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NSAM 304

TAB T

THE SOVIET UNION

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The Situation

A number of factors in the Soviet international and domestic situation both render the USSR susceptible to a continued "opening to the West" and inhibit the degree to which such an opening can be pursued. Khrushchev's overthrow did not alter this situation.

On the favorable side, the following seem of primary importance:

1. The Balance of Power. Especially in the aftermath of the Cuban crisis, Moscow has appeared to recognize that the present balance of power is relatively unfavorable to it and will remain so for a long time. As a result, Soviet policy has been essentially directed toward keeping international tension within bounds and in this context Moscow has been open at least to limited pacific measures. Linked to this has been the growing realization that the costs of nuclear war are not worth the possible gains, even if Communist forces should triumph. This realization has also had the effect of turning Soviet policy increasingly toward seeking means of reducing the risk of nuclear war.

2. The Sino-Soviet Dispute. Moscow's conflict with Peiping has enhanced the importance to Moscow of reaching agreements with the West as a means to counter Peiping's arguments about the efficacy of Soviet policy. To counter Peiping, Moscow has also sought to stress the image of the USSR as a more responsible, flexible, accessible, less dogmatic regime. In this connection Moscow has taken the line that communism will win by force of example. This implies an emphasis on pacific aspects of competition with the West and suggests increased contacts both to show off Soviet accomplishments and to learn from the outside world. After a short interruption following Khrushchev's ouster the Sino-Soviet conflict is again active.

3. Internal Economic Factors. Khrushchev's proclamation of Soviet competition with the West in all spheres aggravated the problem of finding the necessary resources both to maintain the space and armament programs and to improve the standard of living of the Soviet people. Currently this problem has been further exacerbated by agricultural failures and lower industrial growth rates. The impact of both short and long-range factors is to enhance the pressure on the USSR to seek an international atmosphere in which it will not be forced to stretch its resources too far and which might enable it to alleviate Soviet economic problems through deals in the West.

4. Internal

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NSC Memo, 1/30/95, State Dept. Guidelines
By , NARA, Date 6-9-99

4. Internal Political Factors. Khrushchev's successors will presumably continue to seek to evolve a form of rule based on greater consent, less rigid controls, and a more sophisticated approach to economic and cultural affairs. The effect of this effort has been to open up the USSR increasingly to the outside world. The process is a continuing one and can be expected to receive constant new impulse, for example, from the unresolved problem of destalinization and over the long run from the increasing educational level of the Soviet population. Moreover, the contacts with the free world already established have by now generated vested interests in their continuance.

Limitations on Soviet Evolution. While there are many hopeful aspects to developments in the USSR, it should be kept in mind that there are a number of limiting factors as well. The regime's sense of Moscow's big power status signifies a continued emphasis on military factors which tends to limit Soviet ability to divert resources to peaceful pursuits and, because of the resource pinch, requires a certain amount of tension for justification. The Sino-Soviet dispute has freed Soviet hands to some extent in relations with the West but continues to put Moscow under continuing pressure to demonstrate its communist militancy. Internally, there remain massive conservative forces and vested interests in Soviet society which are worried about the changes already made and seek to limit, and if possible, reverse previous trends. There has, of course, been no essential change in the Soviet one-party system which is designed to keep domestic changes under control. To the extent that Moscow does enter into any agreements which increase its ties with the West or tend to open up Soviet society, it does so with the calculation that the Soviet Union will also score gains either through the acquisition of knowledge or goods of benefit to the USSR or through the promulgation of a pacific image of the Soviet Union and communism useful in lulling the West. Soviet moves continue to operate in the context of an ideology basically hostile to the US and of major unresolved issues over Germany, disarmament, European security, and policy in underdeveloped areas.

Bridges to the Soviet Union

I. Bilateral Projects

While the possibilities for additional steps in the bilateral field are limited, the following projects could be considered in the concept of bridges to the East.

1. Consular Convention. The successful conclusion of the consular convention constitutes a significant step forward in our relations and thus is perhaps the most concrete "bridge" available to us. The early ratification of this agreement would certainly be a logical next step.

2. Reciprocal

2. Reciprocal Establishment of Consulates. The consular convention was negotiated with the intention of subsequently establishing consulates in the USSR and the US. The Department has planned as a first step to open a US consulate general in Leningrad. To date we do not know what the Soviets have in mind in terms of consulates in the US. However, the rapid implementation of plans to open at least one consulate in the Soviet Union and in the US is an act which can be taken within a very short time once the convention has been ratified.

3. Bilateral Civil Air Agreement. The US-Soviet civil air agreement which was negotiated and initialed in July 1961 is ready to be signed at any time. Once signed, the air agreement could lead to the establishment of direct air service between New York and Moscow within four to six months. Pan American has already prepared detailed plans to initiate such service and has selected personnel to run their Moscow office. The signature and implementation of the air agreement would contribute significantly to increasing the number of Soviet tourists and exchange visitors coming to the US. It undoubtedly would also lead to an increase in the number of American tourists going to the Soviet Union. Finally, it would result in broad contacts between civil air officials, technicians, pilots in the US and the Soviet Union, eventually involving hundreds of people on both sides based on common professional interest.

4. Military Visits. To date the Soviet Union has received visits by members of our National War College programs on at least three different occasions, the most recent of which was this year. While these visits were not of particular political significance, they were worth while in terms of personal experience and in developing a sense of understanding between military officials of the US and the Soviet Union. On each occasion the Soviet hosts were extremely cordial and went to considerable pains to make the visit valuable and constructive. Soviet military leaders have confirmed their interest in sending a similar delegation to the US in the near future in exchange for our latest NWC trip. The Department and the Department of Defense plan to receive such a delegation early this year and to organize an extensive tour designed to provide a broad picture of American power and diversity. It will be recalled that former Air Force Chief of Staff General Twining was the guest of the Soviet Air Force in the USSR in 1956 and at that time an invitation was extended to his Soviet counterpart Marshal Vershinin to visit the US. For a number of reasons including the Berlin crisis this visit has not taken place. Visits by Soviet military leaders to the US are one effective method of reducing the possibility of the Soviets underestimating the strength of the US and our ability and willingness to use this strength in defense of the free world. It is recommended that serious consideration be given to expanding military exchange visits, including at an appropriate time an invitation to Marshal Vershinin to visit the US.

5. Desalination

5. Desalination. A desalting agreement with the USSR was signed in Moscow by Dr. Horning on November 18. It provides for the exchange of scientific reports and experts' visits, and the sponsorship of joint symposia in this field. Intensive exercise of this agreement could lead to its expansion to include resident guest observers, joint research, and multilateral cooperation. Parallel programs might be established in other peaceful scientific areas such as food resources of the sea.

6. Outer Space. We expect further implementation and expansion of cooperative program in outer space activities originally agreed to with the Soviets in 1962.

In the near term we hope to include an exchange of weather and geomagnetic satellite data, an agreement for a joint publication on space biology and medicine, further experiments in space communications, and exchanges of visits to space tracking facilities. In the long run the possibilities are much broader. For example the US is on record as favoring US-Soviet cooperation in getting a man to the moon, in lieu of entirely separate national programs. The Soviets have so far given no sign of interest, but it is possible that they will at some later date indicate an interest in cooperation on at least some aspect of lunar research.

Thus, cooperation with the Soviets in space activities appears to be going about as well as expected. While we should continue to look for additional joint projects, no new big initiative appears desirable at this time as the Soviets do not appear ready for it.

7. Improvement of Seismic Data Exchange. The US Coast and Geodetic Survey is interested in improving its exchange of general seismic data with the USSR by putting it on a telegraphic basis. There have already been technical conversations with the Soviets on this subject, and we should give this matter prompt attention.

8. Aleutians-Kuriles Seismic Experiments. The Soviets turned down our offer for joint Aleutians-Kuriles seismic experiments this year, but they have agreed to our proposal to discuss with them the results of the experiments at a meeting here early in 1965. We should renew at that time the suggestion to carry out joint experiments at a later date. The ultimate purpose of these experiments is to improve our ability to discriminate between natural seismic disturbances and underground nuclear explosions.

II. Economic Actions

1. Exploratory Economic Talks. We should be prepared to begin technical discussions now with the USSR for the purpose of exploring trade possibilities. If the Soviets respond favorably to our suggestion for

such

talks, we would make clear that these talks are informal, and that measures on our side to improve trade would have to depend on lend-lease. We would also make the point that legislative authority to grant MFN, and the possible eventual conclusion of an economic agreement will depend on a constructive atmosphere in our overall relations.

2. Economic Negotiations.

a. Preparations. Since the US cannot move very far in discussions with the USSR on measures to increase trade without new East-West trade legislation (Tab I above), the Executive Branch should pursue appropriate consultations with the Congress with a view to insuring Congressional support and passage of such legislation. In connection with these consultations the Executive Branch should seek adoption by Congress, as a priority legislative item, of an East-West Trade Act, which would provide the President with discretionary authority to grant MFN treatment to the USSR and to remove restrictions on the import of Soviet furs. In the consultations with Congress it would be made clear that the ultimate decision as to timing in initiating the negotiations lies with the Executive Branch.

b. Timing. Once the necessary consultations with the Congress have been completed, and the enabling legislation obtained, the US would initiate formal economic negotiations with the USSR as soon as:

(1) A final determination has been made that (a) the climate of US-Soviet relations remains propitious, (b) such discussions will be helpful in the resolution of specific outstanding issues between the two countries and, (c) there continues to be real prospect of constructive and cooperative economic moves on the part of the USSR.

(2) We have advised our Western allies of our plan to have economic negotiations with the Soviet Union.

c. Content of Economic Negotiations. The US should be prepared, provided the USSR gives satisfaction on the points we seek, to:

(1) Enter into an economic agreement with the USSR which would extend MFN treatment to imports from the Soviet Union and lift the ban on the import of furs.

(2) Agree

- (2) Agree to extend US Government guarantees of normal commercial credits.

The Soviets should on their part agree to:

- (1) A satisfactory Lend Lease settlement.
- (2) Inclusion, in the economic agreement of general undertakings with respect to the protection of industrial property and patents, commercial arbitration and other arrangements conducive to improved trade relations.

Our primary objective in negotiating an economic agreement remains however, the conclusion of a Lend Lease settlement as satisfactory as possible and if our seeking other undertakings interferes in the accomplishment of this purpose we might consider foregoing points (2) above on both sides. These issues might then be taken up at a later date in one of the periodic consultations, for which the original economic agreement would provide, with respect to the implementation of its provisions or the consideration of related problems.

3. The US should encourage participation in Soviet commercial exhibitions such as a forthcoming chemical fair.

III. Exchanges

Exchanges as a Bridge

During the Stalin years, travel between the US and the USSR was limited virtually to officials of the two countries. Beginning in 1955 some exchanges and tourist travel began to take place which were interrupted temporarily by the Hungarian and Polish events of 1956. The first US-USSR Exchanges Agreement was signed on January 27, 1958 and the two governments undertook to stimulate and support exchanges in virtually every field of human activity, from science to tourism. The fourth such two-year agreement was signed in Moscow early this year, providing perhaps the best possible evidence that both the US and the USSR have found this series of bilateral undertakings to be a significant bridge between the differing societies of the two countries. This bridge did not collapse but actually remained open, to at least limited traffic, during periods of acute tension over Laos, Berlin and Cuba.

During the first six years of its existence, 1958-1963, the bridge of our exchanges agreements with the USSR carried a traffic of 5,494 Americans to the USSR on 520 exchange projects and 4,646 Soviet citizens to

the US

the US on 550 exchange projects. In addition, 8,000 to 12,000 American tourists visited the USSR annually and 77 to 450 Soviet tourists visited the US each year during the six-year period.

Thus the bridge exists. Its structure is broad and firm enough to bear a much greater volume of traffic. The question then arises: How may the present volume and character of the traffic be augmented to our advantage, particularly where significant imbalance exists, such as in tourism or the field of information?

Road Blocks

Obstacles to increased traffic exist primarily on the Soviet side of the bridge. Principal among them are the following:

1. The ideological control which blankets all areas of endeavor in the USSR, plus a pervasive suspicion of all alien influences.
2. Persistent Soviet efforts to limit expansion of exchanges to those fields from which the USSR can derive maximum material and psychological gains--i.e., technical and industrial fields and large performing arts groups.
3. The dead weight of Soviet bureaucracy.
4. Dollar penury.
5. Internal travel restrictions.

Obstacles exist, too, on the American side, which derive principally from the diversity of governmental and private groups in American society which are not geared to act quickly and cooperatively in an international, bilateral arrangement of exchanges. Probably most important is the lack of a steady and substantial source of funds to support specifically exchanges projects or other travel under exchanges agreements.

Ways to Increase and Improve Bridge Traffic

The nature of the Soviet obstacles enumerated above does not suggest any easy solution to the traffic restrictions on the bridge of exchanges. However, through patient pressure by the US and the injection of some new proposals for specific kinds of exchanges, it is possible that traffic may be improved. Among these steps could be the following:

1. Renewed efforts to reduce expenditure by the Soviet Union of foreign exchange and the cost of travel to and within the US, including conclusion of a civil air agreement, facilitation of port clearance for

Soviet

Soviet cruise ships and, possibly, a "Ruble-coupon" system of payment for travel and other services in this country.

2. An active campaign to break tourism in both countries out of the mold of group sightseeing trips. The success of such a campaign in the US would depend to a large extent on the amelioration of the financial and other obstacles to travel. The objective should be the facilitation of individual travel or longer stays for recreational and other purposes. In the Soviet Union, individual travel is inhibited by its high costs, Intourist bureaucracy and controls and travel regulations affecting all foreigners.

3. Soviet intellectuals, including writers and poets, should be frequently and repeatedly invited to the US and to other Western countries under private auspices. Return visits under similar auspices by American writers and poets should be stimulated without attempting to balance exactly the visits. Funds, either from the government or from foundations, would have to be made available to competent private and professional organizations to program such visits. The American branch of P.E.N., an international writers' organization, has recently taken its first exploratory step in issuing such invitations. Soviet writers should also be invited to literary meetings and (summer) writers' conferences in the US at every opportunity. Recent useful initiative in this regard has come from The Academy of American Poets, which has suggested the inclusion of Soviet poets in its program of poetry readings at the Solomon R. Guggenheim Museum in New York City.

4. Persistent efforts should be continued in the informational field. Despite stiff Soviet resistance, proposals to permit the mutual opening of reading rooms and libraries and commercial book outlets should be repeated periodically.

5. Continued official and book trade pressure on various levels for Soviet adherence to international copyright norms is desirable. The flow of books and publications in both directions--and, of course, of translations--might increase if the USSR were to conform to international copyright conventions. Although past efforts have brought a negative response, the US should continue to indicate to the USSR its willingness to institute an IMG-Information Media Guarantee-program. Soviet dollar shortages and currency restrictions have been repeatedly put forward as a primary (Soviet) excuse for the low level of Soviet purchases of books, publications, films and records.

6. US legislation should be sought which would allay Soviet fears that works of art and other objects of intrinsic value from Soviet museums might not be returned if lent to American galleries and museums. Legislation guaranteeing immunity from court attachment would facilitate the initiation of a new field of exchanges between art galleries and museums.

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7. The planning of "international years" in which Soviet cooperation might be expected to be close should be investigated. A subject in which such cooperation might be anticipated in view of rapport already established might be "international year on conservation of natural resources". Some fields of health and the elimination of disease might also be successfully implemented as an "international year". A world census or population study are other examples for possible joint effort.

8. Consideration should be given to establish a "Junior Year Abroad" exchange of university undergraduates with the USSR. (The University of Indiana already administers such a "Junior Year" program for its Soviet and Russian areas students, using Finland, however, as the main base of operations.) In addition, a "Live and Learn Language Program" could be proposed whereby individual students of English and Russian respectively would live in private homes for a period of time for the sole purpose of perfecting spoken command of the language.

9. The possibility of offering to the USSR regular schedules of television programs via TELSTAR should be investigated.

10. A proposal for a new exchange of national exhibitions along the lines of those sponsored in Moscow and New York respectively in 1959.

11. Depending on the decision to go ahead with the foregoing new proposals and, against the background of the ongoing program of exchanges, seek a steady, substantial and flexible source of funds, both public and private, in order to insure that bridges can be built.

12. Continued periodic pressure, both through diplomatic and private channels, on the USSR either to abandon completely or relax substantially its system of closed areas and other travel restrictions relating to Americans.

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Mrs. Trainor



DEPARTMENT OF STATE
WASHINGTON

June 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 a 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.

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State Dept. Guidelines
By h, 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.

BHR

Benjamin H. Read
Executive Secretary

Enclosure:

NSAM 304 Action Program

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By is, NARA Date 9-24-98

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This consists of 29 pages.
No. 26 of 26 Copies. Series A.

NSAM 304

ACTION PROGRAM FOR US RELATIONS WITH EAST EUROPE

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.

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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.

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

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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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TAB ~~EM~~

TRAVEL CONTROLS

28

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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B

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TAB B

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

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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

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 for the Protection of Industrial Property</u>	<u>Universal Copyright Convention</u>	<u>Bilateral Copyright 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

32

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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D

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TAB D

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

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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TAB *KE*

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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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F

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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NSAM 304

TAB G

BRIDGES OF IDEAS

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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 IRBM 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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NSAM 304

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.

3. New**DECLASSIFIED****E.O. 12958, Sec. 3.6****NLJ 97-204****By , NARA Date 9.24.98**~~SECRET~~

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:

(1) 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

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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NSAM 304

ANNEX TO TAB J

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

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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