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NSAM 304

TAB R

THE GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT)

Problem

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

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

Present Situation

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

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

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

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

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Yugoslavia's foreign trade pattern. The US played a key role in bringing about Yugoslavia's provisional accession.

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

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

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

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

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

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

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

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

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

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

Arguments "pro"

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

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

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

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

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

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

Arguments "con"

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

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

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

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

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

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Problems Involved in Moves to Encourage Association

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

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

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

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

Conclusions

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Conclusions

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

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

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

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TAB L

RELATIONS WITH EAST EUROPE THROUGH EUROPEAN ORGANIZATIONS

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

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

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

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

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

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

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

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

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

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

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

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

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NATO

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

The OECD

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

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

Action suggestions:

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

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

The EEC and EURATOM

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

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

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

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

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

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

Prospects for Building Bridges

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

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

EURATOM

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

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

Action Suggestions:

1. Encourage the EEC to expand its informal contacts in Brussels with the Soviets and East Europeans.
2. Arrange for a systematic exchange of views between the Community and ourselves to coordinate our policies on East-West relationships.
3. Urge the EEC to establish economic and trade missions in East European capitals along the lines of those being set up by the German Federal Republic.
4. Explore with the German Federal Republic and the EEC the possibility for an exchange of diplomatic missions between the EEC and individual East European states.
5. Examine possibilities for possible fruitful exchanges of information and technology with Eastern Europe in the field of peaceful uses of nuclear energy via the EURATOM channel, bearing in mind the possibility of eventual US-USSR-EURATOM cooperative assistance to East European states.

The Council of Europe

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

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

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

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

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

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

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

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

Action suggestion:

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

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

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

The ECE

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

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

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

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

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

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

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

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

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Action Suggestion:

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

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

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

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

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

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

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

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

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

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

Action suggestions:

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

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TAB M

ALBANIA

The Situation

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

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

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

Bridges to Albania

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

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

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We should use such a channel to gain information which would enable us to perceive and assess possible changes in the Albanian attitude toward the US, and other aspects of the Albanian situation.

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

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

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

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

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

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TAB N

BULGARIA

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The Situation

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

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

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

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

Bridges to Bulgaria

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

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

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

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

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

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

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

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

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

f. Political

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

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

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

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

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

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

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

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

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

4. Exchange

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4. Exchange of Visits

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

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

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TAB 0

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CZECHOSLOVAKIA

The Situation

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

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

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

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

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Bridges

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Bridges to Czechoslovakia

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

1. Economic and Financial Agreement.

The US should sign an agreement which would:

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

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

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

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

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

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

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

5. Exchanges

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

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

6. Cultural Exchanges and Related Activities.

The US should:

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

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

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

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HUNGARY

The Situation

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

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

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

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

Bridges to Hungary

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

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

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

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

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

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

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

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

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

c. Issuing

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

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

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

f. Liberalizing export trade procedures for nonstrategic items.

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

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

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

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

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

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

c. Open

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

8. Visits

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

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

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TAB Q

60

POLAND

The Situation

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

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

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

Bridges to Poland

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

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

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

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

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

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

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

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

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

7. Counteracting Anti-Trade Moves in the US.

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

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

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

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

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

10. Cultural

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

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

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

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

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

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

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

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

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

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

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

c. Building

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

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

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

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

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

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

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

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

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TAB R

RUMANIA

The Situation

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

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

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

Domestically

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

Bridges to Rumania

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

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

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

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

3. Credit

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

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

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

5. Mutual Facilitation of Commercial Activity.

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

b. As

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

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

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

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

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

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

10, Cultural

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10. Cultural Exchanges and Related Activities

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

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

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

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

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

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

11. Travel

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

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TAB S

YUGOSLAVIA

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The Situation

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

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

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

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

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

Bridges to Yugoslavia

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

1. Sales of Military Equipment.

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

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

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

2. Mutual Facilitation of Commercial Activity.

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

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

c. US

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

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

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

4. Credit

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

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

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

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

a. Acceptance

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

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

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

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

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

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

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

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

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

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

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TAB T

THE SOVIET UNION

66

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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By J NARA, Date 6-9-95

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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

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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

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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

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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

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- (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

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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

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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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S/S 12052

DEPARTMENT OF STATE
WASHINGTON

August 21, 1964

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J.S.M. 304
Klein
2/21/64

MEMORANDUM FOR MR. McGEORGE BUNDY
THE WHITE HOUSE

Subject: NSAM 304: Delay in Submission of
Required Report

National Security Action Memorandum 304 called for submission by August 1 of State Department recommendations on specific programs for each Eastern European country which would bridge "the gulf which divides us from Eastern Europe."

I understand that Governor Harriman has been in touch with you with regard to the Department of State's response to this directive.

In the light of your conversations with the Governor, I plan to extend the deadline for submission of this report until the end of the year. I trust that you agree with this procedure.

Grant G. Hilliker
Acting Executive Secretary

Copy sent to Brad ⁶⁸
Patterson /
drawing.

Sept. 23, 1964

EXECUTIVE OFFICE OF THE PRESIDENT
NATIONAL SECURITY COUNCIL
WASHINGTON 25, D.C.

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June 10, 1964

MEMORANDUM TO:

The Secretary of State
The Secretary of Defense
The Secretary of Commerce
Director of Central Intelligence
Director, Agency for International
Development

SUBJECT: National Security Action Memorandum No. 304

Although this National Security Action Memorandum has already been distributed as an unnumbered memorandum, it has been decided that it be included in the NSAM series.


Charles E. Johnson
NSC Staff Member

Enclosure: NSAM No. 304

DECLASSIFIED
E.O. 12356, Sec. 3.4
NEJ 93-65
By 128, NARA, Date 6-10-93

THE WHITE HOUSE
WASHINGTON

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June 3, 1964

NATIONAL SECURITY ACTION MEMORANDUM NO. 304

TO: The Secretary of State

SUBJECT: U. S. Relations with Eastern Europe

In his speech at Lexington, Virginia, on May 23, 1964, the President said:

"We will continue to build bridges across the Gulf which has divided us from Eastern Europe. They will be bridges of increased trade, of ideas, of visitors and of humanitarian aid."

The President would like the Department of State to complete by August 1, 1964, recommendations which translate this statement of policy into specific action programs for each of the Eastern European countries (with particular reference to substance and timing) and, at the same time, to examine the possibilities of multilateralizing these relations in Eastern and Western Europe.

/s/ McGeorge Bundy

cc: Secretary of Defense
Secretary of Commerce
Director of Central Intelligence
Director, Agency for International Development

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DECLASSIFIED
E.O. 12356, Sec. 3.4
NEJ 93-65
By ing, NARA, Date 6-10-93

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MEMORANDUM FOR MR. BUNDY

August 11, 1964

SUBJECT: Bridge building NSAM

The Department's response to NSAM 304 -- building bridges to Eastern Europe -- was due August 1. However, the reply is still not ready. In addition, Treasury has registered a dissent on Eastern European participation in multilateral financial groupings, e.g., the IMF, IBRD, etc.

I suggested to Ben Read that if additional time was needed the Department should ask for it. We did not want a White House deadline ignored. Ben agreed and said Governor Harriman would be calling you to discuss problems connected with the NSAM reply and asking for additional preparation time.

Keep after

David Klein

W

DECLASSIFIED
E.O. 12958, Sec. 3.5
NSC Memo, 1/30/95, State Dept. Guidelines
By g, NARA, Date 6-9-95

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EXECUTIVE OFFICE OF THE PRESIDENT
NATIONAL SECURITY COUNCIL
WASHINGTON 25, D.C.

70

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June 10, 1964

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Director, Agency for International
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Charles E. Johnson
NSC Staff Member

Enclosure: NSAM No. 304

DECLASSIFIED
E.O. 12356, Sec. 3.4
NEJ 93-65
By lip, NARA, Date 6-10-93

THE WHITE HOUSE
WASHINGTON

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/s/ McGeorge Bundy

cc: Secretary of Defense
Secretary of Commerce
Director of Central Intelligence
Director, Agency for International Development

DECLASSIFIED
E.O. 12356, Sec. 3.4
NEJ 93-65
By 118, NARA, Date 6-10-93

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71
June 3, 1964

NSM 304

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MEMORANDUM FOR

THE SECRETARY OF STATE

SUBJECT: U. S. Relations with Eastern Europe

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McGeorge Bundy

cc: Secretary of Defense
Secretary of Commerce
Director of Central Intelligence
Director, Agency for International Development

DECLASSIFIED

E.O. 12356, Sec. 3,4

NIJ 93-65

By 48, NARA, Date 6-10-93

Cy *Kim*

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Please retype
as final and
return to me

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MEMORANDUM FOR

THE SECRETARY OF STATE

U.S.

SUBJECT: Relations with Eastern Europe

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and of humanitarian aid."

The President would like to have from the Department of State, to ~~submit to him~~ ^{complete} ~~submit to him~~
~~not later than July 10, 1964, suggestions for translating this~~
statement of policy into specific actions ~~vis-a-vis~~ ^{with respect to} each of the
Eastern European countries, with particular reference to substance
and timing. ~~The recommendations~~

USSR
Poland
Romania
Hungary
Czechoslovakia
Bulgaria
Albania
Yugoslavia

programs for

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E.O. 12556, Sec. 3.4
NEJ 93-65
By isb, NARA, Date 6-10-93

by August 1, 1964

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