standards for the sale of agricultural products. Eventually, useful possibilities might open up in broader and more significant fields, such as trade, credit and aid relations.

4. The ECE (Tab L)

The Economic Commission for Europe is useful to us as a convenient and regular point of contact with the USSR and the East European countries. The diverse representation - the European Communist countries, the neutrals, the European NATO countries and the US - makes the organization cumbersome for working out broad policy positions but also makes it unique.

We should make active use of the ECE for technical contacts with East European countries and explore its potentialities as an idea forum and as an instrument for the clarification of policy.

We should also seek authority and money for an extensive program of ECE study tours in the US. These tours provide useful opportunities for the exchange of ideas and for bringing Europeans to the US in East-West multinational groups.

5. ICAO

5. ICAO (Tab D)

Poland, Czechoslovakia and Yugoslavia are already members of the International Civil Aviation Organization. Should other individual East European countries seek membership in ICAO, we should support their applications, assuming political conditions are developing favorably. (The USSR is not expected to desire to join ICAO because of the over-flight obligations such membership entails.)

B. In Exclusively European Organizations

1. The EEC and EURATOM (Tab L)

We should:

a. Encourage the EEC to expand its informal contacts in Brussels with the USSR and the East European countries.

b. Urge the EEC to establish economic and trade missions in East European capitals on the pattern set by the German Federal Republic commercial missions.

c. Explore with the German Federal Republic, and as appropriate with the EEC, the possibilities for an exchange of diplomatic missions between the EEC and individual East European states.

d. Examine the possibilities for an exchange of information and technology with individual East European countries in the field of peaceful uses of nuclear energy via the EURATOM channel, bearing in mind the possibility that such steps would eventually lead to a US-Soviet-EURATOM effort in this area.

2. The Council of Europe (Tab L)

This Western European organization is an excellent vehicle for experimenting with new though limited ways of expanding relations with individual East European states.

We should:

a. Urge the Secretary General to invite individual East European countries to participate in specialized activities of the Council, including such fields as highway safety, patent conventions and customs procedures.

b. Support such an initiative with the member governments of the Council.

c. Encourage the Council to admit Finland and examine closely the implications of membership for Yugoslavia.

d. Consider with the member governments the possibilities of offering a form of associate membership to an East European country where events seem to be moving most favorably--possibly Rumania--provided the country can meet the basic standards.

3. The Danube Commission and the Rhine-Main-Danube River Complex (Tab L)

We should:

a. Support the FRG interest in membership in the Danube Commission. In effect this will require that we drop our opposition to the Commission and its present terms of reference.

b. Encourage West European governments to consider East-West cooperation in the Rhine-Main-Danube River Complex generally and the prospective trans-European waterway that it will eventually encompass.

IV. Country Initiatives.

The principal features of the attached country programs are:

1. Albania (Tab M)

Albania presents the most unpromising situation of any East European state.

The only immediately practical move is to relax restrictions on the travel of Americans to Albania. When and if there is any possibility, we should try to open a channel of communication to the Albanians.

2. Bulgaria (Tab N)

In spite of setbacks and difficulties since the Georgiev spy case at the end of 1963, there are some signs of movement at the present time.

We should continue efforts to improve the atmosphere and content of bilateral relations through efforts to negotiate a consular convention, the encouragement of trade, with credit contingent on political amelioration, and the expansion of cultural exchanges and the exchange of visits.

3. Czechoslovakia (Tab O)

Czechoslovakia may provide us one of our more attractive opportunities but a broad advance in our relations depends upon signing an economic and financial agreement.

We should decide, as soon as prospects for an East-West Trade Act are clarified, whether to proceed with the economic and financial agreement already initialed or to reopen the negotiations with the Czechs looking toward a larger amount of compensation for US claimants. Measures should be taken to encourage trade, cultural exchanges and exchanges of visits as opportunities appear. The negotiation of a consular convention should be undertaken at an early date.

4. Hungary

4. Hungary (Tab P)

New possibilities are opening up in Hungary. The first requisite is to move forward in the normalization of our relations by discussions to resolve outstanding economic, financial, consular and other problems.

5. Poland (Tab Q)

The most immediate step is to conclude the consular convention now in process of negotiation. The reciprocal establishment of consulates should follow. We should advance further in putting our economic relations with Poland on a purely commercial basis, expand our trade, and broaden our cultural exchanges.

6. Rumania (Tab R)

Our proposals are principally concerned with measures to follow up and consolidate the results of the negotiations of 1964 with the Rumanians, which significantly extended Rumanian relations with the US and helped to enlarge the basis of Rumanian independence. If we are to continue this forward movement it will be necessary soon to be able to accord Rumania most-favored-nation tariff treatment.

7. Yugoslavia (Tab S)

Of most importance are: (1) US action to permit sales of military spare parts from Government stocks to Yugoslavia; (2) the continuation of PL 480 and EXIM Bank programs so long as these may be necessary; (3) exchanges of high-level visits; and (4) the implementation of the Fulbright agreement concluded in November 1964.

8. Soviet Union (Tab T)

While the Soviet Union is not formally a part of East Europe we include a program for it since movement there is related to movement in East Europe.

Proposed steps in this bilateral program include: ratification of the consular convention, reciprocal establishment of consulates, signing and implementation of the civil air agreement, exchanges of military visits, cooperation in desalination, implementation and expansion of the cooperative program in outer space activities, improvement of seismic data exchange, negotiations on outstanding economic issues, and expansion and improvement of exchanges as a whole.

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NLJ 97-204

By iw, NARA Date 9-24-98

III. Actions in Multilateral Organizations

We should make more active use of specialized multilateral organizations to influence the evolution of East European countries and to enlarge the area of peaceful engagement between them and the West. Individual East European countries are becoming increasingly interested in full membership, partial membership, or observer status in multilateral organizations composed wholly or almost wholly of non-Communist countries. They are also likely to seek various types of links with the supranational European Communities.

We should seek to utilize this interest, examining each opportunity on a case-by-case basis and responding appropriately to specific overtures from East European countries. We must balance the risk that entry of East European countries could dilute the operational effectiveness of the organization concerned against the gain in advancing our goal of reassociation of the East European countries with the West.

Action recommendations on specific organizations follow.

A. Where the US is a Member

1. The IMF and the World Bank (Tab J)

When political conditions are evolving favorably, we should be prepared to support the application of an individual East European country for membership in the IMF. The condition should be that the East European country is prepared to meet the basic requirements for membership. To join the Fund an East European country would have to commit itself to moves leading to nondiscrimination in payments and trade and thus to greater multilateralism in its external economic relations. It would also have to furnish financial and economic information, consult the Fund in certain financial matters, and accept Fund missions to study its exchange system and general economic and financial position.

Carrying out these responsibilities would inevitably lead to a more decentralized and market-oriented economy and a more open society. By the same token a willingness to accept such responsibilities would signify a far-reaching commitment toward political evolution.

Under these circumstances, we would expect that there would be support and understanding in the Congress and among the US public for broadening our relations with an individual Communist country, including specifically US support for its membership in the Fund.

Membership in the Fund is a requirement for, and is usually followed by, membership in the International Bank and the International Development Association.

(The above discussion pertains only to countries of East Europe and not to the Soviet Union. The Treasury Department has dissenting views which are contained in the Annex to Tab J.)

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2. GATT

2. GATT (Tab K)

We should adopt a positive attitude toward expressions of interest by East European countries in closer relations with the GATT. The GATT is not designed to deal with trade between market economies and centrally-directed Communist economies. Nevertheless, it is a flexible instrument, which could be modified to cover special circumstances without necessarily diluting its basic purposes. As the volume of trade with East Europe expands, the GATT can be useful as a means of developing new forms of multilateral arrangements to replace the existing bilateral framework of East Europe's trade.

In each case, we should consider the possibility of using an East European country's interest in the GATT as a means of encouraging that country to conform to GATT rules and standards on an evolutionary basis. We could consider a variety of possibilities ranging from limited association with the GATT to full accession. Any of these possibilities could encourage useful forms of East European association with the West.

3. The OECD (Tab L)

The OECD should not be diverted from its essential role in coordinating the economic policies of the more highly industrial countries of the Free World.

Nevertheless, the organization could also be a forum for regular but specialized consultations with individual East European countries and the US should encourage utilization of such opportunities. Consultation initially would have to be limited to technical matters, such as standards for the sale of agricultural products. Eventually, useful possibilities might open up in broader and more significant fields, such as trade, credit and aid relations.

4. The ECE (Tab L)

The Economic Commission for Europe is useful to us as a convenient and regular point of contact with the USSR and the East European countries. The diverse representation - the European Communist countries, the neutrals, the European NATO countries and the US - makes the organization cumbersome for working out broad policy positions but also makes it unique.

We should make active use of the ECE for technical contacts with East European countries and explore its potentialities as an idea forum and as an instrument for the clarification of policy.

We should also seek authority and money for an extensive program of ECE study tours in the US. These tours provide useful opportunities for the exchange of ideas and for bringing Europeans to the US in East-West multinational groups.

5. ICAO

5. ICAO (Tab D)

Poland, Czechoslovakia and Yugoslavia are already members of the International Civil Aviation Organization. Should other individual East European countries seek membership in ICAO, we should support their applications, assuming political conditions are developing favorably. (The USSR is not expected to desire to join ICAO because of the over-flight obligations such membership entails.)

B. In Exclusively European Organizations

1. The EEC and EURATOM (Tab L)

We should:

a. Encourage the EEC to expand its informal contacts in Brussels with the USSR and the East European countries.

b. Urge the EEC to establish economic and trade missions in East European capitals on the pattern set by the German Federal Republic commercial missions.

c. Explore with the German Federal Republic, and as appropriate with the EEC, the possibilities for an exchange of diplomatic missions between the EEC and individual East European states.

d. Examine the possibilities for an exchange of information and technology with individual East European countries in the field of peaceful uses of nuclear energy via the EURATOM channel, bearing in mind the possibility that such steps would eventually lead to a US-Soviet-EURATOM effort in this area.

2. The Council of Europe (Tab L)

This Western European organization is an excellent vehicle for experimenting with new though limited ways of expanding relations with individual East European states.

We should:

a. Urge the Secretary General to invite individual East European countries to participate in specialized activities of the Council, including such fields as highway safety, patent conventions and customs procedures.

b. Support such an initiative with the member governments of the Council.

c. Encourage the Council to admit Finland and examine closely the implications of membership for Yugoslavia.

d. Consider with the member governments the possibilities of offering a form of associate membership to an East European country where events seem to be moving most favorably--possibly Rumania--provided the country can meet the basic standards.

3. The Danube Commission and the Rhine-Main-Danube River Complex (Tab L)

We should:

a. Support the FRG interest in membership in the Danube Commission. In effect this will require that we drop our opposition to the Commission and its present terms of reference.

b. Encourage West European governments to consider East-West cooperation in the Rhine-Main-Danube River Complex generally and the prospective trans-European waterway that it will eventually encompass.

IV. Country Initiatives.

The principal features of the attached country programs are:

1. Albania (Tab M)

Albania presents the most unpromising situation of any East European state.

The only immediately practical move is to relax restrictions on the travel of Americans to Albania. When and if there is any possibility, we should try to open a channel of communication to the Albanians.

2. Bulgaria (Tab N)

In spite of setbacks and difficulties since the Georgiev spy case at the end of 1963, there are some signs of movement at the present time.

We should continue efforts to improve the atmosphere and content of bilateral relations through efforts to negotiate a consular convention, the encouragement of trade, with credit contingent on political amelioration, and the expansion of cultural exchanges and the exchange of visits.

3. Czechoslovakia (Tab O)

Czechoslovakia may provide us one of our more attractive opportunities but a broad advance in our relations depends upon signing an economic and financial agreement.

We should decide, as soon as prospects for an East-West Trade Act are clarified, whether to proceed with the economic and financial agreement already initialed or to reopen the negotiations with the Czechs looking toward a larger amount of compensation for US claimants. Measures should be taken to encourage trade, cultural exchanges and exchanges of visits as opportunities appear. The negotiation of a consular convention should be undertaken at an early date.

4. Hungary

4. Hungary (Tab P)

New possibilities are opening up in Hungary. The first requisite is to move forward in the normalization of our relations by discussions to resolve outstanding economic, financial, consular and other problems.

5. Poland (Tab Q)

The most immediate step is to conclude the consular convention now in process of negotiation. The reciprocal establishment of consulates should follow. We should advance further in putting our economic relations with Poland on a purely commercial basis, expand our trade, and broaden our cultural exchanges.

6. Rumania (Tab R)

Our proposals are principally concerned with measures to follow up and consolidate the results of the negotiations of 1964 with the Rumanians, which significantly extended Rumanian relations with the US and helped to enlarge the basis of Rumanian independence. If we are to continue this forward movement it will be necessary soon to be able to accord Rumania most-favored-nation tariff treatment.

7. Yugoslavia (Tab S)

Of most importance are: (1) US action to permit sales of military spare parts from Government stocks to Yugoslavia; (2) the continuation of PL 480 and EXIM Bank programs so long as these may be necessary; (3) exchanges of high-level visits; and (4) the implementation of the Fulbright agreement concluded in November 1964.

8. Soviet Union (Tab T)

While the Soviet Union is not formally a part of East Europe we include a program for it since movement there is related to movement in East Europe.

Proposed steps in this bilateral program include: ratification of the consular convention, reciprocal establishment of consulates, signing and implementation of the civil air agreement, exchanges of military visits, cooperation in desalination, implementation and expansion of the cooperative program in outer space activities, improvement of seismic data exchange, negotiations on outstanding economic issues, and expansion and improvement of exchanges as a whole.

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TAB ~~E~~ 

TRAVEL CONTROLS

Institution of Controls

On November 12, 1963, the US imposed zones closed to travel for official personnel of the East European Bloc Embassies and Legations in Washington, their UN missions, and their consulates. For the first time with respect to these countries, the US abandoned travel controls for reasons purely of reciprocity, and initiated a system of closed zones for "reasons of national security". The area closed to official personnel of the East European Bloc countries (Bulgaria, Czechoslovakia, Hungary, Poland and Rumania) represents 17.8 percent of the US.

The Department of State opposed the system of closed zones, as it opposes any travel controls going beyond reciprocity. The decision to establish closed zones for East European countries has been justified on grounds that diplomatic and consular personnel from East European countries may act as agents for the Soviets, and that since about 26 percent of the US is closed to travel of Soviet official personnel (in reciprocity for an equal percent of the USSR closed to US official personnel travel), at least key sensitive areas of the US should be declared off limits to official travel of East Europeans as well.

Repercussions

Imposition of travel restrictions by the US came at a time when the situation for US activities in East Europe was improving in most respects, including freedom to travel. We have been generally criticized by the East European countries for acting in our travel restrictions contrary to the trend of relations with each country. Poland has reciprocated by instituting harassing travel controls similar to ours. Czechoslovakia has threatened to follow suit. All these East European countries have complained that we are

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treating them in discriminatory fashion, and that we are treating them on a multilateral (i.e., Warsaw Pact) basis, rather than bilaterally as sovereign states.

Objections

Our objections to the present US system of travel controls are:

1. We doubt that national security is truly enhanced by a system which allows free travel to sensitive areas by all other persons in the US save official personnel of Bloc countries.

2. The controls depart from the principle of reciprocity and put us in a bad light before the world suggesting that we are moving toward an Iron Curtain of our own.

3. The controls lead to retaliatory restrictions impeding the travel of our own diplomatic and attaché representatives in East Europe.

4. Application of controls to all official personnel of East European Bloc countries gives us no flexibility. We must treat each country identically, whereas our relations with individual countries vary widely.

Suggested Action

We should rescind the action closing certain zones of the US to travel by official personnel of Bulgaria, Czechoslovakia, Hungary, Poland and Rumania. Failing this, we should at least allow free travel throughout the US to all their official personnel with the exception of the military attaché personnel, on the assumption they are trained observers and are presumably more of a danger to our national security. For real security protection of sensitive US sites, we should institute closed areas which are locally posted as being off limits to unauthorized personnel. This would effectively bar access to all potential intelligence collectors, not merely to certain official personnel of East European countries.

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TAB B

5

RELATIONS WITH THE SOVIET UNION AND EAST EUROPEAN BLOC
COUNTRIES IN THE INDUSTRIAL PROPERTY AND COPYRIGHT FIELDS

I. Industrial Property (Patents and Trademarks)

A. Background

All of the Soviet Bloc countries, including the USSR, have national patent and trademark laws. US inventors and companies may obtain patents and trademarks in the Bloc countries just as nationals of these countries may obtain patents and trademarks in the US. However, even when there is a foreign-owned patent in a Bloc country, there is a general lack of confidence in the effectiveness of the protection accorded. This is due to the belief that state-owned industries will tend not to respect private patents held by foreigners. It is also due to the general uncertainty with respect to the availability of legal processes for asserting patent rights.

The basic problem, therefore, is how to assure meaningful and worthwhile protection for American inventions patented in the Bloc countries, thus providing a basis for increased trade with these countries both as to patented products and technology.

B. Bilateral Relations

Based on the experience of the US-Rumanian discussions (May 1964), we think the best way to achieve effective protection for US inventions is (a) to get agreement in principle to protect US inventions whether by national patents in a Bloc country or by governmental assurances against copying and re-export and (b) to provide for arbitration of disputes in third countries or by an international tribunal. We could also examine the problem whether US nationals would have access to the courts in Bloc countries for purposes of bringing possible patent infringement cases.

We do not know of any particular problems concerning US trademarks in Bloc countries. Probably an agreement in principle to respect registered trademarks would be sufficient.

Recommendation. The US Government should undertake to reach an agreement or understanding, along the lines of the understanding with Rumania with other Bloc countries, including the USSR, (a) to give effective protection to the industrial property rights and inventions in that country of US

nationals

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nationals, (b) to provide for arbitration of disputes in third countries or by appropriate international tribunals, and (c) to provide for national treatment in the courts of the respective countries on a reciprocal basis.

C. Paris Convention for the Protection of Industrial Property

The Paris Convention--the principal multilateral industrial property convention--(a) guarantees "national treatment" in all member states, (b) establishes certain principles of uniform law, and (c) prescribes the granting of certain special rights (e.g. right of priority whereby a national of Convention country A may establish his filing date in Convention country B on the basis of the earlier filing date in A during a period of twelve months for patents and six months for trademarks). All of the Bloc countries are members of the Paris Convention except the USSR although not all of them have ratified the Lisbon text (1958) of the Convention.

The most significant advantage for US nationals resulting from Soviet adherence to the Paris Convention would be the right of priority. Soviet nationals would of course gain this same right. Beyond this, however, we would like to see the USSR adhere to the Convention, primarily from the point of view of getting them into the family of nations--so to speak--in the industrial property field. Soviet adherence to the Convention would involve their participation in various meetings relating to the Convention and put them under an additional obligation to conform to accepted standards of international practice. In addition, certain US business executives and members of the patent bar believe that US nationals would be more willing to enter into industrial property licensing agreements with Soviet organizations if the Soviet Union were to adhere to the Paris Convention.

Some reservations have been expressed about urging the Soviets to adhere to the Paris Convention. These have to do with whether reliance can be placed on Soviet certifications of filing dates in the USSR for purposes of the right of priority and the scope of their patent claims. We do not feel that these reservations constitute an overriding consideration.

A more important problem arises regarding the recognition of Bloc authors' certificates as the equivalent of patents in relation to the Paris Convention and under the US patent law. (The USSR and most of the other Bloc countries issue either a patent or an author's certificate for an invention. If an author's certificate is issued, the government actually takes title to the invention and remunerates the inventor according to the economic value of the invention as determined

by

by the state. The vast majority of Bloc inventors apply for authors' certificates since they have no practical way of exploiting their inventions on their own in a socialist economy.) The US position is that authors' certificates are not encompassed within the language of the Paris Convention and, therefore, the Convention would have to be revised to cover authors' certificates. Further, as the US patent law now reads, it is questionable whether the right of priority could be granted in the US on the basis of previously-filed Soviet authors' certificates.

We understand that the latest position (November 1964) of the Bloc countries is that authors' certificates should be equated with patents in every respect as regards the Paris Convention. This position undoubtedly represents the thinking of the USSR and other Bloc countries that authors' certificates are a reflection of the socialist economic system the same as patents mirror the free enterprise system. Reportedly the Soviets would adhere to the Paris Convention if the US and other Paris Convention countries would agree to amendments to the Convention which would recognize authors' certificates as the equivalent of patents.

Our basic long-range objective with respect to our relations with the Soviets in the industrial property field for several years has been to get the Soviets to adhere to the Paris Convention. In this connection we have supported Western proposals in the Economic Commission for Europe (ECE) urging all ECE member states (i.e. the USSR) to adhere to the Paris Convention. Actually these proposals have been withdrawn by the West because of Soviet objections in return for which the Soviets withdrew resolutions that were objectionable to the West.

Recommendation. We believe that the US Government should now take the initiative to encourage the Soviet Union to adhere to the Paris Convention. At the same time, as recommended above (I.B.), we should explore the possibility of a US-USSR bilateral agreement or understanding which would relate specifically to industrial property protection. We should also undertake a study of (1) the desirability of amending the Paris Convention for purposes of recognizing an authors' certificate as the equivalent of a patent under the Paris Convention, and (2) the changes in the US patent law that may be necessary in order to implement any amendments of this nature to the Paris Convention.

II. Copyrights (books, music, motion pictures, etc.)

A. Background

Unlike the US patent law, our copyright law does not protect works by foreign nationals unless there is a reciprocal arrangement with the

particular

particular foreign country. This reciprocity can be accomplished either by a bilateral agreement or by adherence to a multilateral convention. Until 1955, when the US adhered to the multilateral Universal Copyright Convention, all of our copyright relations with other countries were established on the basis of bilateral agreements.

B. Bilateral Arrangements

We have bilateral arrangements with Hungary, Poland, and Rumania which are the basis for our copyright relations with these countries. As far as we know, US copyright owners do not, as a general policy, register their works in these countries. Likewise there are only scattered copyright registrations in the US by nationals of Hungary, Poland, and Rumania. We are not aware of any widespread use of the works of Americans in these countries.

C. Multilateral Arrangements

The two principal multilateral conventions are the Universal Copyright Convention (UCC) and the Berne Copyright Convention. The US adheres to the UCC. Czechoslovakia is the only Bloc country that belongs to the UCC. All the others, except the Soviet Union, belong to the Berne Convention.

Czechoslovakia's adherence to the UCC was effective in January 1960 and, as a consequence, all Czechoslovak works which have been published with the correct copyright notice, are automatically protected in the US and vice-versa. We do not know of any problems of consequence in this regard.

As a matter of policy in recent years, the US Government has preferred, unless there are important considerations to the contrary, to establish copyright relations with any government on the basis of adherence to the multilateral UCC. Generally speaking, the preferred basis for the establishment of copyright relations with the USSR, as with other countries, is the UCC. This is so because of the UCC's standards of protection of copyrights, because of the benefit it would bring to authors of other major Western countries as well as to American authors, and because of the greater administrative ease for the US in establishing and implementing our copyright relations under the UCC.

D. Discussion

Our major problem in the copyright field with regard to the Bloc countries is with the Soviet Union with whom we maintain no copyright relations

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relations of any type. As a result, the works of selected American authors and composers are generally used (i.e. copied, translated, or performed) in the Soviet Union without prior permission or payment of royalties. The same situation generally prevails with respect to the use of the works of Soviet authors and composers in the US.

For the past several years various American groups and individuals (authors and publishers) have urged the Soviet Union to establish some type of copyright relations with the US. Over a period of three years (about 1958-61) representatives of the two largest American publishers' groups met with Soviet representatives to explore a proposed private arrangement between the publishers and an official Soviet publishing agency to provide reciprocal book translation and publishing arrangements on an exclusive and royalty basis. Nothing concrete resulted from these discussions. Presently American book publishers are in favor of Soviet adherence to the UCC.

We would also favor the establishment of copyright relations with the Soviet Union on the basis of the UCC. Although we have heard that Soviet authors' groups are in favor of Soviet adherence to the UCC, so far the Soviet Union has taken no steps in this direction. This is probably attributable to their concern that if copyright relations were established, they would suffer an adverse balance of copyright payments. In any case, it is significant that the Soviet Union at the present time accords no copyright protection to the works of any foreign nationals.

In January 1959 at the time of the Mikoyan visit we were prepared to encourage Soviet adherence to the UCC, but, as far as we can ascertain, the subject was not taken up. In all of the recent ECE meetings we have supported a Western proposal to the effect that all ECE member states--meaning specifically the Soviet Union--should consider adherence to the UCC or the Berne Copyright Convention, or both. This proposal as in the case of the patent proposal--has always been withdrawn by the West in "horse trading" with the Soviets concerning East-West proposals.

We have not in recent years directly urged the Soviet Union to adhere to the UCC. This is because of two general objections which have been voiced by various US intelligence and other agencies, such as the National Science Foundation. They believe that Soviet adherence to the UCC would create budgetary problems in that the agency would be required to pay for the use of Soviet materials which it is now using without charge. They also believe that specific requests for permission to use particular Soviet materials might reveal intelligence interests. Nevertheless some of the major intelligence agencies recognize that the interest of the owners of private intellectual properties have to be taken into account and may be paramount in the long run.

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In our view, neither of these objections has merit particularly when viewed against (a) the numerous and valuable property rights of American copyright interests that are now being used free of charge in the Soviet Union, and (b) the fact that particular intelligence interests could undoubtedly be cloaked by having one Government organization (e.g., Library of Congress) coordinate and handle all requests for the use of Soviet materials.

There are certain matters with respect to copyright protection in the Soviet Union about which it would be useful to have more specific information (e.g. what can an American-owner of a Soviet copyright expect in the way of remedies for infringement or breach of contract). However, we believe that American copyright interests generally would not consider such matters are of primary importance. We have the impression, especially from the American book publishers, that their first objective is Soviet adherence to the UCC and then they will be concerned about enforcing their copyright in the Soviet Union.

Recommendation. The US Government should openly urge and encourage the Soviet Union to adhere to the UCC.

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United States and Soviet Bloc Relations
in the Industrial Property and Copyright Fields

<u>Country</u>	<u>Convention of Paris</u> <u>for the Protection</u> <u>of Industrial Property</u>	<u>Universal</u> <u>Copyright</u> <u>Convention</u>	<u>Bilateral</u> <u>Copyright</u> <u>Agreement</u>
United States	x	x	x
USSR			
Bulgaria	x		
Czechoslovakia	x	x	x
Hungary	x		x
Poland	x		x
Rumania	x		x

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SHIPPING

TAB C

6

The Situation

Only Poland among the East European Soviet-oriented countries is now sending its ships to the US. Polish ships are limited to eleven major port areas, they must submit proposed itineraries two weeks in advance, there is an exhaustive search of each vessel outside the three-mile limit, and surveillance at the pier-head by Customs and off the docks by Coast Guard launch. The Polish line has US agents for the North Atlantic and the Gulf, and on its eastbound service operates as a member of the US to Baltic Conference. Westbound to the US it operates independently and charges rates ten percent under conference rates.

The Soviet Merchant Marine (Morflot) has indicated to Moore-McCormack, with which it has had business relationships since the 1930's, that it would like to inaugurate a passenger service to New York. It is possible that Soviet authorities may employ the IMCO Conference in London, March 1965, the object of which is to simplify Government paperwork, which now burdens ocean shipping transactions, to raise the issue of what they consider to be harassing US regulations which impede normal commercial shipping.

The shipping arrangement for the Soviet wheat deal in 1964, which reserved fifty percent of the cargo for US flag ships, was unsatisfactory to the US, our allies and the Soviet Union, and did not satisfy the longshoremen and maritime unions at whose insistence it was made.

It is desirable that all of the commercial trade with East European countries be free of any US cargo preference. Feed grains constitute a special concern because US grain becomes non-competitive when it must move in US flag bulk carriers at twice the rate charged by European flag carriers.

Recommendations

1. That ships of the Soviet Union and the Soviet-oriented countries of East Europe be admitted to an increasing number of US ports. The number of ports could begin with three and be gradually increased to approach the number enjoyed by Poland.

2. That the surveillance on Polish and other East European ships in US ports be partially and gradually relaxed insofar as US security arrangements will permit.

3. That to preclude frustration of our policies by organized labor, the White House and other Executive authorities consult longshoremen and maritime labor groups in advance of action under (1) above, in an effort

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to persuade them that expanded trade in non-strategic items with the Soviet Bloc is in the US interest.

4. That commercial transactions with East European countries be treated scrupulously outside US preferential shipping requirements. Cargo preference regulations imposed at the time of the sale of wheat to the Soviet Union should be withdrawn.

5. That preferential shipping requirements of PR 73-17 should not be applied to Export-Import Bank guarantees of commercial bank credit of five years maturity or less.

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TAB D

2

AVIATION BRIDGES TO EAST EUROPE

The development of air transport services between the US and East Europe and the establishment of broad technical aviation relations will provide an important impetus to increased personal, cultural, commercial, and technical exchanges. The following steps are recommended as means for accomplishing closer aviation relations:

1. Establishment of air transport services. Commerce and tourism between the US and East Europe would be served by the establishment of direct air service.

At present Pan American World Airways serves Belgrade under a permit granted unilaterally by the Yugoslav Government. Both Yugoslavia and Czechoslovakia have recently requested opportunities to discuss reciprocal air transport operations. Although Hungary, Poland, and Rumania may be willing to permit service by US airlines for a time without reciprocal air transport rights, the US should be prepared to negotiate bilateral agreements with each of these countries. The nature of the agreements is still under study. Political considerations at this time rule out air transport service to Albania and are less favorable to any aviation arrangements with Bulgaria than with the other East European countries mentioned above.

2. Exchange of aviation personnel. Visits by US aviation personnel to foreign countries and visits of foreign aviation personnel to the US have in the past proved valuable. Value has come both from the benefits of technical and commercial interchanges and from the increased pro-US orientation. Such exchanges with East Europe would provide the opportunity (1) to impress East European visitors to the US with the advanced state of aviation equipment, techniques, and practices here; (2) to allow US visitors to East European countries to evaluate the equipment, techniques and practices of these nations; and (3) to establish personal contact.

Except for exchange visits by aviation officials between the US and the USSR and the visit of Yugoslav and Czechoslovak officials to the US in December 1964, there have been no opportunities for US and East European aviation officials to exchange visits. Advantage should be taken of opportunities that may arise to arrange such exchanges with the various East European states.

3. Sale of civil aircraft and aviation equipment to East European countries. Past experience with other countries has shown that when aviation officials of those countries had the opportunity to become acquainted with the superiority of US aircraft and aviation equipment such as air navigation aids, the market for such US products was

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greatly

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greatly stimulated. It is expected that a similar result would grow out of expanded knowledge of US aviation products on the part of East European aviation officials.

The sale of civil aircraft and of air navigation aids to one or more of the East European countries would provide hard evidence of the technological and economic superiority of US equipment over USSR equipment now in general use in East Europe. Such sales could also have a beneficial effect on the US balance of payments. Current US policy establishes a general presumption of denial of approval for the export of civil aircraft, other aviation equipment, and technical data to East European countries. Provision has been made, however, for favorable consideration of exports of aircraft and aviation safety equipment where such export is judged to be in accord with US policy objectives. Except to a very limited extent the US has not exported aircraft or aviation equipment to East Europe.

Only Yugoslavia and Poland currently use some US aircraft (DC-3, DC-6B, Convair 240 and 440) in their civil fleets. The introduction of even one modern US transport aircraft, such as the Boeing 727 or DC-9, into the fleet of an East European airline would probably stimulate the desire of all the countries in that area to modernize and standardize their fleets with such aircraft. The use of such US aircraft would in turn require the training of pilots, mechanics, and other aviation personnel in the US, or in their own countries by aviation personnel in the US. Such contacts provide potential for political benefits to the US.

US aviation ground equipment and associated airborne equipment is far advanced over that of the USSR. American instrument landing systems and other electronic gear are desired by at least Yugoslavia, and the US has approved the export to Czechoslovakia of VOR/DME short-distance air navigation equipment although no Czechoslovak request for it has yet been received. Sales of such equipment would point up the technical superiority of the US over the USSR in these fields and encourage the East European countries to look to the US as a supply source for other special needs.

4. Reciprocal tourism. Tourism will help to break down the general isolation of the peoples of East Europe from the US. Since 1960, the East European countries have mounted increasingly intensive campaigns to attract Western tourists, prompted by a desire to earn more foreign exchange to finance growing purchases from Western markets. Aviation service by US carriers to East European points will probably increase the flow of American tourists to those areas, as has already been illustrated by the opening of Pan American Airways service to Yugoslavia. American citizens traveling to East Europe far outnumber, however, East Europeans traveling to the US. The East European countries should be

encouraged

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encouraged, particularly in connection with the establishment of US aviation links with East Europe, to allow more of their citizens to visit the US.

5. Membership in the International Civil Aviation Organization. Poland, Czechoslovakia, and Yugoslavia are parties to the Convention on International Civil Aviation and thus members of the International Civil Aviation Organization (ICAO) established by the Convention. Bulgaria, Hungary, and Rumania could become parties to the Convention only after meeting the requirements of Article 93 which requires the approval of the UN General Assembly and a four-fifths vote of the ICAO Assembly. Politically undesirable consequences could arise if the US were to urge these countries to become parties to the Convention and then have a negative reaction from other nations. Therefore background work with other nations should precede any encouragement to East European countries to become parties to the Convention. Should individual East European countries seek to become parties to the Convention and members of ICAO, we should support their applications, assuming our political relations are developing favorably.

Both the parties to the Convention and the non-parties have information on the technical standards relating to air navigation equipment and other technical standards. For the safety of air transport services into their territory and those abroad by their aircraft, the East European countries should be urged to apply the ICAO standards.

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FACILITATION OF TRAVEL: EXPEDITING VISA PROCEDURE

As the Communist Governments in East Europe move toward relaxation of internal national controls and improvement of their relations with the US, we can expect a substantial expansion of travel by official and non-official persons between those countries and the US. This process is already underway.

It is in the US interest to facilitate greater freedom of movement and increased contacts. Such action is not only consonant with our traditional support of freedom to travel but is also one of the best means whereby we are able to expose East Europeans to the American way of life and thus to exert a more effective influence on opinion and developments in East Europe. This matter takes on added significance in light of the fact that people in East Europe have been largely isolated from the US, so far as travel is concerned, since the end of World War II. At a time when openings are appearing in the Iron Curtain and the travel and entry of Americans to those countries has been made much easier, it is clearly to our advantage to encourage further movement in that direction by the example of our own treatment of temporary visitors to the US. It is of great importance to the furtherance of these objectives that our visa procedures be expeditious to the maximum extent possible within the existing framework of our visa laws and regulations and under appropriate security safeguards.

Substantial numbers of visitors, both official and non-official, from the East European countries are inadmissible under Section 212 (a)(28) of the Act because of membership in or affiliation with Communist organizations. In many cases, of course, such affiliations are the consequence of prolonged Communist rule under which people are in effect compelled to join Communist or Communist-controlled organizations in order to secure their livelihood. Such persons may be granted a visa and admitted temporarily to the US at the discretion of the Attorney General pursuant to a recommendation by the Secretary of State or a consular officer under the provisions of Section 212(d)(3)(A) of the Act. This waiver of inadmissibility procedure, however, normally requires the prior completion of security agency "name" checks by the Department of State in order to ascertain that there are no considerations which indicate that the applicant's temporary admission could be contrary to the national interest.

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The basic and persistent difficulty which exists with regard to the processing of temporary visa applicants is the length of time generally required for the completion of name checks by the security offices and agencies (FBI and CIA) -- a period of two to six weeks. This compares unfavorably in many instances with the time required for official and non-official American travelers to obtain visitors visas to enter the East European countries. The resulting situation places us in a disadvantageous position from a propaganda point of view. It is also an irritant and a source of misunderstanding in our relations with the East European states which, if not mitigated, could hamper progress toward our policy objectives.

In past years, when the flow of visitors from East Europe remained relatively small, the problem, though essentially troublesome, was more manageable. The problem is now becoming increasingly unmanageable. In exceptionally urgent and important cases, the practice has been followed of requesting waivers in advance of the completion of name checks, and this device is still in use. However, this practice becomes unsound in principle when there is resort to it in other than rare emergency circumstances. As the number of important and urgent (as distinguished from emergency) cases increases, the tendency inevitably arises, in the face of travel schedules and reservations, intercessions and pressures from the East European Governments, and considerations of reciprocal treatment, to make more and more frequent requests for waivers in advance of the completed name checks. The Immigration and Naturalization Service is strongly opposed to this tendency, and the Visa Office is properly concerned about having to resort to the practice so frequently.

The most effective way to meet and resolve the persistent problem of prolonged delays in the processing of waiver cases is to reduce drastically the length of time now required to complete the prescribed security name checks on applicants.

It is accordingly proposed:

1. That the Visa Office establish the following designations for the various categories of waiver cases according to priorities of urgency and importance and, that all Offices and Agencies involved undertake such steps as will enable them to meet the following schedules in completing security name checks in such cases:

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- a. SPECIAL. This designation would be used in requesting name checks in all cases which, in the Department of State's judgment, are urgent and important in terms of US foreign policy interests. Arrangements should be made to ensure that the agencies concerned (FBI and CIA) are able to complete the name checks in these cases within THREE DAYS of the dated request by VO for such checks.
- b. ROUTINE. This designation would be used for all other name check requests. The specified period for completion of name checks for this category of cases would be ONE WEEK.

2. That, upon the establishment of these designations and schedules, the Department no longer request waivers of inadmissibility without prior completion of security checks except in those rare emergency circumstances where there are overriding foreign policy considerations of an exceptionally important nature. This limitation would be strictly enforced and exceptions thereto would require explicit request and justification by the Director or his Deputy of the Department of State geographical office concerned and the concurrence of the Director of the Visa Office.

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HUMANITARIAN ASSISTANCE

TAB F

The US can make significant political gains by supplying prompt and effective humanitarian aid to the peoples of East Europe to help them meet:

(a) relief and rehabilitation needs for victims of disaster, famine, and other emergencies;

(b) a continuing need for food and other forms of relief for needy children, expectant mothers and other special groups.

Present legislative restrictions on assistance, particularly on assistance to Communist countries, preclude our taking full advantage of these opportunities for humanitarian aid, and corrective legislation is therefore desirable.

Existing Legislative Authority

1. Relief for Victims of Disasters, Famine and Other Emergencies Resulting from Acts of Nature or of Man, Such As Civil Strife.

- a. Services and supplies under the Foreign Assistance Act. Assistance to disaster victims in East European Communist countries may now be furnished under the Foreign Assistance Act (the "Act") to pay for (i) medical supplies, food, temporary shelter and related short-term relief services (Section 401 of the Act); (ii) ocean freight costs incurred by US voluntary foreign aid agencies in moving similar supplies (Section 216 of the Act); (iii) excess US Government property used by US voluntary agencies for similar short-term relief requirements (Section 607 of the Act).
- b. Services and food supplies financed from PL 480. Donations of surplus foodstuffs may be made under Section 201 of PL 480 to meet disaster relief requirements of people in East European Communist countries. Section 203 of PL 480 authorizes the payment of transportation costs of such commodities to points of entry abroad. (Under Section 201 food may also be donated to be used as compensation for workers on short-term rehabilitation and reconstruction projects under so-called "food-for-work" programs. However opportunities for such programs in East-European Communist countries are likely to be limited because of practical problems of administration.)

Comment. The assistance described above may be furnished under the authorities there cited under Battle Act precedents and similar interpretations of the restrictions in the Foreign Assistance Act on

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"assistance to countries" as well as by wording of Section 201, subject to the following limitations: (i) all such assistance must be furnished directly to the disaster victims by the US Government, by US voluntary agencies or by international bodies such as the International Red Cross but may not be furnished to the victims via the government of the Communist country concerned; and (ii) all such assistance must be restricted to alleviating the suffering and immediate hardship of disaster victims and not constitute a substantial, permanent contribution to the economy of the Communist country concerned. (For example, AID could finance harbor clearing to permit relief supplies to land but not if the purpose is to re-establish facilities for handling exports necessary to finance the country's own relief efforts.)

Under present legislation these limitations cannot be avoided or can be avoided only after Presidential findings, all of which may be difficult or impossible to make, such as those imposed by Section 620(f) of the Foreign Assistance Act. New legislation is desirable to remove these limitations, and such legislation is described below.

2. Continuing Assistance to Needy Persons in East Europe.

Sections 302 and 308 of PL 480 permit the donation of surplus food to nonprofit US voluntary agencies and intergovernmental or international organizations for use in the assistance of needy persons on a longer term basis and in nonprofit school lunch programs outside the US.

As a practical matter there is a history of hostility by the governments of East European countries toward US voluntary agencies. There is also the practical problem of US Government oversight of the operations of voluntary agencies in East European countries. While food assistance could be provided through international organizations, use of such organizations might raise problems of identification of the food with the US, although some extension of the activities of the World Food Program might be possible.

Our authority for further support programs of US voluntary agencies for the relief of certain categories of chronically needy people by payment of ocean freight costs and donations of excess property would be precluded or limited by Section 620(f), the Battle Act and possibly other provisions of the Foreign Assistance Act.

Comment. It is believed that all continuing programs under Section 302 and 308 should be carried out only through US voluntary agencies. Since this is the normal manner for such programs to operate and since the recipient country will be receiving a substantial benefit without having suffered a disaster, it is appropriate to make acceptance of the commodities through a voluntary agency a condition of the program.

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New Legislation

1. Amendment of the Foreign Assistance Act. The draft FY66 foreign assistance authorizing bill as sent to the Congress contains an amendment to the basic Foreign Assistance Act which reduces the restrictions on existing authority to carry out disaster and famine relief in East European Communist countries (and other countries subject to special restrictions under the Foreign Assistance Act).

If the requested authority is obtained, it is anticipated that assistance requiring dollar expenditures could be furnished under the Foreign Assistance Act for the following kinds of programs:

a. During the immediate emergency period (to be defined by legislative history as 60 days), any form of assistance dictated by the needs of the emergency could be met with Foreign Assistance Act contingency funds made available under the supporting assistance authority (Section 401) for the affected people on the same basis for Eastern European Communist countries as for any other country. Thus, the assistance could be furnished directly by US officials, through US or international relief agencies, or through the government of the Communist country.

b. Assistance could be provided for programs to meet some of the short-run rehabilitation requirements (to be defined by legislative history as programs that can be completed within 90 days after plans have been drawn up and funds made available) resulting from the disaster but which cannot be planned for or completed during the immediate emergency period. Such assistance could be provided in the same manner as immediate emergency assistance.

Longer term rehabilitation and reconstruction requirements (which would not otherwise be permissible under either the Foreign Assistance Act or the Battle Act) could be done only on a selective basis under personal authorization of the President through the Foreign Assistance Act Section 614(a) waiver authority. The availability of a Battle Act waiver authority, even if primarily justified for post-emergency situations, would permit the Administration to cover (retroactively if necessary) any assistance which, after evaluation, might turn out to be subject to Battle Act and foreign assistance legislation strictures.

2. Amendment of PL 480. Consideration might be given to seeking legislative authority in the next session of Congress, when PL 480 must be renewed in any event, to use Section 201 of PL 480 for food donation and food-for-work programs for relief of disaster victims through the governments of East European countries, so long as United States identification with the food is assured and United States official personnel have a reasonable opportunity to observe that the food is being used for the relief of the disaster victims.

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TAB G

BRIDGES OF IDEAS

Background

Bridges of ideas have existed between the West and most of the countries of East Europe throughout most of their recorded history. Since their conversion to Catholicism one thousand years ago the peoples of Poland, Czechoslovakia, and Hungary have, for almost all of their history, been a part of the Western cultural and intellectual community. By contrast Bulgaria, due to its conversion to the Eastern Church, its geographical remoteness from the West, its subjugation under the Turks and resultant isolation from the Western political community, has never been considered as a part of the Western cultural and intellectual community. Rumania has been for most of its history a part of two worlds. Claiming descent from the Romans and speaking a Latin tongue, converted to the Eastern Church, at times subjects of the Turks and at other times of the Austro-Hungarian Empire, Rumania has looked at times to the East and at times to the West, and in the process has developed an ability to be a part of two worlds, to play one off against the other, and to take the best from both.

Seen in the light of history, the situation in these four countries today is a continuation of their past, and presents the US with both opportunities and limitations. In Poland, Hungary, and Czechoslovakia, the traditional cultural orientation toward the West was forcibly interrupted by the conquest of the Red Army in 1944/45 and an attempt was made to shift this cultural and intellectual orientation from West to East. These efforts have not been successful; cultures that have been developed over a period of a thousand years cannot be radically changed in twenty. It is therefore in these three countries, where the contacts with the West were cut only during World War II, that we have our greatest opportunities for rebuilding the bridges that have bound them for most of their history to the West. By contrast, in Bulgaria, which has throughout its history looked to the East, and where the bridges to the West were most shaky, our opportunities are

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most limited. And finally in Rumania, a country which has been a part of both East and West, we have today both opportunities and limitations, which challenge our imagination and patience.

Requirements

To build bridges of ideas to East Europe will require the cooperation of the US cultural, academic, and scholarly communities, including among others, universities, foundations, fraternal and professional organizations, scholarly societies, concert artists and impresarios, sports groups, churches, and East European ethnic organizations. The cooperation of these groups may be obtained through a greater effort on the part of the US Government to make these groups aware of the changes which have taken place in East Europe and the possibilities which exist for the US in this area. More funds, both public and private, are sorely needed. It will also call for an effort to change the cold war attitudes of some segments of the US public to allow us to take advantage of the opportunities for influencing developments in East Europe. In short, it will require active support of a policy of cultural and intellectual engagement on the part of the US with the countries of East Europe.

Problem of Balance

It should be noted that the East European countries themselves have been quite active in building their own bridges to the US, but mainly in the fields of science and technology. Poland, Czechoslovakia, Hungary, and Rumania appear to have adopted a policy of encouraging scientific and technical exchanges with the US in order to gain information which they need for the development of their economies. At the same time while actively pursuing scientific and technical exchange opportunities with the US, they have minimized cultural and informational exchanges and have accepted such exchanges only when they have been urged by the US side or when they were negotiated as part of a package deal which provided for a balanced program of exchanges of various types. Poland is a somewhat special case in this respect because during the years 1956-59 when Poland was more open to influences from the West, a number of programs of cultural and informational exchanges were established

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with the US, some of which are still in operation. In recent years, however, the emphasis in all East European countries has been on scientific and technical exchanges. They have assiduously solicited, from all possible US sources, opportunities for their graduate students and senior scholars to study in the US. At present there are more than 200 scientists and technicians from East Europe coming to the US each year to study, lecture, perform research, and attend scientific conferences.

Action Proposals

To achieve a better balance in our exchanges with these countries, it is up to the US to take the initiative in building bridges of ideas which we desire and which their governments prefer to avoid. This can be accomplished by mobilizing all US resources, both public and private, which have a potential for exchanges of people and information with East Europe. The following proposals are suggested:

1. Request each US Government agency with resources for awarding grants and scholarships to foreign citizens to allocate some of its resources for awards to East Europeans in fields of interest to the US.

2. Encourage universities, foundations, and other scholarly or academic institutions, to offer grants and scholarships for East Europeans to visit the US, especially in the humanities, social sciences, and arts.

3. Propose visits to East Europe by cabinet level and other high ranking US Government officials, and return visits to the US by their East European counterparts.

4. Encourage US impresarios to send US performing arts groups and individual artists to East Europe and to receive artists from East Europe in the US.

5. Encourage US sports groups to schedule appearances in East Europe.

6. Encourage US exporters of books, periodicals, newspapers, television and motion picture films, to promote exports to East Europe. The Department of State and USIA should be

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prepared, where necessary, to propose bilateral Informational Media Guaranty Agreements (IMG) with those countries which show an interest in such agreements.

7. Encourage US publishers to enter into joint publishing arrangements with East European publishers to publish US authors in translation abroad and East European authors in translation in the US.

8. Continue to press the East European governments to allow official US Government sponsored cultural and informational activities in their countries in connection with the growth of our official relations especially as economic concessions or aid may be granted them by the US. Such activities might include establishment of US cultural centers and reading rooms, distribution of cultural and scientific bulletins by US diplomatic missions, public sale of a USIA published illustrated monthly "America" magazine, and showing of major USIA exhibits.

9. Continue participation by the US in East European International Trade Fairs.

10. Provide substantial assistance to those East European countries which wish to improve the teaching of English in their schools and universities. Such assistance might take the form of grants for US specialists in training of English language teachers, grants for US teachers of English to teach in East European schools, assistance in preparation of textbooks, manuals, and audio-visual aids, and the use of language laboratories. It could also include the provision for foreign students of English to come to the US for periods of study.

11. Promote wherever possible chairs of American studies in East European universities, to begin at first with lecturers in American literature as has already been done in Poland and Rumania. Where host governments are willing, US assistance should include grants each year for US lecturers, and contributions of books for libraries associated with the chairs.

12. When PL 480 agreements are entered into with East European countries it should be standard procedure to include provisions to enable sums of local currency to be made

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convertible for travel purposes of exchanges and for additional sums in local currency to be available for use in each country for cultural, educational, scientific and artistic purposes.

While we desire to implement as many of these proposals as possible, we should not do so within the framework of a formal cultural agreement as we now have with the Soviet Union. Our experience with the Soviet Union has shown that such agreements tend to severely limit what we can do within a country and get us involved in questions of strict reciprocity. We prefer by far an informal arrangement which gives both us and the other country the flexibility to pursue those exchanges in which each side is interested. This has been the case in Poland where most of the proposals listed above have been realized over the past seven years, without a formal agreement. Poland in fact, should serve as the example of how we should conduct our exchanges with the East European countries.

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TAB H

ARMS CONTROL

AND BRIDGES TO EAST EUROPE

1. The absence of a basic European political settlement, including agreement on the future of Germany, is a vital consideration with respect to efforts "to build bridges across the Gulf which has divided us from East Europe." Arms control and disarmament would constitute an important element of any such settlement. Short of such a settlement, arms control and disarmament can probably make only a limited contribution to specific action programs of building bridges to East Europe.

2. Under existing circumstances, efforts in this field should be focused on:

a. Persuading East European leaders and people of the peaceful purposes and defensive posture of the US and its Allies.

b. Limited steps of a "bridge-building" character within the arms control and disarmament framework.

3. The role of Germany will undoubtedly be of paramount importance in these efforts (although too much should not be hoped for on this score, given present German political dissensions and the impending 1965 elections). Every attempt should be made to involve the FRG directly as much as possible in both areas of action indicated above to avoid the risk of alienating our ally while cultivating the East. In addition, extensive use should continue to be made of the NATO forum for close consultation on East European matters with all our principal allies.

4. With respect to course of action 2a (Western defensive posture), the following tentative elements might be considered:

a. The US should stress that West Germany is an accepted member of the Western European-Atlantic Community and that its defensive posture is guaranteed through its close integration within that Community.

b. The US should stress and give renewed evidences of its sincere interest in arms limitation measures, indicate recognition of a corresponding self-interest on the part of the USSR and the Warsaw Pact nations, and emphasize its intention to persevere in seeking solutions of the many problems in this area.

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c. Since MLF and Allied nuclear strategy are currently an important factor in East-West relations, the US should take pains to explain:

1. The Soviet IREB and MRBM threat to West Europe and the weight of Soviet conventional forces require a mobile, flexible system of response.

2. Its integrated organization, combined with US control, assure non-dissemination of independent nuclear capabilities beyond the present number of nuclear powers.

3. In any event, the US is not pressing any special solution on its European partners.

d. The US may wish to consider further the utility of possible West German reiteration or extension of their pledge not to use force to change its boundaries. Additional steps that might conceivably be taken by the Germans in this connection, and should receive further study, would be the offer of non-aggression pacts to individual East European states, and possibly some sort of declaration of intent vis-a-vis the East incorporating the substance of West Germany's WEU commitment against manufacturing nuclear weapons.

5. With respect to course of action 2b (limited disarmament steps), the following suggestions are submitted:

a. Greater contact should be made with individual East European delegations at the UNGA and the ENDC for exchange of views.

b. Careful and courteous consideration should be given to all proposals, such as the Gomulka Plan, emanating from East Europe. Even where specific proposals may prove to be inadequate, the US should make plain it would welcome such initiatives.

c. Visits by US experts to East European capitals to elaborate US positions should be considered, or possibly even an exchange of visits between arms control specialists.

d. Exchange of pertinent documents and furnishing of appropriate US research studies.

e. Stepped-up public information activities, including placing of articles on US disarmament policy in selected East European magazines.

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6. While the above actions are proceeding, more extensive measures should be studied, ranging up to the possible arms control and disarmament aspects of a general political settlement in Europe. Within this context examination might be made of such possible subsidiary elements as new variations of observation posts, a freeze on nuclear weapons deployment as well as production, and a thinning out of Soviet and NATO forces. Consideration should be given as to how we might promote discussion of the European security problem with the various East European governments. In addition, limited arms control and disarmament measures short of an overall settlement should continue to be studied.

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TAB I

LEGAL FRAMEWORK FOR ECONOMIC RELATIONS
WITH EAST EUROPE

1. Exports from the US. As the negotiations with the Rumanians in 1964 demonstrated, there are no current insuperable legal restraints on exports or credits from the US to East European countries. This change in the legal position is due principally to an interpretation of the Johnson Act and the Battle Act by the Attorney General in an opinion of October 9, 1963 in response to an inquiry from the Department of State. Under the prevailing interpretation, ordinary commercial credits incident to export transactions are not considered "loans" within the meaning of the Johnson Act prohibition. Moreover, the Export-Import Bank may guarantee private commercial credits (when the President determines this to be in the national interest) without running afoul of the prohibitions against assistance contained in the Battle Act.

The Export Control Act permits a degree of flexibility which allows the exportation of a large number of items, including advanced technology of interest to the East European countries. One way to demonstrate a change in relationship with a particular country is to remove the country from "Subgroup A" under the Export Control regulations, thereby bringing the great bulk of products (but not unpublished technology) under general license for export to that country. This procedure, applied earlier to Poland, is being followed with respect to Rumania as a result of the negotiations of last year. As these negotiations showed, it is possible, if the foreign country is willing, to meet the provisions regarding security against reexport by assurances from the foreign government, including provision for verification.

2. Imports. In contrast to the situation concerning exports from the US, the legal impediment to increasing imports from East European countries is one over which the Executive Branch has no control. As section 231 of the Trade Expansion Act now reads, most-favored-nation treatment can be (and has been) granted to Poland and Yugoslavia, but to no other countries of East Europe. Nor, under section 231 and other provisions of the Trade Expansion Act, can the US make a trade agreement with an East European country reducing tariffs on even a limited number of products. Since the difference between the most-favored-nation rate and the Column 2 rate (the Tariff Act of 1930) is very substantial in most cases, this prohibition places a major impediment on increased imports from East Europe. Obviously, given the cash and credit situation of East European countries, a limitation on imports reduces sharply the opportunity for expansion of any kind of trade with the US.

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3. New Legislation. At least two alternatives are open which would remove the problem of tariff discrimination described above. One would be to remove section 231 of the Trade Expansion Act or make the Presidential waiver authority applicable to all countries. The disadvantages of this approach are, first, that this was tried in 1963 and failed; and, second, that it would not provide the authority for concluding bilateral agreements with individual East European countries covering other matters of interest to the US.

Another approach would be a specific authorization by the Congress in an East-West Trade Act. Such an act could recite findings by the Congress that expanded trade with the countries of East Europe is a useful means of advancing our national interests; that regular discussions with individual Communist countries can promote constructive relations with such countries and contribute to international stability; and that there must be discretion for the President to determine when and on what terms to enter into commercial relations with such countries.

The Act would authorize the President to grant most-favored-nation treatment to the products of any country entering into a commercial agreement. Each such agreement would be for a specified duration not to exceed three years and subject to termination on six months notice. (We considered provisions for granting partial most-favored-nation--i.e., on certain products or up to stated quotas--but this was rejected as unduly cumbersome and unnecessary.) The Act would list a number of provisions that might, but need not, be included in such agreements such as protection for industrial property, provision for arbitration or other means of settling disputes, promotion of trade and tourism, improvement in consular relations, and settlement of claims. One of the features of the agreements we have in mind would be a requirement for regular consultation which could cover not only commercial matters but any aspects of relations between the US and the country involved.

The purpose of the legislation would be to provide the opportunity for business-like dealings with the Communist states of East Europe. As an incident of increased commercial opportunities, the Act would provide authority for guarantees by the Export-Import Bank of commercial credits extended by US banks in connection with export transactions. The Act would specifically exclude the Soviet Zone of Germany, as well as the areas of China, Korea, and Viet-Nam under Communist control. The Act would not affect most-favored-nation treatment presently accorded to Yugoslavia under section 231(b) of the Trade Expansion Act. Poland would continue to receive most-favored-nation treatment pursuant to section 231 for twelve months following passage of the Act, but thereafter only if it entered into a bilateral agreement with the US, as provided in the Act.

A draft of an East-West Trade Act in line with the above suggestions is attached.

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A BILL

To promote the foreign policy and security of the United States through limited commercial agreements with Communist countries, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled:

SEC. 101. Short Title

This Act may be cited as the East-West Trade Act of 1965.

SEC. 102. Findings and Statement of Policy

It is the sense of the Congress that

1) increase in peaceful trade and related contacts between the United States and Communist countries is a useful means of advancing the national interest of the United States;

2) in order to increase peaceful trade and related contacts between the United States and Communist countries, and in order to expand foreign market opportunities for products of the United States, there must be market opportunities in the United States for the products of such countries;

3) regular discussions with individual Communist countries concerning commercial and other matters of mutual interest can promote constructive relations with such countries and contribute to international stability; and

4) in order to achieve the purposes of this Act the President must have discretion to determine, on the basis of all aspects of relations between the United States and individual Communist countries, whether the authority granted in this Act shall be exercised.

SEC. 201. Basic Authority

Whenever the President determines that it is in the national interest, he may enter into a commercial agreement with a Communist country, on the basis of a mutual exchange of benefits, and subject to the conditions set forth in the following sections.

SEC. 202

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SEC. 202. Provisions of Commercial Agreements

a) If appropriate to further commercial relations, a commercial agreement entered into pursuant to this Act may provide for any or all of the following:

(i) a statement of intention by the foreign country entering into such agreement of items to be offered for sale in the United States, and a statement of intention by the United States of items to be licensed for export to such foreign country; provided that such statements of intention shall be considered only as guidelines for trade between the United States and the foreign country entering into the agreement, and shall not be limitations on or guarantees of such trade.

(ii) arrangements for the mutual protection of industrial rights and processes.

(iii) arrangements for the settlement of commercial differences and disputes, including, but not limited to, those related to industrial rights and processes, by arbitration in third countries or by appropriate international tribunals.

(iv) arrangements for establishment or expansion of trade and tourist promotion offices on a reciprocal basis, and for facilitation of entry and travel of commercial representatives.

(v) the granting on a reciprocal basis of most-favored-nation treatment with respect to duties or other restrictions on the imports of the products of the United States and the foreign country entering into the agreement.

b) A commercial agreement entered into pursuant to this Act may also, where appropriate, be related to other matters of mutual benefit, such as the settlement of international claims and the improvement of consular relations.

c) A commercial agreement entered into pursuant to this Act shall provide for consultations at regular intervals for the purpose of reviewing the operation of the agreement; renewing, where appropriate, the statements of intention made in accordance with paragraph (1) of subsection (a); and reviewing the over-all relations between the United States and the foreign country entering into the agreement.

SEC. 203

SEC. 203. Duration of Commercial Agreements

a) Any commercial agreement entered into pursuant to this Act shall be limited to an initial period specified in the agreement, which shall be no more than three years from the time the agreement becomes effective.

b) Any commercial agreement entered into pursuant to this Act may, unless sooner terminated, be renewed for additional periods not to exceed three years.

c) Any commercial agreement entered into pursuant to this Act shall provide that it may be terminated at any time by either party upon six months notice in writing.

SEC. 204. Application of Most-Favored-Nation Rates to Imports into the United States

a) Notwithstanding the provisions of any other law, the President may by proclamation extend to the products of any foreign country entering into a commercial agreement pursuant to this Act the benefits of any reduction, elimination or continuance of any existing duty or other import restriction or the continuance of any existing duty-free or excise treatment proclaimed in carrying out any trade agreement under the Trade Expansion Act of 1962, 19 U.S.C. 1801, or under Section 350 of the Tariff Act of 1930, 19 U.S.C. 1351; provided that the application of the reduction, elimination or continuance of any existing duty or other import restriction or the continuance of any existing duty-free or excise treatment shall be limited to the period of effectiveness of any such commercial agreement.

b) Nothing herein shall be deemed to authorize the President to proclaim the modification, reduction or elimination of any existing duty or other import restriction to a rate less than that contained in the column numbered 1 of the Tariff Schedules of the United States.

c) The President may at any time terminate any proclamation made pursuant to this Act.

SEC. 301. Export Guarantees

Notwithstanding the provisions of any other law, the Export-Import Bank of Washington is authorized to guarantee the payment of any obligation hereafter incurred in connection with the purchase of products of the United States by any Communist country (or any agency or national thereof) entering into a commercial agreement pursuant to this Act; provided that any such guarantee of payment shall be on terms commonly encountered in commercial transactions.

SEC. 302

SEC. 302. Transmission of Agreements to Congress

The President shall transmit promptly to each House of Congress a copy of each commercial agreement entered into or renewed under this Act, together with a statement of his reasons for entering into or renewing such agreement.

SEC. 303. Limitation on Authority

The authority conferred by this Act shall not extend to areas dominated or controlled by the Communist regimes of China, North Viet-Nam, North Korea, Cuba, or the Soviet Zone of Germany.

SEC. 304. Relation to Other Laws

a) The benefits of trade agreement concessions extended to any Communist country in accordance with section 231(b) of the Trade Expansion Act of 1962, 19 U.S.C. 1861(b), shall expire twelve months from the date of enactment of this Act, unless at such time there is in effect an agreement between the United States and such country, pursuant to this Act or other authority, providing for reciprocal most-favored-nation treatment with respect to duties or other restrictions on the imports of the products of the United States and such other country.

b) Nothing in this Act shall be deemed to modify or amend the Export Control Act of 1949, as amended (50 U.S.C. App. 2021 et seq.) or the Mutual Defense Assistance Control Act of 1951, as amended (22 U.S.C. 1611 et seq.) and regulations issued thereunder.

c) Headnote 4 for schedule 1, part 5, subpart B of the Tariff Schedules of the United States (77A Stat. 32; 19 U.S.C. 1202) is hereby repealed.

MEMORANDUM FOR THE RECORD
FROM THE ASSISTANT SECRETARY FOR CONGRESSIONAL RELATIONS

We have reviewed the Reply to NSAM 304 and recommend its approval subject to the following comments:

Insofar as substance is concerned, the draft legislation included in Tab I (Legal Framework for Economic Relations with East Europe) raises the following questions:

1. It is a "bare bones" MFN trade bill - nothing more. If Congress exercises its traditional prerogative of watering down Administration sponsored legislation we may be left with less than we can live with. For example, without something to cut away, the Congress could conceivably add crippling amendments which could frustrate our purpose, e.g. an amendment granting MFN only on the condition that the country has free elections within one year, etc.

While I can appreciate the integrity of the bill's content, consideration should be given to the possibility of submitting an omnibus East-West trade bill (i.e. to include such items as humanitarian assistance, specific Ex-Im Bank authorization to guarantee commercial credits, the extended use of zlotys in Poland, etc.) as has been discussed in the Department for some time.

It might therefore be prudent to suggest that the Miller Committee consider this aspect.

2. The Findings and Statement of Policy provision (Sec. 102) begins by stating: "It is the sense of Congress that***." This language is typically used in "sense of Congress" resolutions. It could be confusing and seems rather weak.

We would therefore suggest that it might be changed to read: "The Congress hereby finds and declares that***."

3. The draft legislation refers throughout to "Communist countries." This appellation may also be confusing because it does not accurately define or limit the countries with which we propose to deal (i.e., does it include Communist China, Communist North Korea, and Communist North Vietnam, which we do not recognize diplomatically but which are facts of life?).

We would recommend that the term, wherever used in the legislation, be changed to read "The Soviet Union and East European Countries."

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4. Another problem with the draft which we may have in the Congress is the absence of any qualification of the kinds of goods we want to trade. If we are talking about non-strategic goods, then the term "non-strategic" (or a similar term) might be added wherever applicable. The term "peaceful trade" (despite its use in public speeches as a term of art) may not be understood or may be considered ambiguous by the uninitiated.

Douglas MacArthur II

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NSAM 304

TAB J

THE QUESTION OF EAST EUROPEAN MEMBERSHIP IN IMF AND IBRD*

I. Problem

In the wake of a series of international initiatives aimed at broadening Rumanian contacts with the Free World, the Rumanian authorities have been exploring the possibility of joining the IMF and the IBRD. This raises more broadly the issue of the desirability, from a US or Free World point of view, of membership in these organizations of one or more East European countries or even of all East European countries. This issue has two principal aspects:

1. The potential effect on individual Communist countries of membership in the IMF and the IBRD.
2. The potential effect on the IMF and IBRD of such membership.

Membership in the Fund and the Bank can be counted upon to link East European Communist countries more closely to the multilateral trading systems of the West and thus loosen ties with the Bloc and encourage more independent and open policies. The issue is whether this desirable effect can be achieved without harming other US policy objectives which are carried out through our participation in the Fund and the Bank.

The IMF Articles of Agreement state that the objectives of the organization are to promote a liberal, nondiscriminatory multilateral monetary system. Thus, membership in IMF implies eventual integration into the Western international economy. Membership in IBRD in effect assumes such integration by requiring its members first to be members of IMF. As a practical matter, it must be assumed that a country which becomes a member of IMF will also seek and have to be given membership in IBRD. Similarly, the criteria for IDA membership practically assure an IBRD member of automatic membership in IDA.

It cannot now be definitely stated whether a particular East European country would be admitted as a Part I or Part II member of IDA, although it is likely that it would enter initially as a Part II member. (Part I

members

* This discussion does not apply to the USSR. The Treasury Department's dissenting views concerning the discussion are set forth in the Annex to this paper.

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State Dept. Guidelines
By NARA, Date 12-9-99

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members contribute to IDA capitals resources convertible currencies which can be used to procure goods anywhere in the world, whereas Part II country contributions are comprised 90% of national currencies which can generally be used to procure goods only in the contributing country in each case.) Most relevant here, however, is the fact that as a matter of practice, IDA loans are reserved for the poorer Part II countries--generally those with under \$250 per capita GNP. Over three-quarters of IDA credits have gone to countries with a per capita GNP of under \$100. The East European Communist countries under consideration here, on the other hand, all have per capita GNP's of over \$570, according to CIA data. Hence it would be virtually impossible under existing criteria for such a country to be eligible for IDA loans. In any event, the US would take the position that the GNP of these countries is too high to qualify them as recipients of IDA loans. The US would almost certainly be able to prevent such loans, because IDA resources are limited and subject to control by major donor countries through the weighted voting procedure.

II. Potential Effect on East European Countries of Membership in IMF and IBRD

A. General

Membership in the IMF and IBRD does not per se bring about any desirable transformation in a Communist country. But if a Communist country applies for membership, or stays in the Fund, or seeks to make active use of the Fund's facilities, it subjects itself to pressures to change its economic policies. The history of these organizations is instructive in this regard. Poland, Czechoslovakia, and Yugoslavia were charter members of both organizations. Poland withdrew from both in 1950, Czechoslovakia was expelled in 1954, but Yugoslavia has remained a member and has made active use of the Fund's and IBRD's resources. Cuba, also a charter member, resigned in 1964, and Burma, which is pursuing a socialist internal policy, has indicated that it is thinking of resigning.

In this connection, the case of Yugoslavia is pertinent. Yugoslavia was an inactive member of the Fund until its split with the Communist Bloc occurred. Then, when the Yugoslavs decided to shift from centralized state control over their economy to a system of decentralized administration with the role of the State significantly diminished, they developed excellent relations with, and became more receptive to the advice and suggestions of, the IMF. While it is difficult to pin this down precisely, it appears that the IMF has performed a valuable function in influencing the Yugoslavs to shift their policies. Internally, they have become more market-oriented and more reliant on fiscal and monetary policies rather than direct controls; externally, they have made a substantial beginning in shifting their trade from a bilateral to a multilateral system. Currently, about 25% of the trade of Yugoslavia is on a nondiscriminatory, multilateral basis. In response to suggestions from the IMF to reduce the area of bilateralism and exchange discrimination, the Yugoslavs pointed out that the Western countries with whom they trade regard them somewhat in the nature of a

state

state-trading country and therefore prefer to have bilateral agreements. Thus pressure to maintain bilateral agreements has come from Western countries as much as or more than from the "socialist" character of the Yugoslav economy.

The IMF has had considerable influence on Yugoslavia with respect to improving her exchange rate system, from a multiple-rate system to a unified system. It has had influence in making the Yugoslavs realize the advantages of exposing their internal price structure to external competition, thus aiding in removing distortions. The Bank has been useful in helping the Yugoslavs develop more rational criteria for their investment program as well as an appreciation of the importance of evaluating individual investments in terms of their relative profitability. The Yugoslavs have increased their contacts with the West but still have a considerable way to go before they become fully integrated into the Western multilateral system.

A distinction should be drawn, however, between a Communist country that was a charter member of the Fund and the Bank, such as Yugoslavia, and future applicants for membership. Initial memberships perhaps reflected the wartime atmosphere of the Bretton Woods meetings. The IMF was not then in a position to ask whether member countries really intended to live up to the objectives of the Fund; rather, membership of all countries at Bretton Woods was assumed. Now that the Fund is a going organization, it should require a Communist country applying for membership to give evidence of its willingness and ability to move toward liberal trading principles and multilateral payments.

There is one further point. Communist countries can change their basic policies fairly quickly; thus the fact that a Communist country has joined the Fund and the Bank and has made certain moves toward multilateralism and nondiscrimination does not preclude a return to a bilateral discriminatory system. It may very well be, too, that the Soviets will exercise pressure upon an East European country to prevent necessary cooperation with the Fund and Bank.

B. Obligations of Members of the IMF

The objectives of the IMF are essentially those of a liberal trading system. They seek to eliminate restrictions on foreign trade and payments and to establish a multilateral system of payments in respect to current transactions. They seek to eliminate discrimination in payments. They seek to avoid exchange devaluation and to provide reasonable exchange stability. All these objectives are intended to contribute not only to the expansion of international trade but also to the achievement of high levels of employment and income and the development of productive resources.

The Articles of Agreement contain in Article VIII provisions which amount to legal obligations for member countries. These obligations are:

1. Avoidance

1. Avoidance of restrictions on current payments.
2. Avoidance of discriminatory currency and multiple exchange practices.
3. Convertibility of foreign-held balances acquired as a result of or needed for current transactions.
4. Furnishing of certain information on exchange holdings and controls, international balance of payments position, foreign capital position, prices, national income, etc.

Members are required to consult with the Fund regarding any special or temporary circumstances which prevent them from accepting the full obligations of the Agreement. In particular, Article XIV provides that in the postwar transitional period members might maintain exchange restrictions. Most of the developing countries still rely upon this Article to avoid the full obligations of Article VIII. Fund acceptance of exchange restrictions, however, is conditioned upon its finding that the measures are necessary and their use temporary while the member is seeking to eliminate the need for them. Admission of state-trading countries to membership, accordingly, implies a commitment by the country that it will move to a system of convertibility on current account, at least with other members. The Agreement does not affect the right of members to impose restrictions on exchange transactions with non-members.

Thus, to be admitted as a Fund member, a Communist country would have to be willing to provide the information required by Article VIII and to accept Fund missions to study its exchange system and general economic and financial position. Admission would also imply that a Communist country should be prepared, at least eventually, to abandon bilateral arrangements with other member countries and to convert any balances which another member's monetary authority has acquired from, or needs for, current transactions. Furthermore, the Fund should be convinced that the movement towards multilateralism in financial relations with member countries would not be nullified by bilateral trading practices. Finally, the Fund could require that the Communist country provide assurances that its trading system did not discriminate in favor of other Communist countries.

C. Ability of East European Country to Accept Obligations

It would seem possible for an East European Communist country to agree to provide information and accept Fund missions, particularly since Article VIII itself provides some flexibility in requiring the Fund to take into consideration the varying ability of members to furnish the data requested. The basic question, accordingly, is an East European country's willingness and ability to trade on a multilateral basis with other member countries. This means that both the East European country and its trading

partners

partners belonging to the Fund would allow free use of current earnings for transactions with other members and essentially trade in convertible currencies.

The Fund would also have to consider how far and how fast to go in attempting to modify or eliminate the discrimination inherent in state-trading monopolies, particularly the ability to discriminate in favor of other Communist countries. Obviously, it is possible for such a monopoly to accept the trappings of multilateralism while in fact using its monopoly position to discriminate. Trading with IMF member countries in convertible currencies, however, would go a long way toward eliminating the incentive to discriminate among such countries. On the other hand, it may not be feasible to obtain assurances against discrimination in favor of Communist countries. In the first place, any assurances probably would be too difficult to police. Furthermore, to demand assurances might raise difficult problems with other state-trading members, such as Mali, Guinea, Burma, and the UAR. It might be necessary, accordingly, to confine obligations in this area to the avoidance world-wide of discriminatory currency and multiple exchange practices and the avoidance of bilateralism with member countries.

It is conceivable that an East European country such as Rumania might be willing or even anxious to accept different trading rules for its trade with the Free World. In fact, as claimed by Yugoslavia, both Western and Eastern countries seek bilateral arrangements in their East-West trade, and the balance of advantage so obtained is difficult to determine. Bilateralism is an advantage only if it significantly increases the level or influences favorably the composition of trade. Those East European countries with strong export positions, such as Rumania, might well prefer the greater flexibility and usefulness of multilateral trade. If so, the ability to use earnings to buy wherever desired might either lead to a shift in trading relations towards the Free World or bring pressure upon Communist traders to increase the usefulness of intra-Communist trade. Either result would be desirable in terms of US objectives.

At the same time, it is almost inconceivable that the entire Soviet Bloc could join the Fund, at least in the near future, since it would require dismantling the whole system of state trading in favor of more liberal practices, to say nothing of the profound political implications of such a move. One or two Communist countries could accept IMF obligations for part of their trade while continuing to trade along present lines with countries not members of the IMF. If all East European Communist countries eventually joined, they would by so doing have accepted convertibility and multilateralism for the great bulk of their trade.

III. Effect on the IMF and IBRD

Important US policy objectives are carried out through our participation in the IMF and IBRD/IDA. Concisely stated, these are:

1. To

1. To promote through the IMF a liberal, nondiscriminatory, multi-lateral world monetary system adequate in terms of credit facilities and reserve assets to meet the requirements for liquidity and an effective payments system. We are currently seeking support from other IMF members and legislation from the Congress to increase IMF quotas, including an additional US subscription of \$1,031 million, to further these objectives.

2. To secure, on the basis of US public and private contributions to IBRD and its subsidiary, IDA, contributions from other countries to provide an important fund of development assistance financing in the world.

It is of great importance that membership of Communist countries in IMF, IBRD and IDA not jeopardize the pursuit of these objectives. The following appear to be the most important considerations:

A. Need for Continuing Congressional, Public and Free World Support of the IMF, IBRD and IDA

The US is the principal source of IMF, IBRD and IDA resources. Without continuing Congressional support through appropriations action, the US resources required to enable these institutions to continue to function at present levels and to grow in accordance with the growing needs of the international community will not be available. Similarly, private support by the US public is essential in order to continue the marketing of IBRD and IDA bonds in the US. Particularly with the shift of world financial resources toward Western Europe, the official and private support of IMF, IBRD and IDA activities in these countries is essential for the continued successful functioning of these institutions.

In these circumstances, it is essential that US approval of membership by a Communist country in IMF/IBRD/IDA should have support and understanding from the Congress and the public. We can expect such support and understanding as a result of improved US bilateral relations with the Communist country concerned. In the economic area, for example, we would expect that the policies of the Communist country concerned would have warranted relatively favorable treatment by the US in such areas as export licensing, credit guarantees and the extension of MFN tariff treatment. But a better climate in all our relations--political, economic and consular--would be a necessary condition for US support of an East European country's application for membership in these financial institutions. By the same token, approval of membership for an East European country in these institutions would be an important factor in encouraging further forward movement in its relations with the West.

The support of the other major members of IMF/IBRD/IDA for any application by a Communist country for membership is also necessary. This is recognized in the covering paper on "Policy Considerations," which stresses that coordination among the US and its allies in building relationships with East Europe is essential. As a practical matter, other major Free World countries are considerably more inclined than the US to utilize

trade

trade and financial instruments to increase their influence among Communist countries. Hence, these countries probably would require less stringent conditions for Communist country membership in IMF/IBRD/IDA than the US. In any event, close coordination with them in developing our own position is assumed.

B. Control of IMF/IBRD/IDA Operations

The main issue is whether membership of one or more East European countries in the IMF and IBRD would be disruptive by introducing the cold war into their operations. There are several aspects to this problem.

The day-to-day business of the IMF/IBRD/IDA is conducted by their executive directors. A Communist country by itself, except for the USSR, would not be entitled to an executive directorship. Instead, it would have to choose one of the executive directors who represent more than one country to represent it. Only if the entire Bloc entered would there be one or two executive directors in each institution representing the Bloc as such.

Communist members would of course have independent voices through their Governors at the Annual Meetings. However, these are relatively unimportant in comparison to the Executive Board unless major changes of policy are involved. Any individual Communist country (except for the USSR), however, would have less than one percent of the vote. The weighted voting system would ensure that control of the institutions would remain in the hands of the US and like-minded countries.

It is also possible or probable that membership of East European countries would lead to their nationals being on the staffs of IMF/IBRD/IDA. And, in turn, these nationals might be sent on missions to non-Communist countries. This could create difficulties, but perhaps not as great as the opposite situation would for Communist countries. On balance, there would seem to be more opportunity to impress Easterners with Western thinking and to learn about the functioning of Eastern economies than vice versa.

It is quite possible that a Bloc country would tend to support the less developed countries on many issues, but this is not certain in view of the recent experience at UNCTAD. In the main, the work of the Fund and Bank does not involve "ideological" questions. To the extent that the IMF objectives represent an ideology, the issue would seem already settled, particularly in view of the weighted voting procedure.

A bit of history might be relevant. In 1958, Poland expressed interest in rejoining the Fund. At that time, Per Jacobsson on balance favored Polish membership. While the US opposed Polish membership as premature, it can be concluded that at least Jacobsson did not regard Polish membership as a significant threat to the Fund's operations.

IV. Summary

IV. Summary and Conclusions

1. Membership in the IMF/IBRD/IDA of an East European Communist country would provide an important opportunity to reinforce pre-existing tendencies in that country toward lessening its dependence on the USSR and other Communist countries, reorienting its internal and external economic policies, and developing broader links and associations with Western countries. Dramatic results would not be expected, and the extent of the influence of the Fund and the Bank may not be observable for several years. However, the act of seeking membership by a Communist country aware of the obligations entailed would in itself represent a significant political commitment.

2. The US should not invite a Communist country to seek membership in IMF/IBRD/IDA. A US initiative would restrict our negotiating flexibility. More important, the initiative of an East European country to seek membership would provide useful evidence of its motivation and intentions.

3. If a Communist country should approach the US Government regarding membership, the US should suggest that the country discuss its interest with the management of the IMF and IBRD directly in order to secure full information regarding the rights and obligations of members.

4. If, after the consultation described in the preceding point, a Communist country should again approach the US Government to indicate its desire to become a member of these institutions, the US Government should base its position on the following considerations:

a. Have there been evident tendencies in the applicant country towards lessening its political and economic relationships with countries of the Communist Bloc and towards developing broader links and associations with Western countries?

b. Have US relations and the relations of other Western countries with that country been developing in such a way that we can anticipate further movement toward an open society? Is a lessening of political controls taking place and is there the prospect of further moves toward internal liberalization?

c. Has the Communist country taken steps to reorient its internal and external economic policies away from centralized state control? Will this trend continue? Specifically, can we expect further moves toward nondiscriminatory multilateral trade and acceptance of the principle that the interests of all other Fund members and not only its major trading partners will be recognized?

d. Through our Executive Director on the Fund we should seek assurances that:

i. the

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i. the applicant considers it possible to evolve its trade and financial policies and procedures further so that they would be reasonably consistent with the technical provisions of the Fund and Bank Agreements and supplementary decisions of the Fund and Bank (e.g., on exchange rates, bilateralism, convertibility), and would progressively adjust its policies and procedures in line with these requirements; and

ii. the applicant would provide the economic and financial information required by the Fund and Bank and carry on in good faith consultations with the Fund and Bank of the nature and scope prevailing for other members (e.g., covering internal and external economic developments and policies).

5. Where these considerations would warrant US support of an application for membership, we would expect that there would be support and understanding for this position in the Congress and among the US public. The Administration should, of course, have appropriate consultations with the Congress on this subject.

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TREASURY DEPARTMENT DISSENTING POSITION ON
EAST EUROPEAN MEMBERSHIP IN
INTERNATIONAL FINANCIAL INSTITUTIONS

The Treasury Department disagrees with the proposal in NSAM 304 to include support for East European membership in the IMF and IBRD (and the IBRD's affiliates) among the steps aimed at "building bridges" to the East European countries. It would be realistic in terms of US interest in these institutions to discourage applications and to clearly defer consideration of the possibility of US support until there has been much more experience in trading and financial contacts between Bloc countries and the US and other Free World countries over a period of time and our own bilateral relationships have been seasoned and accepted by Congress and the public.

The situation regarding these Free World financial institutions is entirely different from the situation regarding GATT or other trade issues such as most-favored-nation treatment and PL 480 sales for Poland and Yugoslavia. In the latter we had much to gain and nothing to lose, while on the international financial institutions we have a great deal to lose without corresponding major gains.

We are now in the process of trying to overcome European resistance to a growing role for the IMF in the future development of the international monetary system, both in the form of credit facilities and supplementary reserve assets. Membership of the East Europeans would be an additional hazard to overcome; the West Europeans are already fearful that the Fund will be too political an instrument for these new monetary initiatives.

Membership in IMF for these countries would also mean membership in, and the possibility of assistance from, the Bank and IDA. East European memberships in the Bank and IDA could hurt the Bank's ability to sell bonds and could easily put the IDA out of business. Because of the certainty of strong Congressional opposition we would likely lose the US contribution on which the whole structure of other countries' contributions rests. Thus our major success in the effort to get other countries to join us in providing aid on concessional terms would be thrown away for whatever nebulous benefits might accrue to US-East European relationships. Virtual certainty of specific and lasting gains from East European membership--as opposed to vague impressions that such membership would help an over-all effort--would have to be proved before it would be worthwhile risking the great losses that are certain until such time as East European actions have brought about a change in American public and Congressional opinion.

1. Impairment of Usefulness of Fund and Bank/IDA. This has two aspects: domestic (US public and Congress) and other member countries. In regard to the former, the relatively broad acceptance by the public and by Congress of the role of the Fund and the Bank has rested on the image these Free World institutions have had of being entirely devoted

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to policy goals that parallel US bilateral aims, neither dominated by the LDC's because of the weighted voting arrangement, nor involved in cold war problems because of the absence of Soviet Bloc members. The membership of Yugoslavia is a special situation existing as a result of Yugoslav eligibility at the end of World War II. Even this limited degree of Communist membership in the Fund and Bank is a constant source of friction with and criticism from the Congress, particularly when either institution gives any assistance to Yugoslavia. Admission of additional countries with Communist forms of government would greatly intensify the hostility in Congress which is already plainly evident. Thus present Yugoslav membership in IMF/IBRD provides concrete evidence against expanded Communist membership.

Whatever might be the evolution of public and Congressional attitudes on Communist membership over time, there is no basis for thinking that it is receptive today or as long as present circumstances prevail. One almost inevitable consequence of such membership in the circumstances that now exist would be the success of Congressional efforts to extend to the operations of the IMF and IBRD/IDA restrictive legislative provisions binding the US Government representatives in a variety of ways that would be directly counter to the purposes of admitting any Bloc country, and would also be harmful to carrying out of the purposes of the Fund and Bank for existing members, and to the institutions. Indeed such Congressional action specifically directed against new East European members would be likely to leave us in a worse position with the East Europeans than if nothing had been attempted.

Experience with the IDA bill in 1964 clearly demonstrated that the Soviet Bloc membership issue is an explosive one in Congressional terms. Newspaper reports last year of East European feelers for membership in the IMF and World Bank triggered immediate requests from those charged with managing the IDA bill for categorical denials from both the Fund and the Bank that any membership moves were being contemplated or encouraged. Only these prompt denials, along with assurances from the Secretary of the Treasury, averted an issue on the floor that would have resulted in defeat of the bill. There is no reason to believe that the impact on a bill in the international monetary field would be less severe than on a bill in the international aid field.

As to the reaction of other countries, the Treasury knows of no expression of desire among the major West European countries to open the subject of East Bloc membership at this time. We are at present discussing with the other members of the Group of Ten and with the IMF matters of consummate importance in the field of the international payments mechanism and liquidity. Introduction of a new and fundamental issue into these discussions would be ill timed and could be highly unfortunate in its consequences. The next several years will be critical ones for the evolution of international monetary relations among the Western powers. The marginal and speculative gains, if any, from bridge-building in this specific area are very likely to be outweighed by the disruptive complications to negotiations with our closest allies on matters of highest

importance

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importance to us. Further, those who for other reasons may seek to diminish the role of the IMF will find East European membership a convenient peg on which to hang arguments aimed at the Fund's authority generally.

2. Pending IMF Legislation. The proposed increase in IMF quotas provides a specific illustration of the high stakes involved in including IMF membership in the action program in East Europe. The Treasury believes that a publicly-known effort to support--or even the likelihood of supporting--East European membership in the Fund could be fatal to US legislation to subscribe an additional \$1,031 million for our IMF quota. The very effort to explain such a policy to Congress, even as an abstract principle, would entail the most drastic effects--the merits of the proposal, which we cannot afford to lose, would be overwhelmed in the debate on the membership question. There is every reason to believe that Congressional rejection of the IMF legislation because of essentially a side issue would have serious consequences to the stability of the international economy. Finally, attempting to convince Congress now and failing would leave the Administration in a worse position than before as regards a further effort at some future time when conditions may have changed.

It is simply not enough to say that "we must count on the reasons for our decision being strong enough to persuade the Congress to continue to take enlightened action regarding US participation in IMF/IBRD." Once Congressional opinion has demonstrably become receptive to bridge-building in the international institutions, it will then be timely to contemplate such actions. At present, the situation is demonstrably the other way, and taking the gamble of persuasion is courting disaster for legislation of the highest national importance.

3. Claimed advantages of membership. Apart from the suggestion that IMF membership would entail a greater flow of information about Bloc economies, much emphasis is given to the thought that IMF membership would spur Bloc countries to trade on a multilateral basis with settlement in convertible currencies. This viewpoint ignores the fact that bilateralism is by no means confined to or encouraged only by the Soviet Bloc countries. Individual Bloc countries already have it in their power to trade multilaterally with the West; where such trade is bilaterally balanced, it is frequently because of the preferences of Western trading partners. Settlements of balances under trading agreements are already made in convertible currencies, and direct purchases are made with standard bank credit facilities or in Western currencies obtained in recent years largely through sales of gold. Thus there is little that would represent a unique advantage of IMF membership in terms of better trading relations between East and West.

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Conclusion

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Conclusion. It is entirely consistent to support the bridge-building effort generally--as a bilateral and experimental effort--and to oppose its application for the present to the particular area of the international financial institutions.

Because of the sensitivity to controversy of US support for them, involvement of the IMF and IBRD in this exercise should come only after the other aspects of the program have proved their success and brought about a major shift in the climate of opinion as reflected in Congress.

Major legislation--the IMF increase in quotas, IBRD legislation, IDA appropriations running over the next three years, and next year's effort for further replenishment of IDA--stands in serious jeopardy if the temper of Congress is misjudged, and existing legislation may be subjected to Congressional restrictions which would seriously hamper our day-to-day participation in these institutions.

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NSAM 304

TAB R

THE GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT)

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Problem

In building bridges of increased trade with countries of East Europe, the US could make use of the GATT. Courses of action open to the US would derive from answers to two main questions:

1. Should the US encourage accession to the GATT by countries of East Europe? If so, which countries and on what basis?
2. Should the US take initiatives toward modifying the GATT so as to make accession by Communist countries more meaningful in trade terms?

Present Situation

The GATT is an instrument to assure multilateral and non-discriminatory trade among countries with predominantly free-market economies. The General Agreement has undergone, and is undergoing, certain modifications to make it responsive to the special needs of less-developed countries. It has never been designed or modified so as to apply to trade between free-market economies and centrally-planned, Communist economies. It does contain some rules and standards for the conduct of state trading (Articles II, XVII and other provisions). These rules, however, were designed only for state trading enterprises operating in the setting of a free-market economy (e.g. tobacco and match monopolies).

Association under the GATT is flexible, nevertheless, and the Contracting Parties as a group have the following relationships with specific Communist countries at present:

Czechoslovakia remains a contracting party, having acceded before the Communist take-over. However, it plays only a subdued role in GATT activities. The US, with the formal concurrence of the Contracting Parties, renounced its GATT obligations toward Czechoslovakia some dozen years ago.

Yugoslavia was granted provisional accession in November 1962, and on conclusion of its tariff negotiations it may become a contracting party. Yugoslavia has radically changed its trading system from the standard Communist model. It has abolished its state-trading monopolies, and market forces now play a major role in determining

Yugoslavia's

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NSC Memo, 1/30/95, State Dept. Guidelines
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Yugoslavia's foreign trade pattern. The US played a key role in bringing about Yugoslavia's provisional accession.

Poland has a special relationship (governed by a Declaration of the CP's in November 1959) which permits participation in the work of the GATT with only a nominal assumption of rights and obligations. In essence, Poland is an observer with the right to speak. Since mid-1963, Poland has been actively seeking a closer relationship, and ultimately accession. At present, Poland is proposing a basis for its participation in the Kennedy Round. Some practical basis appears feasible, but this participation is not yet assured. Again, the US is showing a more active interest than other key Western CP's in developing Poland's association with the GATT. While the West European countries generally agree that such association is politically desirable, they are hesitating on grounds of trade policy.

Rumania made tentative inquiries in June 1964 about associating itself with the GATT, but has not yet followed up.

Cuba, like Czechoslovakia, retains its status as a contracting party. The US has taken no formal action to obtain release from its GATT obligations toward Cuba, but can justify its trade embargo under Article XXI(b) on the basis of national and hemispheric security needs.

The USSR and Communist China have shown no interest in participating in the GATT. A Soviet spokesman in Geneva recently characterized the GATT's provisions as "inappropriate" to the Soviet system.

The Problem of East-West Trade Relations in the United Nations

It should be noted in passing that the GATT is not the only forum available to East and West for the purpose of working out multilaterally a set of standards to facilitate trade between countries with "different economic systems." This has been a subject of perennial discussion in the UN, notably in the ECE. The GATT is not a Specialized Agency of the UN.

For many years, the USSR has cited the absence of rules for East-West trade as one justification for establishing a UN International Trade Organization (ITO) of a type unacceptable to the US.

In the ECE, we are currently participating, at a controlled pace and at the level of governmental experts, in a joint East-West study

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of problems of reciprocity in East-West trade relations. The next meeting of experts is scheduled for late 1964.

In the UNCTAD, the Soviets did not press as hard as originally expected on issues of East-West trade. However, the UNCTAD did resolve that efforts to remove administrative, economic and trade-policy obstacles to such trade should be continued "in whatever available forums", including the post-UNCTAD machinery.

Arguments "pro"

The principal broad arguments for bringing suitable East European countries under the GATT are as follows:

Accession, under whatever set of conditions, should facilitate the development of their trade with Western countries, thus lessening their economic dependence upon the Soviet Union.

Application of the GATT rules, whether modified or not, should influence the East European countries toward adopting more multilateral methods in their trade with the CP's. By freeing them from the necessity of bilateralism in their trade outside the Soviet Bloc, the GATT could increase their freedom of choice in developing their trade. If the CP's are willing, the move away from bilateralism could be gradual.

Concomitantly, Western influence through the GATT might encourage internal evolution within the East European countries toward economies which would be less centrally controlled and more open to direct contacts with Western businessmen. (The GATT may have played only a minor causative role in the dramatic changes in Yugoslavia's economic system--but Yugoslavia's provisional accession was closely associated with these changes. Poland has heretofore encountered long delays in its dealings with the CP's, in part because it has shown no concrete evidence of intention to modify its trading system. However, the Polish representative in Geneva who is now trying to arrange for Polish participation in the Kennedy Round has indicated--though in very general terms--that Poland is persisting because it wishes to achieve a completely new status for its trade with the West, which could be associated with evolutionary changes in the internal planning system.)

Finally, if the CP's should bring in a significant number of Communist countries under the GATT, a better claim could be made that the GATT is adaptable and capable of serving as the primary vehicle for dealing with almost all international trade problems, as well as trade

negotiations

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negotiations. This would lessen the force of arguments for a more universal organization such as an ITO, or for giving the post-UNCTAD machinery an undesirable regulatory role.

Arguments "con"

One of the main basic arguments against allowing accession by Communist countries is that this could dilute the value of the GATT, which has well served Western commercial policy objectives, and particularly those of the US. It is not simply that the GATT would be opened up as another forum for the pursuit of various Communist objectives. The argument goes to the substance of the GATT,

If Communist countries should be permitted to accede without significant changes in the General Agreement or in their trade policies, they might gain all the advantages while escaping many of the obligations, in fact if not in form. Many of the GATT rules would have little meaning if applied to a closed, state-run Communist economy, while compliance with other rules (e.g. on dumping and on permissible retaliation) would be difficult to police. Thus, the new Communist CP's might get away with providing little more than additional quantitative import commitments to the other CP's as a group.

On the other hand, if a complete set of new rules should be added to the GATT to provide special standards for Communist countries to observe, this might weaken the credibility of the central core of GATT rights and obligations as something which offers real advantages. The more special arrangements are introduced, the more discrimination gets built into the GATT.

If the supplementary rules should go too far in facilitating accession by Communist countries, the West might find itself faced prematurely with the issue of accession by the entire Communist Bloc (instead of by individual East European countries whose accession would be politically acceptable).

Furthermore, once certain Communist countries had acceded and the US had assumed obligations of non-discrimination toward them, these obligations might limit our flexibility in pursuing our policy of differentiating among them in accordance with their behavior and with our political objectives toward each of them. This may not be a real problem, but does call for careful consideration of all obligations we would be taking on.

Problems

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Problems Involved in Moves to Encourage Association

Limited moves for association, such as the 1959 formula for Poland, would raise no major problems. But they would hardly be adequate to make the GATT serve as a significant instrument of policy in this field.

It may be possible to devise more extensive forums of participation for Communist countries short of full accession. Poland, for example, is trying to arrange for participation in the Kennedy Round without raising all the problems posed by compliance with each article of the GATT. This may postpone some of the technical problems of accession to the GATT in its present form, but many of the key problems are unavoidably connected with trade negotiations--as shown by questions raised by CP's in the existing GATT working group on Poland.

Ultimately, it does seem desirable for the GATT to include some special standards for state-trading countries with centrally-planned systems to observe. To formulate such standards and get them accepted will be a major technical problem. Many such codes have been tentatively drawn up, but there is no really satisfactory set of rules readily available. It has been difficult enough to devise such rules with the sole objective of achieving reasonable reciprocity in an exchange of rights and obligations. The task will be even more complex if we include the objective of encouraging evolutionary changes in Communist systems within the realm of what is politically feasible. In envisaging special obligations for state-trading countries, furthermore, we should probably also examine whether they should be balanced by special obligations for market-economy CP's to observe vis-a-vis state-trading countries. The latter might replace some of the standard obligations which market-economy CP's assume toward each other.

If the US should decide that such a course of action would serve its interests, we may anticipate a major problem of hesitation and perhaps resistance by key CP's. The very Western countries which have developed the greatest volume of East-West trade (i.e. the UK, and the EEC countries) appear to be convinced that bilateralism is the safest way to develop such trade. They would need convincing that, just as in free-world trade, a multilateral solution would ultimately serve their economic interests. In the short run, the EEC will present a special problem, since it is still in the early stages of developing a common policy of trade with the East. This may cause the EEC countries to be particularly hesitant about new GATT formulae. Yet the GATT's influence might be used to discourage the EEC from developing any new forms of trade discrimination in this field. In any event, as in the cases of Yugoslavia and Poland, the US would undoubtedly have to lead any general move involving Communist association with the GATT.

Conclusions

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Conclusions

It appears best to plan a course of action in this field on an experimental and pragmatic basis--and not with an a priori program for accommodating the General Agreement to the special problems of trade with Communist countries.

We should pursue the question as we have begun to do in the case of Poland, limiting our objectives selectively to those Eastern European countries where conditions are favorable, and striving for a multilateral influence upon them to modify their foreign trade systems along lines more compatible with the GATT.

Thus, when such countries show an interest in acceding to the GATT, we should induce them to observe existing GATT rules to the fullest extent feasible, while gradually developing separate standards for them in cases where this is necessary. We should anticipate that this will be a fairly lengthy process--long enough to keep appropriate pace with evolutionary changes which may take place in these countries.

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TAB L

RELATIONS WITH EAST EUROPE THROUGH EUROPEAN ORGANIZATIONS

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In considering possibilities for multilateral bridge-building toward East Europe, it would be well to have in mind at the outset several policy or doctrinal guidelines.

In the first place, there would appear to be every advantage in dealing with the East European states individually rather than as a collective bloc. Thus except for multilateral organizations in the UN family or special purpose organizations, such as the Danube River Commission, East European multilateral participation should probably be avoided. We should seek to encourage centrifugal - nationalist - forces in the East not Soviet imposed centripetal forces. Furthermore, experience in the UN bodies tends to indicate that the multilateral organization of East-West relations produces the lowest common denominator of Eastern positions.

In the second place, we should be quite clear in our own minds that the raison d'etre of the Atlantic Organizations is to build Western unity and strength. If organizations such as NATO and the OECD have utility in the world order of things, it is precisely because their member countries share important fundamental interests and are thus able to work closely together. There is nothing to be gained, at least for the foreseeable future, in diluting them into bastard UNs. Their role vis-a-vis East Europe, except possibly for minor technical activities, is and must remain as bodies in which the West coordinates its approaches to the new possibilities opening in the East.

Third, what is really needed for an effective Western multilateral effort is increased authority for the US Executive Branch to deal with East-West matters, particularly trade, on as flexible basis as do our Western allies. With such authority chances for constructing a common Western approach permitting maximum exploitation of new opportunities in East Europe would be greatly enhanced.

It follows from these considerations that unless we are to destroy their effectiveness, the OECD and NATO must be kept as fundamentally Western groups.

The European Regional Organization with the greatest potential for multilateral relations with the East is the ECE. Here, however, new emphasis should probably be concentrated on visitor exchange

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programs rather than on trade which can be handled more satisfactorily from our point of view in the GATT.

Another possibility for multilateral progress in the ECE might be in the coordination of European energy policies; it might be possible, for example to arrange for more interchange of power through high-tension transmission lines or for West European linkage to crude oil and natural gas pipelines from the East. Such action does not appear feasible at this time because of the sensitive nature of the political problem on power exchanges between the FRG and GDR and of the economic and strategic factors involved in the sales of oil and gas by the Bloc and in the distribution through pipelines.

Somewhat comparable are the possibilities of cooperation, perhaps on a reciprocal East-West basis in the Danube and Rhine River Commissions given the prospective linkage of these two major European waterways via the Rhine-Main-Danube Canal.

Inevitably, the European Economic Community, as it establishes its common commercial policy, will consolidate West European trade relations with the East. The Common Market will exert a magnetic effect on the individual European states which will rightly view it as a potentially rich source of the credits and markets which they need for their own economic development. It will be in our interest to work closely with the EEC in developing a coordinated Western approach toward the furtherance of trade relations with the state trading countries. For the purpose of coordinating our policies we can make arrangements with the EEC Commission for a systematic exchange of views on East-West relationships.

The Council of Europe is probably the European institution best fitted for the promotion of ideas regarding a general European reconciliation which might be attractive to the peoples of East Europe. Since Council of Europe members must subscribe to the basic Western concepts of democratic government and respect for individual human liberties, immediate membership for East European states is out of the question. The long-run perspective of such membership, however, should be held out and in the meantime the Communist countries should be encouraged to participate in the technical work of the Council in such areas as protection of industrial property and standardized European safety measures.

Against this conceptual framework of the possibilities, further factual discussions and some action proposals are developed below.

NATO

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NATO

Without prejudice to a pluralistic approach to US relations with East Europe, we should always bear in mind the desirability and indeed the essentiality of meaningful consultation on East-West problems in NATO with the object of arriving at as close as possible to an agreed common approach, without of course compromising the basic US position.

The OECD

We view the OECD essentially as an Atlantic organization. With the inclusion of Japan, it has become a forum for the more highly industrialized countries of the Free World. It is still far removed from having reached its full potential. A further strengthening of the consultative process among its members, who share strong common interests, is our objective.

Enlargement of the Organization to include East European participation would dilute its effectiveness and destroy any hope for achieving maximum frankness and intimacy in the consultative process.

Action suggestions:

1. While we see no immediate prospect of extending OECD consultation to include trade, credit, and aid relations with East Europe, this possibility should be kept under review. To the extent that such consultations could be carried out without political overtones, presently unpalatable to its "neutral" members (Sweden, Austria, Switzerland and Ireland) useful possibilities may evolve.

2. There are, however, some opportunities for East European countries to adhere to highly technical OECD regulations, such as standards for sale of agricultural products, in which these countries have an interest. Poland has recently indicated such interest in an OECD standard arrangement and will probably be admitted to participate. These arrangements provide some opportunity for regular association between OECD member countries and East Europe without opening up troublesome political and consultative problems.

The EEC and EURATOM

Relations between the European Economic Community (EEC) and East Europe are at the stage of a flirtation which may without outside encouragement become a serious affair. Here is where matters stand:

1. The EEC

1. The EEC is proposing an acceleration of steps to fold bilateral trade agreements between member countries and East European countries, including the USSR, into a common commercial policy by January 1966 rather than 1970 as called for by the Treaty of Rome. At present, the Commission, pursuant to the Treaty requires that member countries (a) consult with the Council prior to opening negotiations, (b) inform the Commission of agreements concluded and (c) if the agreement is to continue beyond December 31, 1965, include an EEC clause or a one-year cancellation clause.

The EEC, especially Commissioner Jean Rey (the actual if not titular Foreign Minister), has all but formally invited the USSR to extend diplomatic recognition and exchange missions. There is no serious political problem here, inasmuch as all Six enjoy diplomatic relations with the USSR. The East Europeans present a problem, however, in that the German Federal Republic will not, of course, enter into a full diplomatic relationship with governments (other than the USSR) which recognize the East German regime. This policy, the Hallstein Doctrine, is now being applied with a flexibility that would have been unimaginable two years ago. The most recent concrete example is the establishment of permanent commercial missions, first in Warsaw but eventually elsewhere in East Europe, by the German Federal Republic.

2. The Six governments are in no hurry to multilateralize their relations, particularly in the commercial field, with the Soviets and East Europeans. At a time of great potential growth and stiff competition for new but relatively limited markets, they want as much latitude as possible. Thus, the Commission talks seriously about a common policy and virtually invites recognition by the East while the member governments pursue national policies and display no inclination to allow their hand to be forced.

3. The Soviet Union talks out of both sides of its mouth. Officially hostile to the EEC, both in propaganda and performance, it continues to size it up and will one day soon have to decide how to come to terms with the developing common commercial policy. But there is a paradox here if the Soviets also intend to press the development of CEMA. While they may establish a relationship of their own with the EEC, it is possible that they will strongly oppose—and therefore at least inhibit—the same thing by the East Europeans. On balance, however, there is evidence of a strong gravitational pull on the USSR toward the EEC.

4. The

4. The East European countries can taste the sweets of closer relations with the Community. They need trade with the Six and credits. In varying degrees all but East Germany are displaying a drift, whether conscious or not, toward some sort of economic nationalism. Although they can live with the current bilateral relationships, they are aware of the growing movement toward economic unity in West Europe and of their need to come to terms with it.

Prospects for Building Bridges

The European Community thus appears to represent fruitful possibilities for establishing closer and mutually profitable East-West relations. However, the EEC is an organization apparently too preoccupied with immediate problems to deal with larger issues. We have long since declared our willingness to discuss EEC-East European relations with the Community in broad, precise and positive terms. Some informal discussions have already been held in Brussels and Washington. It is possible, in fact, that these contributed in some degree to the EEC Commission's expressed willingness to accelerate the adoption of a common commercial policy toward "state trading countries" mentioned earlier.

Specific gestures which the EEC could make are limited by the considerations cited earlier. At this stage of its development, however, it could and should be giving consideration to some form of tangible recognition of East European problems which would, if necessary, circumvent the Hallstein Doctrine. It may even be possible for the EEC to establish economic or trade missions in East European capitals on the model of those being set up by the German Federal Republic. This type of action, it has been shown quite clearly, does not counter the Hallstein Doctrine. It would possibly have the added value of contributing to something that is in our interest as well as that of the EEC -- the development of the common commercial policy toward the USSR and East Europe.

EURATOM

The field of peaceful uses of nuclear energy which is presented in the European Communities by the European Atomic Energy Community (EURATOM), may offer other possibilities, if not now then in a few years' time. We should keep in mind the relatively backward state of peaceful nuclear technology in East Europe and if, at an appropriate time, East European needs for technology and expertise can be met at least partially by EURATOM (preferably in combination with us), we should be ready with specific proposals. Trilateral US-EURATOM-USSR cooperation in helping East European states in this sensitive area, where security considerations arise, might also

present

present certain advantages if and when the USSR chooses to recognize and deal with EURATOM.

Action Suggestions:

1. Encourage the EEC to expand its informal contacts in Brussels with the Soviets and East Europeans.

2. Arrange for a systematic exchange of views between the Community and ourselves to coordinate our policies on East-West relationships.

3. Urge the EEC to establish economic and trade missions in East European capitals along the lines of those being set up by the German Federal Republic.

4. Explore with the German Federal Republic and the EEC the possibility for an exchange of diplomatic missions between the EEC and individual East European states.

5. Examine possibilities for possible fruitful exchanges of information and technology with Eastern Europe in the field of peaceful uses of nuclear energy via the EURATOM channel, bearing in mind the possibility of eventual US-USSR-EURATOM cooperative assistance to East European states.

The Council of Europe

The Council of Europe has long since outlived its usefulness as a serious catalyst of European unity. It has little or no official status and, in many of the functions it once envisaged exercising, has been outstripped by the European Communities. Nevertheless, it remains a forum of some utility for floating political trial balloons, the exercise of cooperation in specialized fields, and as a meeting place for the Six, the Seven and others reasonably close to both. We are not members of the Council of Europe nor, except in observer status under certain conditions, do we participate in any of its activities.

The Council of Europe is still looking for something to do. Firmly entrenched in Strasbourg with a large and generally underworked bureaucracy, it may offer unique if somewhat limited possibilities for "bridge building." It is certainly a body in which the idea of a general European reconciliation could be pursued. A significant

advantage

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advantage in exploiting the Council is that its lack of official status gives it a certain flexibility and informality which could facilitate closer East-West relations without binding commitments on governments.

In short, there are far worse forums than the Council of Europe in which to conduct "informal" and semi-official East-West confrontations. The principal advantage of arrangements of this type would be that they could serve to test the willingness of both sides to move into more serious across-the-board relations without markedly affecting current European political and economic alignments and configurations.

Specifically, the Council's work in those fields in which it has proved most valuable offers the best possibilities for East-West cooperation, although the level of activity may seem routine and pedestrian. Among these are: Europe-wide work on a patent convention, a continuing exercise in codifying certain practices followed in developing "European" civil service practices, continuing efforts to harmonize highway safety practices, an agreement on medical treatment of war cripples, the progressive removal of visa requirements, and, in the most significant exercise undertaken successfully by the Council of Europe, the adoption of the Convention on Human Rights which entered into force in September 1953.

Although some of these fields may not represent appropriate possibilities for "building bridges," there is no reason why the Council should not attempt to elicit interest and possibly participation on an observer basis by individual East European countries. The basis for such participation could be geographical (East European countries contiguous to Council of Europe countries possibly being the most interested), functional (the Rumanians, for example, would probably be quite interested in most of the foregoing subjects, while the interest of the Bulgarians might be limited to something like work being done in the field of highway safety), or purely political. It is conceivable, in this connection, that the Hungarians and Rumanians would, at this particular stage, be eager to demonstrate national independence by showing an interest across-the-board in the Council's activities.

Mere mention of the Convention on Human Rights suggests that the East European states are not yet qualified for full membership in the Council of Europe, but the prospect of membership should be held out to them.

The British

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The British Secretary General of the Council, Mr. Peter Smithers, has indicated a willingness to see the Council of Europe move into the East-West arena. Our relations with him are good.

Action suggestion:

We should encourage the Secretary General and key member governments to activate and intensify Council of Europe relations with individual East European states.

The Secretary General can invite individual East European countries to participate in such specialized activities of the Council, as highway, safety, patent convention and customs procedures; we can seek support from member governments.

We can encourage the Council to admit Finland and possibly Yugoslavia. Associate membership for some East European countries is possible.

The ECE

Because it provides a convenient and regular point of contact with the Bloc on a wide variety of levels, the ECE, one of four regional organizations of the UN, is important to us. The Soviet Union, all the nations of East and West Europe, and the US are members. Western positions on all significant problems are coordinated in a Caucus Group; because of our policy of encouraging an independent policy in the East European countries, Yugoslavia was invited many years ago to participate in the Western Caucus and has done so.

Attention of the organization has traditionally be focused on economic and trade matters. Activities range from professional economic analyses of Bloc economies and trade patterns to highly technical exchanges on steel and housing. One of the more important benefits to the West has been the detailed data and knowledge of Bloc practices we have been able to obtain. We also feel that continuous Western contact and travel for the large number of Bloc technical personnel engaged in the many operating committees has been of value.

When relationships have been difficult, the annual plenary sessions and more important committee meetings have degenerated into propaganda barrages. When the political situation has been quiet, it has been possible to develop a more constructive approach. Our general policy line has been quietly to continue to encourage Bloc

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technical contacts with the West, the exchange of information, and the development of uniform practices where feasible in trade and technical matters.

The ECE can be particularly valuable as a forum in which to exchange viewpoints and canvass attitudes on East-West trade matters. In the fall of 1963, for example, Ad Hoc Group of Experts was convened to discuss three technical issues, the most important of which was most-favored-nation treatment. The preliminary report was considered useful by the ECE members primarily because it has helped to clarify the issues involved. Another meeting of the Group is scheduled at the end of 1964. The handling of East-West trade issues in the ECE also has the beneficial side effect of helping to divert Bloc propaganda from the UN forums in which LDC's are represented.

At this stage, we do not believe that any additional significant overtures or policy initiatives on trade or humanitarian aid should be undertaken in the ECE. The diverse representation, i.e., the Bloc, the neutrals and the West, makes it extremely difficult to work out broad policy positions but this very feature makes the ECE unique. At this stage in East-West relations, we should look at the ECE as an idea forum and as a vehicle for multilateral exchange visits bearing in mind that in a more advanced period of detente the ECE might be used as an effective instrument to implement and clarify policy.

The visit possibility merits some elaboration. Several ECE committees (the "industrial" committees such as Steel, Coal and Housing) participate in study tours conducted in one or more ECE member countries each year. These tours have generally been useful to the participants since they provide an extensive means for further exchanges of ideas and information. Bloc delegates have participated actively in most of these tours and have frequently hosted tours in their own countries.

The first ECE study tour (for the Housing Committee) to be conducted in the US was held in June of this year, after several years of difficulty in obtaining the necessary funds inasmuch as government funds could not be appropriated for this purpose. This tour was extremely successful, particularly because it had been well planned and executed. According to US officials who accompanied the delegates on the tour, delegates from both East and West were impressed with what the US had shown them, both from a political point of view as well as from the point of view of housing.

Action

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Action Suggestion:

That we seek authority and money for an extensive program of study tours in the US interior which would provide new opportunities for the exchange of ideas and bring Europeans to the US in East-West multinational groups thereby supplementing our bilateral exchanges.

We should make active use of the ECC for technical contacts with the East European countries and for the clarification of policy.

The Danube Commission and the Rhine-Main-Danube River Complex

Since 1948 the question of the regulation of the Danube as an international waterway has been a cause of friction between the Soviet Bloc and the Western countries. Prior to World War II, the Danube had been regulated by two commissions (one for the maritime section of the river and one for the fluvial section of the river) on which non-riparian countries were represented. The member countries of the Commissions were Belgium, France, the UK, Greece, Italy, Rumania, Yugoslavia, Czechoslovakia, Germany, Austria, Bulgaria and Hungary. As it was reconstituted by the Belgrade Convention, the present Danube Commission is not recognized by the US and most West European countries, primarily because the Soviets in 1948 rammed through a convention which excluded non-riparian countries from the Commission, a factor unacceptable to the West.

Aside from Yugoslavia, which was the only non-Bloc signatory country to the 1948 Convention, Austria is the only Western country on the Commission. However, the Federal Republic of Germany has informed several Western countries, including the US, of its desire to become a member of the Danube Commission. These Western countries, as well as the US, recently indicated that they would not oppose German accession to the Commission.

The USSR and the East European countries have shown no change in their attitude towards the exclusion of non-riparian nations on the Commission. Nevertheless, the Western attitude of non-recognition of the present Danube Commission provides no leverage in East-West relations, it is probably not even a minor irritant to the Bloc.

It is doubtful that the West could obtain any sort of quid pro quo for eventual "recognition" of the Bloc-dominated Danube Commission. However, with the likely addition of the Federal Republic to Commission membership, there will probably be added interest on the part of other West Europeans (mostly the French and Italians) in Western participation

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in the affairs of the Danube. Since the Western countries will probably not take any formal action to "recognize" the Commission as it exists, the developing trends in Danubian affairs will probably allow for tacit "recognition" stemming from the possible addition of other Western countries--perhaps even non-riparians in the distant future, though this is unlikely in the short run--to membership and possible participation of non-member countries in the form of financial assistance for Danubian projects and the authority to operate national fleets on the waterway.

The eventual completion of the Rhine-Main-Danube waterway complex presents the possibility for East-West cooperation linking the two major European river commissions, Rhine and Danube. However, despite West European interest in participating in the operation of the Danube and the Danube Commission, it is unlikely that the Rhine Commission members would permit Bloc participation in Rhine affairs per se. As an alternative a new commission or planning body could be established with some direct association with both the Rhine and Danube Commissions, which would consider matters of importance regarding the new trans-European waterway (Rhine-Main-Danube). East-West cooperation could be particularly effective in financing projects on this waterway, such as the Iron Gates project on the Danube. This project, sponsored by Yugoslavia and Rumania, has run into opposition from othe other Danube Commission members because of the plans to finance the project from specifically-levied tolls.

In any event, the Bloc countries will have to indicate their willingness to accept greater Western participation in Danubian affairs if they are interested in participating in the overall operation of the Rhine-Main-Danube waterway. The Bloc countries will be sure to retain a majority interest in the Danube Commission so that while they may be forced to recognize valid Western interest in the Danube, control of the river will not be permitted to pass to the West or even to a coalition of Western countries plus recalcitrant Bloc countries.

Action suggestions:

1. Support the FRG interest in membership in the Danube Commission.
2. Accept the Danube Commission as a political fact of life, and authorize US officials to behave accordingly toward it and its members, abandoning residual steps of social and political ostracism.
3. Encourage West European governments to consider East-West cooperation in the Rhine-Main-Danube river complex generally.

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NSAM 304

TAB: M

16

ALBANIA

The Situation

As Communist China's only ally in East Europe, the regime in Albania clings to Stalinist methods of rule, and remains stridently hostile to the West, its traditional enemy -- Yugoslavia, and to the present rulers in the Soviet Union. Khrushchev's ouster has not altered this attitude. The leadership itself appears united on domestic and foreign affairs, with no evidence of factionalism within its ranks.

The Albanian leaders have aligned themselves unequivocally with the Peiping regime in the Sino-Soviet dispute, although they have at times shown apprehension over any possibility of even a temporary Sino-Soviet rapprochement at their expense. Albanian propaganda attacks upon the Soviet and Yugoslav leaders not only parallel those of the Chinese, but have often been considerably more crude and arrogant. Following Khrushchev's ouster, Tirana apparently diverged from Peiping's position in continuing almost without pause, its criticism of the Kremlin. Albanian propaganda has also stressed the nation's independence and voiced demands for equality among all Communist parties. Despite such assertions, Albania remains heavily dependent on China for economic sustenance.

Isolation and xenophobia continue to characterize Albanian relations with the Western world. Unremitting propaganda attacks against the US, the main "imperialist" enemy, continue. The Tirana regime has attempted to expand its commercial relations with Western Europe and the underdeveloped areas, to broaden its diplomatic contacts with the underdeveloped nations, and to promote Peiping's ideological cause in those countries where it has diplomatic installations. However, growing realization that the nation cannot remain indefinitely isolated from the outside world -- rather than any softening of its ideological line -- appears to be influencing the Albanian attitude toward the non-Communist world. An incipient, slight improvement in Albanian-Italian relations has been reported.

Bridges to Albania

In spite of the unpromising situation, we should consider the building of bridges to Albania along the following lines:

1. Channel of Communication. If there is any Albanian responsiveness, we should try to open a channel of communication through discreet informal contacts between US and Albanian representatives.

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E.O. 12958, Sec. 3.5
NSC Memo, 1/30/95, State Dept. Guidelines
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We should use such a channel to gain information which would enable us to perceive and assess possible changes in the Albanian attitude toward the US, and other aspects of the Albanian situation.

2. Relax Restrictions on Travel of Americans to Albania. Even though there is no American mission in Albania, travel restrictions for Americans wishing to travel to Albania should be relaxed to introduce something of American influence into that country. At the moment, only those US citizens who wish to visit relatives or who have legitimate business there are generally given passports valid for travel to Albania and then for not longer than six weeks.

3. Encouragement of Broader Relations Between Albania and Non-Communist States. To the extent that there are any opportunities for doing so, we should carefully encourage any broadening of relations between Albania and non-Communist states.

4. Eventual Renewal of Diplomatic Relations Between the US and Albania. We should avoid initiatives looking toward the establishment of diplomatic relations between this country and Albania, but we should be receptive to and carefully weigh the merits of any Albanian initiatives in this regard.

5. Possibility of Aid. With allied and friendly governments, we should explore what the Western response should be if Albania seeks Western assistance.

6. Media Activities Directed to Albania. In any media activities directed to Albania or in exploitation of the Albanian question elsewhere, we should continue to pursue a course of moderation and restraint.

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TAB N

BULGARIA

17

The Situation

The Bulgarian regime continues among the most loyal and subservient to Moscow. It fully supports the CPSU in the Sino-Soviet dispute, and advocates the closest cooperation with the USSR, particularly in the economic sphere, where it continues to receive sizeable Soviet assistance. It is the only East European regime to have unhesitatingly pledged its loyalty to the new Soviet leadership.

The regime remains internally one of the most "hard-line" and xenophobic within the Soviet Bloc. The leadership of Party First Secretary and Premier Zhivkov has been long troubled by factions opposing inter alia improved ties with the West, and lower-echelon opposition favoring dogmatic methods. As a result the regime has not pushed de-stalinization strongly and completely and has shown little if any inclination to liberalize its internal policy although it issued a broad amnesty in September 1964. It has also been slow in implementing the policy of "peaceful coexistence" to which it ostensibly subscribes. Economic difficulties have, however, induced the regime to begin experimenting with more pragmatic methods of management in a number of industrial plants.

While the regime follows the Soviet lead in attempting to foster ties with the less-developed and emerging countries of Afro-Asia for propaganda as well as economic considerations, it persistently keeps its guard up against Western cultural influences, and remains the only East European country still jamming VOA broadcasts.

The incipient efforts to normalize ties with the US were set back following the anti-US demonstrations accompanying the Asen Georgiev "spy trial" in 1963, which has left a residue of irritation and increased suspicion not only of Americans but also of other Westerners. Bulgaria has followed Soviet policy in forging closer ties with Yugoslavia, but the recurrence of disputes concerning the contended Macedonia territory has fostered traditional coolness and suspicion. The July 1964 agreements aiming to normalize Sofia's relations with neighboring Greece, however, are being implemented, and there have been some recent moves to improve ties with Turkey.

Bridges to Bulgaria

From the resumption of diplomatic relations with Bulgaria in 1960 until late 1963, we made some progress in the settlement of bilateral problems and the expansion of contacts. At that time strongly orthodox

forces

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forces within the Bulgarian regime apparently capitalized on such events as the Georgiev trial and a mob attack on the Legation to press for more restrictive decisions with regard to contacts with the West. We have been trying since the end of last year to regain lost ground in the content of our relations. In spite of these difficulties we should continue to make further efforts to build bridges to Bulgaria with the following courses of action:

1. Consular Convention. In a note of December 1963 we proposed to the Bulgarian Government the negotiation of a convention and presented a draft for this purpose. In February 1965 the Bulgarian Government replied informing us that it agreed in principle to negotiating a convention. We should be ready to begin as soon as the Bulgarians communicate with our Legation concerning a time and place for the negotiations as they stated they would after the preparation of a draft of their own and full study of ours.

2. Commercial Relations. Bulgarian-US trade is small and there are few Bulgarian exports which could find a market in the US.

a. The US should continue cooperation with Bulgarian interests in expanding trade by providing that country with detailed comments on the export control aspects of various shopping lists which have been submitted to the Department of Commerce.

b. The US should continue participation in the annual Plovdiv trade fair which provides a good opportunity for exposing many Bulgarian citizens to US products and influences.

c. Bulgaria, as most other East European Communist countries, is eligible to purchase US agricultural products under Export-Import Bank guarantees of private credits. Such guarantees should be made available as political relations between the US and Bulgaria warrant.

d. Political relations between the US and Bulgaria at present warrant taking the limited step of establishing a procedure to permit the import of Bulgarian silk waste and raw silk into the US under the Foreign Assets Control Regulations of the Treasury Department. The Bulgarians have requested that such imports be permitted, and the Department will recommend that Treasury permit limited imports consistent with its regulations.

e. The steps mentioned in Tab D to foster civil aviation links with East Europe should be carried out with respect to Bulgaria.

f. Political

f. Political relations between the US and Bulgaria are not at present sufficiently developed to warrant the extension to that country in the near future of non-discriminatory treatment (MFN) within the framework of a trade agreement, as envisaged in Tab I. However, this step should be considered when sufficient improvement in bilateral relations has occurred.

3. Cultural Exchanges and Related Activities. Although the Bulgarians have turned down several US proposals for educational and cultural exchanges since the beginning of 1964, there have recently been small indications that they may be modifying their attitude.

a. On appropriate occasions, we should attempt to encourage participation by US citizens in international congresses of standing which are held in Bulgaria.

b. Whenever possible, we should encourage Bulgarians to participate outside of Bulgaria in such gatherings as the Salzburg Seminar.

c. We should continue to encourage the exchange of scholars with Bulgaria which was begun last year by the Inter-University Committee on Travel Grants. This year this program will bring four Bulgarian scholars to the US for one semester each, and three US scholars to Bulgaria.

d. We should encourage private groups such as the Ford and Rockefeller Foundations to propose exchange programs with Bulgaria.

e. We should encourage the National Academy of Sciences to explore the possibility of exchanges with Bulgaria along the lines of the program being developed with Yugoslavia.

f. As more immediate steps, we should renew the 1963 leader grant proposals; offer some major US cultural attractions for the first half of the year; arrange more visits of US experts such as the highly successful heart specialist delegation in the spring of 1964; and make strong efforts to get US performing arts groups into Bulgaria for tours.

g. We should renew our offers to provide some teachers for the three English language secondary schools in Bulgaria and to train Bulgarian teachers in the US.

4. Exchange

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4. Exchange of Visits

a. The Bulgarian Minister of Agriculture, accepting an invitation extended to him by Secretary Freeman while the latter was in Bulgaria, visited the US for three weeks in August - September 1964. The success of this visit indicates the value of inviting other high level Bulgarian officials to the US.

b. As appropriate occasions arise, we should encourage high officials of the Executive Branch to visit Bulgaria as Secretary Freeman did in the summer of 1963.

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TAB 0

18

CZECHOSLOVAKIA

The Situation

The situation in the once "model" satellite of Czechoslovakia since the 12th Party Congress of December 1962 has been notable for its flux and ferment. The leadership of the regime has had to cope with dissidence among the intellectuals, youth, Slovak nationalists and even some of the Party. Several members of the hierarchy, heavily compromised by their Stalinist past, were ousted as a result of pressures exerted on the leadership by disaffected elements within the Party and among the population. Signs of intra-Party differences and opposition to Party First Secretary and President Novotny, particularly among the nationalistically minded Slovaks, subsided in the latter half of 1964 as he evidently consolidated his Party position. Coincident to indications that Novotny -- until recently the symbol of the doctrinaire line -- was assuming a more independent line vis-a-vis Moscow after Khrushchev's ouster, Novotny was reelected to another presidential term on November 12. In his inaugural speech and during a subsequent visit to Moscow (November 30 - December 4) he expressed Prague's intent to collaborate closely with Moscow although not "ignoring" Czechoslovakia's interests in the West.

Deteriorated economic conditions and the inability of the leadership to effect improvement throughout 1963 have led to widespread dissatisfaction among the population and to a heated controversy among "orthodox" and "pragmatic" economists on how best to redress the economy. The dispute was evidently resolved in favor of the pragmatic group with the publication in October 1964 of the draft of new economic principles envisaging a basic reorganization of the Czechoslovak economic structure along the lines of Yugoslavia's "socialist market" economy.

The alleviation of repressive internal policies in such matters as police controls, freedom of expression, art and sciences, and church relations has been accompanied by improvement in relations with the West and Yugoslavia. The regime has stopped jamming VOA and BBC broadcasts, liberalized significantly its tourist policies in order to attract Westerners, allowed more of its people to visit the West, and indicated willingness to expand and intensify its economic relations with the West as part of its program of "peaceful coexistence."

The Czechoslovak regime continues to give public support to Soviet foreign policy objectives and to Soviet positions in the Sino-Soviet dispute. In the underdeveloped areas, Prague continues to play a leading role in the Soviet Bloc's penetration efforts.

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By isa, NARA Date 9-24-98

Bridges

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Bridges to Czechoslovakia

Any significant step to expand our links with Czechoslovakia will depend on what is done concerning the conclusion of an economic and financial agreement in settlement of long-outstanding bilateral issues. Its negotiation is now virtually completed but because the larger claimants consider that the compensation for nationalized property is not sufficient there is a question as to the advisability of signing the agreement. With a view to expanding our relations with Czechoslovakia, the following measures are suggested:

1. Economic and Financial Agreement.

The US should sign an agreement which would:

- a. Compensate US claimants in the amount of 11-12 million dollars (or with a larger sum if this aspect of the settlement is renegotiated).
- b. Remove Czechoslovakia from the list of countries in Treasury Circular 655.
- c. Grant export licenses for miscellaneous goods purchased by Czechoslovak firms and held since 1948.
- d. Release blocked and vested Czechoslovak assets.
- e. Provide for a statement favoring the growth of peaceful trade.
- f. Authorize the establishment in New York of a Czechoslovak trade office.
- g. Release about \$1 million worth of Czechoslovak currency in blocked accounts for US Government use in Czechoslovakia.
- h. Provide for the resumption of Czechoslovak debt service on outstanding dollar bond obligations aggregating \$2.7 million.

2. Consular Convention. Immediately following conclusion of the economic-financial agreement, or earlier if the circumstances are opportune, the US should begin negotiations with Czechoslovakia on a consular convention.

3. Reciprocal Establishment of Consulates. After the conclusion of a consular convention we should promptly try to reopen our Consulate General at Bratislava, Slovakia. This is the principal city in an area

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with particularly close ties with the US and of major importance in Czechoslovak political and economic affairs. We would expect Czechoslovakia to seek a consular establishment in the US of reciprocal scope.

4. Commercial Relations. The Czechoslovak Government has expressed its desire to develop its trade with the US and to increase the value from the present low level of less than \$25 million a year. The prime requisite for this development is the conclusion of the economic and financial agreement.

The following steps should be taken in an effort to increase trade with Czechoslovakia:

- a. Public statements should be made by important US officials encouraging trade with Czechoslovakia.
- b. The US should encourage the exchange of visits by businessmen and trade delegations and offer the assistance of the US Government in planning itineraries and in facilitating contacts in the US.
- c. An effort should be made to encourage the repeal of municipal ordinances prohibiting the sale of goods from Communist countries. The most effective step would be to test the constitutionality of the ordinances before the courts.
- d. The Export-Import Bank at an appropriate time should be granted authority to issue guarantees of short and medium term credit for the sale of US industrial products and services to Czechoslovakia.
- e. The present export control system should be liberalized for licensing exports to Czechoslovakia as the improvement of our bilateral relations warrants.
- f. If this improvement proceeds to a sufficient extent in the future and the legislative authority is obtained by that time, Czechoslovakia should be accorded non-discriminatory trading treatment (MFN).
- g. US firms should be encouraged to participate at the annual Brno International Trade Fair.
- h. The steps mentioned in Tab D to foster civil aviation links with East Europe should be carried out with respect to Czechoslovakia.

5. Exchanges

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5. Exchanges of Visits. Expanded contacts between Czechoslovak and American groups should be encouraged. Czechoslovak authorities should be informed that the US welcomes visits from Cabinet members and representatives of trade, Chamber of Commerce, agricultural and other groups. Where appropriate, certain high government leaders might be invited to visit the US as guests of the Department of State under Foreign Leader grants.

Czechoslovak leaders were flattered by the visit of Secretary Hodges in September 1963. He was the first US cabinet member to visit Czechoslovakia. Additional visits by Cabinet and sub-Cabinet officers should be made to Czechoslovakia.

6. Cultural Exchanges and Related Activities.

The US should:

a. Indicate strongly its interest in arranging two-way exchanges of scientists, social scientists, artists, literary persons, musical and sports groups.

b. Encourage private organizations to engage in exchange programs, bearing in mind the need to correct the imbalance between scientific and technical exchanges on the one hand and those in the humanities and social sciences on the other.

There have been relatively few officially negotiated exchanges between the US and Czechoslovakia. In the past the latter rebuffed US proposals and made none of its own which were considered by the US to be of mutual benefit. Czechoslovak scientists and technicians, however, have been visiting the US in increasing numbers under privately-made arrangements, remaining for periods ranging from three months to two years. In turn, American physicians and other scientific and cultural figures have attended many international congresses in Czechoslovakia and made officially sponsored visits to that country. The two US performing arts groups recently in Czechoslovakia have been highly successful. The Czechs have been able to send several groups on tour in the US and this should provide leverage for placing more US groups in Czechoslovakia. A change in Czechoslovakia's heretofore negative approach is becoming discernible, suggesting that there now exist exploitable openings in both the scientific and humanities areas.

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HUNGARY

TAB P
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NLJ 97-204

By , NARA Date 9-24-98

The Situation

Having achieved stability in the country and harmony in top Party organs for the past four years, the Kadar regime has been following a policy of national reconciliation aimed at winning popular support. To this end the regime has attempted to insure a steadily rising standard of living in the cities, a growth of material incentives in the collectivized countryside, an end to discrimination on the basis of class origin in admission to universities, and availability of jobs to qualified non-Party personnel. It has released most political prisoners from jails and clergy from administrative exile. It has markedly eased travel in and out of Hungary, permitted a limited number of copies of the Western press to go on sale in Budapest hotels, ceased jamming of Western broadcasts, and allowed a modest cultural exchange program with the West to begin.

On September 15 the regime signed a limited agreement with the Vatican--the first such between the Vatican and a Communist country--which both sides seemed to hope would pave the way for an eventual solution of more difficult problems in church-state relations. The agreement, whose text has not been published, enabled the Church to fill some of the many existing episcopal vacancies in Hungary with acting bishops.

In pursuing the above program, the regime has been extremely careful not to give the appearance of responding to either domestic or foreign pressure. Uncertain of popular support, and certain of the opposition of the Party's old-timers whose privileged position is being undermined, the Kadar regime has tried to give the appearance of self-assurance. This need for face saving is particularly evident in Hungary's attempts to normalize relations with the US.

The regime's close alliance with and dependence on the USSR is both its strength and its weakness. Because it was installed with the help of Soviet tanks in an anti-Soviet country only eight years ago, to be accepted by the population the regime must loosen its ties with the USSR. This the regime did to some extent after the fall of Khrushchev by refusing to parrot the Soviet line and praising Khrushchev's past merits, and by insisting that its own policies will not change "one iota." The current economic slowdown and a general discontent with economic cooperation in the Communist camp may induce the leadership to seek closer contacts with the West together with an even more revisionist policy in the Hungarian economy.

Bridges to Hungary

The building of bridges to Hungary involves the process of normalizing relations with the Hungarian Government and the settlement of a

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number of outstanding problems. This process was deterred by the repressive measures of the Hungarian Government after the uprising of 1956 but there has been some improvement in our relations since the adoption of liberalizing reforms in Hungary. As a result we have now entered into discussions at Budapest with a view to settlement of outstanding bilateral issues. The following courses of action to extend ties with Hungary are suggested:

1. General Claims Settlement. We started discussions in January 1965 with a view to reaching a settlement principally of claims arising from World War II damages and from the nationalization actions of the Hungarian Government. US claims are considerable while Hungarian assets under our control are negligible.

2. Bond Obligations. The US should obtain at the time of a claims settlement a recognition by the Hungarians of their dollar bond obligations and an expression of intention to discharge those obligations.

3. Treasury Circular 655. In connection with a general claims settlement the US should remove Hungary from the list of countries affected by Treasury Circular 655. This action permitting US Treasury checks to be sent to Hungary would provide a source of dollar currency that could be applied toward paying off US claims.

4. Consular Convention. The US should regularize consular relations with Hungary by negotiating a consular convention. While present consular relations with Hungary are satisfactory the safeguards assured by a consular convention would be desirable.

5. Commercial Relations. In recent years US-Hungarian trade has been minimal. Only by increasing its trade with the US can Hungary expect to pay off the sizeable sums involved in a general claims settlement with the US. In addition, expanded trade with the US and other Western countries can be a major liberalizing influence on the Hungarian system. The US should contribute to the growth of trade by:

a. Participation in the Hungarian trade fairs beginning with the Budapest International Trade Fair of 1965 (we have already given Hungary formal notice that we will participate in this fair).

b. Facilitating Hungarian imports not seriously affected by the tariff schedule under existing discriminatory trade legislation, for example: by recognition of adequate sanitary inspection procedures in Hungary for meat exports as soon as sanitary requirements are met and by adoption of procedures permitting Hungary readily to comply with US certificate of origin requirements in textile sales to the US.

c. Issuing

c. Issuing a bilateral or unilateral statement indicating a favorable official attitude toward trade between the two countries (as has already been done in connection with claims settlements with Bulgaria and Rumania).

d. Permitting Hungary to open a commercial office in New York (as Poland, Rumania and Bulgaria are now permitted to do).

e. Extending nondiscriminatory trade treatment to Hungary provided the required enabling legislation is adopted.

f. Liberalizing export trade procedures for nonstrategic items.

g. Making a US determination which would allow Hungary to avail itself of short and medium term commercial credits guaranteed by the Export-Import Bank for the purchase of US products and services.

Of these measures the US should adopt the first two without regard to a claims settlement; the next two in connection with the conclusion of a claims settlement; and the last three subsequent to a claims settlement depending upon the further development and improvement of bilateral relations.

6. Aviation Bridges. As circumstances permit, we should apply the recommendations regarding the development of aviation links as described in Tab D with respect to Hungary.

7. Cultural Exchanges and Related Activities. Recently cultural exchanges have been increasing and we should encourage their further development. Exchanges should continue on the basis of ad hoc arrangements and a general reciprocity, and not be confined within the framework of any formal cultural agreement with Hungary. By way of specific actions, the US should:

a. Encourage other private foundations to follow the lead of the Ford Foundation and the Inter-University Committee on Travel Grants in establishing exchange programs with Hungary.

b. Propose a broad program of US cultural and informational activities in further talks with the Hungarians or in connection with the settlement of outstanding bilateral issues. These activities would include major exhibits; issuance of press releases; radio and TV exchanges; distribution of a Hungarian language cultural bulletin, a science bulletin and a daily news bulletin; the sale of a Hungarian edition of America; distribution of US motion pictures; and possibly the maintenance of a reading room outside the Legation premises.

c. Open

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c. Open this year (as is now planned) a library on Legation premises at Budapest which will include an English teaching laboratory, a music library and listening rooms.

8. Visits

a. The US should encourage visits to Hungary by high US officials such as the Secretary of Agriculture, the Secretary of Commerce, and senior officials of the Department of State, even if made in an unofficial capacity. It should be conveyed to the Hungarian authorities that the US welcomes visits from Cabinet members and representatives of trade, of the Chamber of Commerce and of industrial, agricultural, and other groups. Where appropriate, certain high government leaders might be invited to visit the US as guests of the Department of State under Foreign Leader grants.

b. The US should permit Hungary to open a tourist office in the US.

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TAB Q

20

POLAND

The Situation

An uncollectivized peasantry, a strong, though harassed, Catholic Church, relative freedom of speech, an informative press, easy access to Western publications, unjammed airwaves, and a legally guaranteed right to travel abroad are some of the basic characteristics of the Polish scene which are now frequently obscured by the Gomulka regime's hardening line. In spite of persistent tightening of controls, Poland continues to be in some ways the most liberal country in East Europe, except for Yugoslavia. Culturally, however, Hungary and Czechoslovakia are not far behind in most respects and may even be freer than Poland in some.

Liberalization, and with it a renewal of contacts with the West, occurred earlier and was more thorough in Poland than anywhere else in the Bloc. As long as the surrounding countries were pursuing a hard line, Poland was not worried about its own internal stability. In recent years, when other regimes have been relaxing, the Polish regime has been tightening its internal controls in order to ensure that stability remains unimpaired. This deliberate policy, combined with an unplanned worsening of the economic situation in 1962-63 has antagonized the population and undermined that popular support on which the regime originally was based, led to conflicts within the Party itself, and made Gomulka more dependent on the USSR. Nevertheless, in spite of this fundamental dependence, the Polish regime appears at times to disagree with the USSR, particularly over intrabloc affairs.

Protection of Communist Poland's national interest remains the cornerstone of Gomulka's policy. The overriding aim of the regime vis-a-vis both East and West is a formal, valid recognition of Poland's Western boundary by all interested parties. Constant expansion of economic contacts with the West is another regime policy launched in 1956 and pursued ever since both for its own sake and in order not to increase further than absolutely necessary Poland's dependence on the USSR.

Bridges to Poland

Since 1957 we have built up a special relationship which involves many lines of contact and communication. In advancing this relationship further the following courses of action are suggested:

1. Consular Convention. The most immediate project for the broadening of relations between the US and Poland is the negotiation of a

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consular convention. Negotiations toward this end commenced in May 1964 and are nearing completion. When completed and ratified the convention may well serve as a model for similar agreements with other East European countries.

2. Reciprocal Establishment of Consulates. In connection with the negotiation of a consular convention we have proposed the establishment of a new American Consulate in Krakow, Poland, and are prepared in return to entertain favorably a Polish request for an additional consulate in the US.

3. Credit. At an opportune time and as a reciprocating move in return for desired action by Poland, the EXIM Bank should be authorized to extend guarantees for short and medium term commercial credits in connection with the sale of non-agricultural products to Poland. Polish officials have expressed their interest in purchasing industrial goods from the US but have pointed out that more favorable terms are available in West Europe.

4. PL 480 Sales. The new PL 480 bars further sales to Poland of surplus agricultural commodities for local currency under Title I. For the first time, however, Poland was made eligible for dollar credit sales under Title IV with credit terms limited up to five years as compared with 20-year terms available to other eligible countries. This change requiring the abrupt hardening of terms interferes with our deliberate efforts to shift gradually from PL 480 sales to normal commercial sales of agricultural goods. It also reduces the effectiveness of the PL 480 agreements as a valuable instrument of US foreign policy in Poland. For these reasons the PL 480 should be amended to remove the present five year limitation on Title IV sales to Poland.

5. Shipping. Another obstacle hindering the development of trade with Poland is the position taken by the EXIM Bank that it must require US vessels to be used to ship those goods sold under commercial credits guaranteed by the Bank. This requirement increases greatly the shipping costs wherever non-conference shipping rates apply and nullifies the benefits to Poland of utilizing EXIM Bank guarantees. The impediment should be removed by not requiring shipment on US ships when the Bank extends guarantees.

6. Opening of Certain US Ports to Polish Vessels. Since 1950 Soviet Bloc vessels have been barred for security reasons from entering US ports. An exception was made in Poland's case and access is permitted to eleven port areas. The Poles complain that by being barred from certain port areas, they are at a disadvantage in marketing their products. They also maintain that the port restrictions preventing them from using their own vessels in some instances make more

expensive

expensive their purchase of certain US commodities. The US should re-examine the premises of the original blocking action to determine what can be done to drop completely or modify the existing restrictions on the entry of Polish vessels in the interest of freer trade.

7. Counteracting Anti-Trade Moves in the US.

a. A number of American cities have adopted local ordinances inhibiting the sale of goods imported from Communist countries. The ordinances require merchants to obtain licenses which cost from \$10 to \$5,000 to permit them to sell such merchandise. The licenses must also display prominently a sign stating that he sells Communist goods. There is considerable question about the constitutionality of these ordinances. The US Government should encourage the repeal of these ordinances if feasible by testing their constitutionality before the courts.

b. The campaign to boycott goods from Poland and other Communist countries has taken the form of intimidating merchants with the aim of forcing them to discontinue selling Communist goods. US officials should bolster those who carry on legitimate business with the Communist countries and who wish to act consistently with the policy of the US Government by high level statements encouraging trade with the Soviet Bloc.

c. Over the past year the Maritime Union and longshoremen have periodically threatened to refuse to handle goods being shipped to the Soviet Bloc countries. Further efforts should be made by ranking US officials to explain US policy toward the Soviet Bloc to union officials and to urge them to act with responsibility in the national interest.

8. Aviation Bridges. As early as opportunity permits, the recommendations regarding the establishment of aviation links as described in TAB D should be applied with respect to Poland.

9. Economic Talks. The projected trip this spring of the Chairman of the Polish Planning Commission, Stefan Jedrychowski, who is also a member of the Polish Politburo, provides an opportunity to review Polish-American economic relations since 1956 and to examine the possibilities for their further development. We should use the occasion of his visit for a wide-ranging discussion of steps both countries might take to facilitate the growth of trade and the overall expansion of our economic relations. We should be prepared to consider such questions as Polish prewar bonded indebtedness, US port facilities for Polish ships, US shipping requirements in connection with Ex-Im Bank guarantees (PR-17), and Ex-Im Bank guarantees to cover US exports of industrial items, etc.

10. Cultural

10. Cultural Exchanges. Many bridges to Poland in the fields of informational activity and cultural and educational exchanges are already built. Our task is to strengthen them so they will be able to carry more traffic, in people and in ideas, and to use our Polish experiences in building bridges to the other countries. As a means of encouraging better arrangements for our exchanges in Poland, we should draw Polish attention to those exchange arrangements with other East European countries which provide better terms for us than are now provided by Polish authorities.

a. The time is ripe to extend the beginnings we have already made through language seminars, modern training methods and teaching materials in promoting English language training. This extension would include an expanding specialist training program in America as well as technical and material assistance to existing English language centers, secondary and higher education facilities, and adult education centers. It would eventually involve the construction and equipping of language labs and other training facilities at selected universities and schools. Particularly construction and equipment aspects of the program would require Congressional authorization to utilize PL 480 zlotys for these purposes along the lines of Section 214(b) of the Foreign Assistance Act of 1961 as amended (see paragraph 10a, below).

b. As a new program the US has proposed to bring here each year a number of Polish university students of English for a summer-long visit which might include study at a university summer session and living with American families. The program will require financial resources, both public and private, and the cooperation of some private organizations such as the Experiment in International Living. Such a program, once established successfully with Poland, might be extended to include other East European countries.

c. The American school is in substandard leased quarters and negotiations on constructing a replacement have stalled. We should expand the scope of the effort and suggest a model American school with a large number of scholarships annually for Polish students who would be selected on a nationwide competition. This will require a large zloty appropriation with substantial and continuing dollar supplements.

d. The commercial sale of US books and periodicals, the use of films and musical materials through commercial channels, and the distribution of these items stimulated by IMG should be expanded in Poland in every way possible for reasons of their

intrinsic

intrinsic merit in advancing our objectives as well as by way of affording examples for US proposals in other East European countries.

11. PL 480 Scientific Projects. A number of jointly sponsored programs utilize Polish local currency accruing from the sale to Poland of surplus US agricultural commodities under PL 480. These include a book-publishing program under which US textbooks are published in Poland in Polish translation; the translation of Polish scientific and educational materials into English for the National Science Foundation and the US Office of Education; and medical, public health, and agricultural research projects jointly sponsored by the National Institute of Health, the Welfare Administration, the Vocational Rehabilitation Administration, the Agricultural Research Service, and the equivalent Polish agencies. These projects should be continued and new ones developed in the fields of education and commercial fishing.

Given the numerous strategic and legislative restrictions which limit other uses to which the billions of US-held Polish zlotys can be put by this government, an increase in number and scope of cooperative scientific projects offers an excellent opportunity to utilize these funds in an uncontroversial and beneficial manner and to broaden US-Polish person to person professional contacts. Every encouragement should be offered to US government agencies to develop additional worthwhile projects.

12. Hospitals. The US Government is prevented by the terms of the Battle Act from utilizing PL 480 local currencies for purposes in Poland which could be considered economic assistance but is able to do so in the case of hospitals. One hospital, a research hospital for children in Krakow, has been built to date and is scheduled for completion later in this fiscal year. It would be advisable to await assessment of the hospital's usefulness as a symbol of American interest in human welfare before launching similar projects. Examples of possible new projects in this field, the advisability of which must await future determination, are listed below:

a. Providing medical research facilities, as separate institutions or in conjunction with major hospitals or university medical schools.

b. Constructing other special hospitals, designed to treat diseases which are common in Poland but which are not adequately dealt with under present circumstances.

c. Building

c. Building several smaller clinics, general or specialized, in smaller localities in the economically less developed areas of Poland, many of which provide the principal sources of emigration to the US and which, therefore, maintain the closest ties with Americans of Polish origin.

Under the terms of the Foreign Assistance Act of 1961, any of these projects requires the sponsorship of private US citizens or groups, as well as Congressional appropriations for the purpose. Presumably, dollar appropriations would also be necessary to provide the facilities with the most modern American equipment.

13. Projects Requiring Amendment of the Battle Act. Amendment of the Battle Act should be sought in order to allow greater flexibility in the use of our PL 480 funds to support US programs in Poland and trends there to our advantage. If the amendment is obtained a number of other projects should be considered, including the following:

a. Construction of English language centers and provisions for materials and equipment for English language instruction in Poland.

b. Construction of libraries or library extensions for special purposes, such as medicine and other fields of science, American studies, or for storage and display of rare and valuable old volumes.

c. The construction of student and faculty housing at major universities, with space assured for American exchange students and faculty.

d. Contributions to agricultural research and extension facilities which will tend to strengthen the private sector of Poland's agricultural economy, which now comprises 85 percent of Polish agriculture.

e. Model projects in the fields of public utilities, water supply and purification, rural electrification, conservation and water resources, which will benefit the population directly and serve as trading points with the Polish Government in obtaining its acceptance of projects in the foregoing paragraphs.

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TAB R

RUMANIA

The Situation

Rumania's open defense of its sovereignty and independence against Soviet encroachments began in early 1963. Beginning with opposition to CEMA-sponsored multilateral division of labor and supranational planning it has since developed into a full-fledged program of self-promoting national Communism with pronounced anti-Soviet overtones. In pursuing this program Rumania has not avoided antagonizing Moscow by absenting itself from important Bloc conclaves, taking a neutral position in the Sino-Soviet dispute, and even engaging in anti-Soviet polemics. On April 22 the Rumanian Party adopted a 12,000-word programmatic declaration of its national Communism which--while pledging allegiance to the international Communist movement--spells out Bucharest's disagreement with Moscow as well as its determination not to compromise its sovereignty or independence.

Hand-in-hand with its defiance of Moscow Rumania has normalized its relations with leading Western countries and other Free World nations with whom it has also expanded its trade. Noncommunist countries now account for 36-37 percent of its foreign trade, and Rumanian leaders openly praise Western industrial firms for their contribution to Rumania's industrialization. Normalization has also involved an expansion of cultural contacts with the West. Bucharest has stopped jamming of Western broadcasts, and eased visa requirements for tourists. Rumania's drive for a standing outside the Communist Bloc resulted in several independent votes in the UN; for instance; Bucharest diverged from Soviet Bloc positions at the UNCTAD meeting when it identified itself with the underdeveloped countries. Rumania has also sought information regarding membership in GATT, IBRD, and IMF.

In 1960 the US and Rumania set the stage for improved bilateral relations by concluding a financial settlement of post-war claims, on which Bucharest made the final payment in 1964. In 1960 the two countries also signed an agreement to initiate a cultural exchange program which has grown steadily. Finally, in June 1964--following high-level economic talks in Washington--the way was cleared for enlarged trade between the US and Rumania, by placing the country on the same general footing as Poland with regard to US export licensing. The totality of Rumania's recent effort thus reveals the intention to enhance its international prestige by stressing freedom from Soviet tutelage in the independent pursuit of improved relations with all countries so as to promote its own national interest.

Domestically

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Domestically, the regime has begun courting popular support and playing up national cohesion. Apart from measures eliminating Soviet influence (changing Russian place-names, elimination of compulsory Russian-language classes, etc.), it has eased controls on information media so as to admit more Western cultural influences together with more emphasis on traditional Rumanian national values. Some 10,000 political prisoners were released between 1961 and mid-1964, and "practically all" were to be freed by the 20th liberation anniversary on August 23, 1964. In addition, beginning August 1, 10-15 percent wage increases, reduced income taxes, and higher family incomes for all wage earners became effective. All of these measures reflect Dej's confidence in the regime's stability and the country's economic performance (15 percent annual rate of industrial growth since 1960), and his effort to build up a broad popular consensus in support of his new policies.

Bridges to Rumania

During the past year the US has recognized Rumania's decision to follow policies more independent of the Soviet Bloc and has responded to Rumanian initiatives to broaden relations with the US by adopting policies which give more favorable treatment to Rumania than most other Soviet Bloc countries. Our policy stops short of encouraging the Rumanian leadership to risk a break with the USSR which might lead to Soviet military action or severe pressures against Rumania. The following steps would not appear to involve this risk but would serve to expand relations:

1. Consular Convention. Representatives of the US and Rumania met in Washington January 12, 1965 to begin the negotiation of a new consular convention. There is presently no thought of establishing consulates in Rumania and the US, but the convention will provide the framework for this possibility.

2. Export Licensing. As a result of the US-Rumanian negotiations May 18-June 1, 1964, the Department of Commerce on July 14, 1964 changed its export licensing regulations so that the great majority of commodities may be exported from the US to Rumania under general license and without the need for obtaining individual export licenses from the Department of Commerce. In this respect, Rumania is now being given the same preferential treatment for export licensing as that extended to Poland in 1957. The US has also agreed, subject to the standard conditions, to issue export licenses for a number of particular industrial facilities in which the Rumanian Government expressed special interest. The Executive Branch agencies charged with administering export controls have agreed that more liberal criteria should be applied for the processing of applications for the export to Rumania of technical data and commodities for which

validated

validated licenses are still required. The special policy adopted for Poland in 1957 with respect to internationally embargoed items has not been extended to Rumania, but such extension should be considered if relations continue to develop favorably.

3. Credit

a. On June 15, 1964, the President determined that the Export-Import Bank may issue guarantees in connection with the sale of all types of US products and services to Rumania on short and medium term credit. Other Soviet Bloc countries are eligible for guarantees only for the purchase of surplus agricultural commodities. Discussions have been held with the Export-Import Bank which will make it possible for Rumania to secure guarantees on purchases of equipment of high cost.

b. Rumanian officials have ascertained that it will probably be impossible for Rumania to purchase US surplus agricultural commodities on credit under the normal credit sales program of the Commodity Credit Corporation, because private US banks will not issue the assurances of payment (guarantees) on the credit as required by CCC. The Department of State is therefore considering making the finding of Rumanian independence from foreign Communist control required by Section 107(2) of PL 480 in order to permit credit sales for dollars to Rumania under Title IV of that law.

4. Barter. Barter transactions under Title III of PL 480 or under the CCC barter programs are legally permitted for Rumania. The Rumanians have already been offered the possibility of a barter deal whereby cotton or other commodities would be transferred by CCC with reimbursement in dollars from State Department appropriations and exchanged for chancery and other buildings in Rumania. This offer is being discussed in further detail with the Rumanians. No other type of barter deal would appear to be in the US national interest at present.

5. Mutual Facilitation of Commercial Activity.

a. The US plans to open a trade and tourist office in a business section of Bucharest as soon as suitable premises can be found. The Rumanians agreed in the negotiations in 1964 that the US may do so. On their part they expressed a desire to expand the activity of their trade office and possibly open a tourist office in New York City. Such a center will be equipped with a commercial library and perform a broad range of commercial and travel promotion activity, thus fulfilling an important US representational role in Rumania.

b. As

b. As already agreed with the Rumanians, future trade promotion activities will include the provision of general trade information, publication of US export opportunities, issuance of commercial invitations to Rumanian businessmen, and exchange of trade missions and commercial exhibits.

c. The Department of Commerce will prepare an annual commercial program for Rumania as is done for other countries and will publicize to the US business community information on trade with Rumania, including the possibility of advertising US products in Rumanian journals.

6. Non-Discriminatory Tariff Treatment. If Rumanian policies continue to develop in a manner favorable to US interests, the Department of State will recommend that Rumania be accorded most-favored-nation tariff treatment pursuant to the legislation discussed in Tab I. Present indications are that this recommendation will be made promptly if the necessary legislation is passed and that Rumania will be the first beneficiary of the legislation. This is the most important single step which could be taken to further US relations with Rumania.

7. Aviation Bridges. As soon as opportunity permits, the recommendations regarding the building of aviation bridges as described in Tab D should be applied with respect to Rumania.

8. Rumanian Association with GATT, IMF, IBRD. Any expression of interest on the part of Rumania regarding association with those institutions should be given the most careful consideration. While recognizing the important differences between the fundamental economic principles of these organizations and those of a state trading country like Rumania, the US should give due weight to the significant political advantage of associating Rumania with these major free world institutions, including the possibility of encouraging or fostering changes in Rumania's orientation and institutional development by such association, as has occurred in the case of Yugoslavia.

9. Exchanges of Visits. The US should encourage visits to Rumania by US officials at the Cabinet and sub-Cabinet levels as well as by other senior officials of the Department of State, even if the visits are made in an unofficial capacity. It should be conveyed to the Rumanian authorities that the US welcomes visits from Cabinet members and representatives of trade, of the Chamber of Commerce, and of industrial, agricultural and other groups. The US thus invited the Rumanian Foreign Minister and the Deputy Foreign Minister for International Organization Affairs to tour the US for nine days and they completed this visit at the close of 1964. We understand the Rumanians have invited Senator Fulbright to visit their country.

10. Cultural

10. Cultural Exchanges and Related Activities

a. In connection with the recent improvement of relations, the US should make every effort to expand the exchanges program with Rumania. Since 1960 the US and Rumania have exchanged diplomatic notes each two years which provide the framework for a broad program of exchanges in cultural, educational, scientific, and other fields. The program has shown modest but steady increases each year, with the Rumanians showing interest in expanding scientific and technical exchanges and the US seeking to broaden cultural and informational exchanges. In 1963 the Rumanians agreed to the publication and distribution by our diplomatic mission in Bucharest of a monthly cultural bulletin in the Rumanian language, and in exchange the Rumanian mission in Washington began distribution in 1964 of a monthly bulletin in English. On December 23, 1964 diplomatic notes were exchanged in Washington extending this exchanges program for the years 1965 and 1966. The two sides also agreed on that date to a specific program for 1965 which provides the framework for a relative increase over previous years, particularly with respect to exchanges of cultural leaders and creative artists.

b. The Department will continue to encourage private foundations and others to establish exchange programs with Rumania, and a paragraph to this effect has been included in the 1965 program of exchanges agreed to by both sides. The Ford Foundation has had discussions with the Rumanians on the establishment of a program in Rumania. The US Atomic Energy Commission, the National Academy of Sciences, and the US National Commission for UNESCO have all approached the Rumanians with a view toward arranging visits and exchanges with their corresponding Rumanian organizations.

c. Rumania should be included in itineraries for more US performing arts groups and others whose travel is sponsored by the Department of State and other US agencies.

d. We should open a library on our Embassy premises accessible to the Rumanian public.

e. We should also seek, as relations permit, to distribute in Rumania a monthly Rumanian language monthly "America" magazine, a monthly science bulletin, and press releases. Discussions have already begun with the Rumanians on an "America" magazine, as well as an Informational Media Guaranty Program.

f. Grants should be offered to writers, journalists and other opinion leaders to give them a wide exposure to the US. Counterparts from the US should also be sent to Rumania.

11. Travel

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11. Travel Controls. Our policy on travel controls for Rumania should be consistent with that recommended in Tab E. In addition, we should press Rumania to agree to the reciprocal abolition of advance travel notification requirements.

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TAB S

YUGOSLAVIA

The Situation

Not a member of the Soviet Bloc since 1948, and jealously protective of its sovereignty and independence, the Yugoslav Communist regime has successfully evolved domestic and foreign policies at variance with those of Bloc members. Under a program of liberalization, decentralized forms have been instituted -- and are being strengthened -- in both government and economy in an attempt to reduce the bureaucracy, induce more initiative on the part of workers and managers, and allow greater play of market forces. As a result, the Yugoslav system of government, while based on the Communist Party, is much more permissive and flexible than those of the Soviet Bloc. Yugoslavia has had an expanding economy marked by a high rate of industrial growth, and -- despite occasional setbacks -- increasing agricultural production. Notwithstanding the rising level of exports the country is, however, currently facing a serious balance of payments deficit, due primarily to high external deficit repayment obligations. Plans are currently afoot to increase the efficiency of production, realign investments, and reduce taxation on enterprises with a view toward improving the living standards and increasing consumers goods supply.

The Yugoslav Party leadership under the guiding hand of Tito has exhibited notable unity and staying power under adverse conditions of earlier Soviet Bloc hostility and endemic internal nationalities rivalry. Following the eventual departure of Tito and his anticipated replacement by Rankovic, Yugoslav policies and stability may become less predictable.

Yugoslavia professes adherence to a foreign policy of "active nonalignment" which, while based on Yugoslavia's independence of blocs, is closer to Soviet than to US positions. In more recent years Tito has devoted most of his efforts toward forging close ties with the less-developed countries of Afro-Asia and Latin America, while maintaining friendly ties with the West. Since the mid-1950's he has once again fallen in with Khrushchev's efforts to restore Belgrade's relations with the USSR and East Europe. In fostering such rapprochement Tito has aspired to keep it in balance with his Western relations, and Yugoslav foreign trade continues to run heavily in favor of the Free World.

Khrushchev's ouster revived Belgrade's concern about a Sino-Soviet accommodation at Yugoslavia's expense. The uncertainty as to the new

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Soviet leadership's policies has apparently evoked new emphasis on Belgrade's ties with the nonaligned nations and sharpened Yugoslav polemics with Communist China and Albania.

Bridges to Yugoslavia

The US and Yugoslavia have agreed that the period of US military and economic aid to Yugoslavia is largely over and that the development of normal trade relationships should be promoted. In order to maintain the US stake in Yugoslav orientation towards the Free World especially through military sales and expansion of our trade relations, the following measures are recommended:

1. Sales of Military Equipment.

a. The US should continue to encourage commercial sales of unclassified US military equipment to Yugoslavia subject to normal munitions export control regulations.

b. The US should make every effort to sell to Yugoslavia military spare parts from Defense Department surplus stocks in the US and in European countries that are not available from normal commercial sources for US equipment furnished Yugoslavia in previous years. If this measure should prove inadequate to meet Yugoslavia's reasonable needs, consideration will be given to Presidential action under the Foreign Assistance Act of 1961, as amended, to permit the sale of spare parts from other Defense Department stocks, despite Yugoslavia's low level of commerce with Cuba and despite the Act's prohibitions on furnishing assistance to any Communist country.

c. The US should consider permitting Yugoslavia to purchase new military equipment (new to Yugoslavia, even if otherwise obsolescent) from Defense Department stocks and not available from normal commercial sources.

2. Mutual Facilitation of Commercial Activity.

a. The full range of Commerce Department trade promotion devices, including particularly publication of trade information, official trade mission visits and continued participation in Yugoslav trade fairs is already scheduled under the current Department of Commerce's "Commercial Program" for Yugoslavia. This program should be effectively administered to expand US-Yugoslav trade.

b. The Departments of Commerce and State should also continue to facilitate the active trade promotion program being carried out by Yugoslav commercial representatives in the US.

c. US

c. US agencies should take appropriate opportunities to indicate that measures taken by private groups and local governmental bodies in the US to discourage trade with Yugoslavia are contrary to official US policy.

d. In administering foreign procurement or other foreign participation under AID programs and the normal marketing requirements of PL 480, Yugoslavia should be treated on the same basis as developing, Free World countries to support the US policy of substituting trade for aid in our relations with Yugoslavia.

3. Yugoslav Association with Free World Economic Organizations. Yugoslavia is already a full member of the IMF and IBRD and has provisionally acceded to the GATT. The EEC commission has recently agreed to begin technical talks on trade relations between the Common Market and Yugoslavia. The US should continue to support close cooperation between Yugoslavia and these organizations to maintain the favorable progress already achieved in orienting Yugoslav economic relations and practices toward Free World economic institutions.

4. Credit

a. Credit sales of surplus agricultural commodities under Title IV of PL 480 should be continued to the extent necessary to meet Yugoslavia's import requirements for these commodities. These credits are the single most important instrument available for pursuing a broad range of US interests in Yugoslavia.

b. At the least, the EXIM Bank should continue its present programs toward Yugoslavia of guaranteeing short and medium-term credits within an overall, annual country ceiling and guaranteeing long-term project credits on terms which elicit private financing. The important US political interests in Yugoslavia should be reflected in the terms under which both the PL 480 and EXIM Bank programs are administered.

5. Other Economic Actions. The US should give careful consideration to means by which it might respond to Yugoslav requests for US participation in distinctive Yugoslav development projects which would afford the US the opportunity of expanding its presence and influence in Yugoslavia.

6. Exchanges of Visits. The US and Yugoslavia agree that both official and private contacts have been beneficial for the development of better relations. The following suggestions should be considered:

a. Acceptance

a. Acceptance by the President of President Tito's invitation to visit Yugoslavia.

b. Acceptance by the Vice President of the Yugoslav Government's invitation to visit Yugoslavia.

c. Invitations to top-ranking Yugoslav Government and Communist Party leaders to visit the US (including Vice President Rankovic, President of the Federal Assembly Kardelj, leading ideologist Vlahovic).

d. An exchange of military leaders, to indicate continued US interest in Yugoslavia in a field where contacts have greatly diminished since military grant aid was terminated in 1957.

e. Exchanges of visits with Yugoslavia at the Cabinet and sub-Cabinet levels. The program of bringing leaders of this level to the US on grants should, of course, continue.

7. Cultural Exchanges and Related Activities. The recent signing of an educational and cultural exchange agreement is evidence of the progress made in developing contacts in these areas. Further efforts are needed, however, to establish a broader and more lasting basis for exchange programs. The following steps are suggested:

a. Seek ways of developing a technical exchanges program which would stimulate the flow and use of US technological know-how in many areas of the Yugoslav economy.

b. Support initiatives by private persons or organizations sponsoring exchanges (such as the Ford Foundation exchange program).

c. Encourage participation by US citizens in international gatherings held in Yugoslavia (such as the annual "The University Today").

The above suggestions are only a few of the possible ways in which the US can stimulate closer and more fruitful ties in the broad field of educational, scientific and cultural exchanges.