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THE DEPARTMENT OF STATE DURING THE ADMINISTRATION
OF PRESIDENT LYNDON B. JOHNSON

NOVEMBER 1963 - JANUARY 1969

VOLUME I

ADMINISTRATIVE HISTORY

~~PART III~~

Chapters 3 (cont.) and 4

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Chapter 3 (cont.)

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F. EASTERN EUROPE

Situated in the shadow of the Soviet colossus, but remaining distinct from it, the countries of Eastern Europe have constituted a special concern of US policy since the War. Originally swept into the Soviet sphere by Stalin's armies at the end of the War, these nations were forced to become Moscow's buffer toward the West and a potential springboard of further Soviet expansion. The practical problem thus posed for the United States has been twofold: (1) how to preserve Western security against this intrusion of Soviet power into the heart of Europe, and (2) how to ensure European peace against the long-term threat of instability which a group of restless and unhappy Soviet-repressed nations in this area would inevitably represent. Over and above these basic concerns has been our traditional friendship for the small Slavic and neighboring peoples of Eastern Europe who had contributed so much to America by their immigration, and our wish for their independence and well-being.

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The US concern over Eastern Europe passed through several phases during the three Administrations preceding President Johnson's. At first, in 1945-48, we tried to salvage at least a part of the freedom of the peoples of this region by holding Stalin to the terms of the Yalta Agreement regarding free elections and democratic governments. When this failed, we fell back upon a policy of maintaining only minimal relations with the Stalinist regimes supported by Moscow -- restricting our trade and other ties as we did with the Soviet Union itself. Our contacts both official and unofficial across the Iron Curtain fell close to zero while the West was erecting its military defenses along this new and lengthy frontier.

A premature glimpse of alternate possibilities was given to us by the surprising defection of Yugoslavia from the Soviet system in 1948. The Yugoslav move highlighted the nationalism and other centrifugal forces pulsating beneath the deceptively uniform surface of East European communism. We greeted Tito's move with intense interest and with an

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extension of our material aid. While the Yugoslav declaration of independence was not initially regarded as a portent or precedent, at least while Stalin lived, for further breaks in the monolithic Soviet hold on Eastern Europe, our support paved the way toward a future policy of encouraging similar tendencies wherever else they might appear.

Eight years later, when Hungary in an equally startling development tried to throw off Soviet rule, we saw no practical way of assisting. At the same time, however, the less violent showdown that took place that same fall between the Polish Communist leaders and Moscow, with consequent revival of limited freedoms in Poland, convinced the United States of the potentialities for gradual evolution throughout Eastern Europe, if not toward complete independence at least away from Stalinism and from undiluted Soviet control. The US extension of material aid to the Poles under their liberalized regime, which we gave even more promptly than the support we had given to Tito's independent Yugoslavia, reflected a growing US belief that broader Western relations with these strategic

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countries might contribute toward a similar loosening-up in all of them.

Thus by the early 1960's US policy-makers had become vividly aware of new ways of looking at the East European region. It was clear that the Soviet grip had weakened since Stalin's death. The troops remained, as ultimate guarantee of Soviet domination, but Moscow's ability to control and use these nations had become more complicated, less automatic. The Communist regimes, initially puppets of Stalin, felt more on their own since his passing and were increasingly inclined to apply local rather than Moscow-made solutions to the problems of running their countries. In this, they had Moscow's sanction in Khrushchev's 1956 recognition of separate roads to socialism. Here and there, naked Police power had been partly relaxed and emphasis shifted toward persuading rather than forcing populations to cooperate. Economic pragmatism had begun to appear, deviating from Soviet communist practice. National communism had raised its head, leading in one case (Romania's) to a sharp break in economic cooperation with Moscow in favor

of more independent planning and closer trade with the West. At another extreme, Albania forswore its Soviet allegiance completely.

Specifically, the trend in Eastern Europe was toward (a) an individual route by each East European country toward socialism, taking into account existing objective realities and national characteristics; (b) a change in methods of government from coercion to persuasion with some recognition given to individual freedoms; (c) an incipient pursuit of national interests and occasional reassertion of national independence, or at least, of autonomy; and (d) a reintroduction of economic pragmatism indicating a replacement of Marxist dogmatism by the empirically tested principles of the Western market economy. All such divergent trends justified Western policy-makers at the very least in looking at the East European countries henceforth as different individual entities rather than as helpless, standardized extensions of Soviet territory.

The practical conclusions drawn from all this by US policy -- at a time when we had already responded to the independent overtures of both the Poles and the Romanians -- were

clearly stated by the Assistant Secretary of State for European Affairs at hearings on The Hill in the fall of 1962. After describing the winds of change in Eastern Europe, he said:

We believe the United States can most effectively exert an influence on developments and take advantage of any favorable and liberalizing trends in Eastern Europe if the scope of relations with these countries is broadened. This includes maintaining and developing more normal and active relations with the Eastern European Governments of the Soviet Bloc. We are pursuing this course to the extent possible to do so without at the same time sacrificing our own basic principles, without endorsing the internal or foreign policies of those Governments, or accepting the status quo of Soviet domination as a satisfactory or permanent condition of affairs in that area.

We therefore envisage the utilization of existing opportunities in Eastern Europe as taking place mainly through the systematic expansion of contacts and activities which would tend to maximize US and Western influence in that area, demonstrate our interest in the people's welfare, help to sustain their national traditions and aspirations for independence and for free institutions, keep them in touch with Western thought, and help them preserve a true perspective on world developments in all

fields of human endeavor and achievement.^{1/}

Thus at the inception of the Johnson Administration in 1963 the United States was in the early stages of a policy of broadened contact with the East European countries, aimed at promoting their stirrings for autonomy and, it was hoped, their gradual re-entry into a peaceful, prosperous relationship with the rest of Europe. We had just proposed talks to the Hungarians, for example, looking toward normalization of our relations; we were in the midst of developing trade and a program of official exchanges with the Romanians; we had re-established diplomatic relations with Bulgaria (broken by that country in the 1950's); and we had reached the stage of seeking to replace aid with regular trade in our ties with both Yugoslavia and Poland. President Johnson took up this policy and endeavored to broaden, strengthen and complete it.

^{1/} Statement of Assistant Secretary of State William Royall Tyler before the European Subcommittee, House Committee on Foreign Affairs, September 13, 1962.

The President's first major pronouncement on this subject occurred in his speech of May 23, 1964, at Lexington, Virginia. In it he spelled out the American intention of striving for a lasting peace "by rebuilding European civilization within its historical boundaries." Such a reconstruction, he asserted, called for the removal of the outdated dividing line in the midst of Europe between states with different social systems and for the "building of bridges" -- of trade, ideas, visitors, and humanitarian aid -- "across the gulf which has divided us from Eastern Europe." The President gave four reasons for such an undertaking: (1) to open new relationships with countries seeking increased independence yet unable to risk isolation; (2) to open the minds of a new (East European) generation to the values and visions of the Western civilization from which they came and to which they belong; (3) to give freer play to the powerful forces of legitimate national pride -- the strong barrier to the ambition of any country to dominate another; and (4) to demonstrate that identity of interest and the prospects of progress for Eastern Europe

lie in a wider relationship with the West.

Less than a year after this speech, the President's bridge-building policy began to run into a formidable obstacle in the hostile reaction of Moscow and the East European regimes to our Viet-Nam policy. Because of this, progress in trade and exchanges, and even to some extent in the solution of ordinary diplomatic and consular problems, was largely held up for the time being. Nevertheless the President reaffirmed the importance and urgency of this broad endeavor in his New York address of October 7, 1966. In this major pronouncement on European problems, the President emphasized that the division between East and West must be healed peacefully, with the consent of the East European countries and of the Soviet Union. He defined the US foreign policy task in this respect as being "to achieve a reconciliation with the East" in a worldwide effort to lasting peace. He listed the steps that his Administration had taken or intended to take to reach this objective. They included legislation to grant the Executive authority to

negotiate trade agreements, including the extension of most-favored-nation treatment, with East European countries; removal from our strategic control list of some 400 non-strategic commodities for export to Eastern Europe; making Export-Import Bank commercial credit guarantees available to certain East European countries; preparation of a plan to ease the burden of Polish indebtedness to the United States; completion of a Fulbright Agreement with Yugoslavia; liberalization of passport regulations so as to permit more travel to East European countries; the implementation of cultural exchange agreements with Romania as well as the Soviet Union; the admission of Poland into GATT with US support; and the adherence of East European governments to the treaty on the peaceful use of outer space.

Actual "bridge-building" toward Eastern Europe in accordance with the President's blueprint continued to be slowed by practical difficulties throughout the remainder of his Administration. The obstacles were not all on the Soviet and East European side. Congress failed to enact the

East-West Trade Bill submitted by the Department of State in May 1966, under which the President would have obtained the discretionary authority to extend most-favored-nation treatment to additional East European countries (Poland and Yugoslavia already enjoyed it) when in the national interest. Congressional reaction to East European support of North Viet-Nam played its part in this failure. Renewed efforts to settle outstanding claims with Czechoslovakia and Hungary also proved futile, because of complicating factors on both sides.

There were, however, a few forward steps, mainly at US initiative. We abolished the anomalous, ten-year-old situation prevailing in US-Hungarian relations by deciding to fill the post of US Chief of Mission there, and by doing so at the ambassadorial level for the first time, agreeing with the Hungarians to raise our legations to embassies and to exchange ambassadors. We likewise raised the level of our diplomatic relations with Bulgaria. (The same step had been taken earlier with the Romanians, in 1964.) Another new departure, also a US step, was the removal of all remaining

East European countries except Albania from listing on Treasury Circular 655, the ruling which prohibits payment of social security and other benefits to residents of certain countries. Meanwhile the American presence in Eastern Europe was maintained in a number of effective ways even during the period of increased tension caused by the Viet-Nam war. One of the leading examples was our participation annually in the great commercial fairs held in most of these countries -- at Poznan, Brno, Budapest, Plovdiv, and Zagreb.

In its final months, nevertheless, the Johnson Administration saw its bridge-building policy toward Eastern Europe radically challenged by a stroke of Soviet policy, the Soviet military invasion of Czechoslovakia. Moscow's avowed motive in occupying Czechoslovakia with its armed forces in August 1968 was to stem the very type of liberalization that we had wanted to encourage. In the face of this drastic Soviet step, the State Department recommended a number of precautionary US actions, including the temporary holding up of some types

of exchanges with those East European regimes that had taken part in the Czechoslovak occupation, in order to register our censure and concern while watching what the further trend would be.

Moscow's sensational attempt to reassert complete control over the internal policies of a satellite country, reminiscent of the Stalin era, raised the question whether Western efforts to span the Iron Curtain would be productive, or indeed even possible, for the foreseeable future. There was speculation and fear that other East European states such as Romania, and possibly even Yugoslavia, would now feel Moscow's curbing power. Throughout Eastern Europe, intellectuals, economists and other elements who had been banking on closer Western ties showed profound discouragement.

While uncertainty had thus taken over for the time being, there was no ground for questioning the validity of the Administration's bridge-building policy over the long run. The facts of geography as well as national interest made it likely that the East European regimes would continue to seek

increased Western ties. The United States was in a good position from its experience with its East European programs during the 1960's to go ahead along the same line as soon as the situation warranted.

1. Albania

US relations with Albania have been atypical since the war because of the uniquely anti-Western course followed by the Albanian Communist leadership. This leadership, seeking to preserve the national independence and territorial integrity of the country following the Communist takeover in 1944, successively allied itself with Yugoslavia, the Soviet Union and from 1961 with Mao Tse-tung's China. The Albanian Communists apparently believed that they had found in the Chinese a sponsor able to provide military and economic assistance yet sufficiently distant so as to permit a degree of independence. In this role, Albania remains a source of annoyance and embarrassment to the Soviet Union and at the same time virtually closed to the West. Albania seized the

occasion of Soviet intervention in Czechoslovakia to withdraw officially from the Warsaw Pact, thus giving formal confirmation to a situation which had existed de facto for several years. Among the communist ruled states of Eastern Europe, Albania is unique in maintaining a posture of virtually total hostility toward both the United States and the Soviet Union.

With regard to US relations, November 1963 marked the 17th anniversary of the withdrawal of the post-World War II informal US mission to Albania. This mission had been sent to Tirana in 1945 to investigate conditions for possible US recognition of the post-war Albanian regime and resumption of diplomatic relations between the two countries (terminated after the Italian invasion of Albania in 1939). The mission was withdrawn because of its ill-treatment by Albanian authorities and the breakdown of efforts to arrive at a satisfactory understanding on recognition.

November 1963 also marked the end of the second year since Albania's break with the Soviet Union and its alignment with Communist China. Albanian officials and controlled information

media had repeatedly denounced the United States after the withdrawal of the US mission in 1946, and these attacks became increasingly abusive with the growth of Red Chinese influence in this small country. Between November 1963 and the present there has been no significant change in this situation: the United States has not extended diplomatic recognition to the Albanian Communist regime and we maintain no government-to-government contacts. US interests in Albania and Albanian interests in the US are not represented by any Third Powers.

As a result of the promulgation of new US passport regulations in October 1966 more closely defining the power of the Secretary of State to place foreign areas off limits to travel by American citizens, the Department of State on March 15, 1967 announced that henceforth American citizens wishing to travel to Albania would not be required to obtain the special US passport validation previously required.^{2/}

^{2/} The Federal Register, March 16, 1967 (amendment to 22 CFR 51.72).

Shortly after this action by the Department, the Albanian authorities ceased to issue visas to American citizens, even to those selected Americans of Albanian descent who had been able to obtain visas in past years for the purpose of visiting relatives in Albania. In July 1967, the Albanian authorities took steps to cut off the flow of funds and gifts to persons in Albania from post-World War II emigres from Albania living outside Albania.

These arbitrary actions, together with the continuing bitter hostility toward the US Government in contrast to the gradual improvement which has marked US relations with most other East European countries, clearly reflected the Albanian regime's rejection of any "bridge-building" efforts and its lack of interest in any steps which might improve the atmosphere and open the way to the establishment of official relations. There appeared to be little prospect of any positive change in Albanian official attitudes and policy toward the United States so long as the country remained under the rigidly Stalinist leadership of Party First Secretary Enver Hoxha and Premier Mehmet Shehu.

2. Bulgaria

The United States has made repeated efforts to build bridges to the Bulgarians but with only partial success. Since the takeover by the Communists soon after the War's end, the Bulgarian regime has been one of Moscow's most reliable satellites, loyally serving Soviet interests and giving no overt hint of national-communist tendencies. Bulgarian relations with the West have accordingly followed closely the pattern set by Moscow. At the height of the Stalinist period Bulgaria even severed diplomatic relations with the United States, and it did not get around to restoring these until 1959.

Our relations with Bulgaria made some progress thereafter until the end of 1963. At the time when President Johnson took office, we had succeeded in obtaining a financial claims agreement with the Bulgarians, and the first visit of a US Cabinet Member to Bulgaria -- that of Secretary of Agriculture Freeman -- had taken place that August. However, there was soon to be a rude interruption. Asen Georgiev, a senior

Bulgarian official, had been secretly arrested in Moscow in September on charges of having been for many years a paid CIA agent; the events stemming from this arrest brought our relations to the lowest point since the 1959 agreement to reopen diplomatic missions. Georgiev was brought to public trial in Sofia on December 26, and next day the Bulgarian authorities permitted a "spontaneous" demonstration at the American Legation during which windows on the first three floors were broken and several American automobiles were badly damaged. Instead of showing regret for the attack, the Bulgarian authorities used it as a pretext for demanding that the Legation close down its popular exhibit windows. US Minister Eugenie Anderson refused this demand,^{3/} though the Bulgarian Foreign Ministry continued to press it for some time thereafter.

At the end of 1964, Minister Anderson resigned her post, to be succeeded by Nathaniel Davis in May 1965. He in turn

^{3/} From Sofia, Telegram 436, January 9, 1964
(Limited Official Use).

was succeeded by John M. McSweeney, who assumed charge of the Legation in Sofia in October 1966. In the spirit of President Johnson's speech of October 7, 1966, in which he asserted the desire of the United States to improve relations with the countries of Eastern Europe, we informed the Bulgarian Government on November 11, 1966 that we would be prepared to raise United States and Bulgarian diplomatic representation in the respective capitals to the level of Embassies.^{4/} The Bulgarians agreed to our proposal, and a public announcement of the change in diplomatic representation was made on November 28, 1966. In April 1967, Mr. McSweeney presented new credentials as the first US Ambassador to Bulgaria.

Raising the level of US and Bulgarian diplomatic representation, while conforming to the world-wide trend towards elimination of Legations, reflected also a considerable improvement in US-Bulgarian relations from the low point of December 1963. A number of problems still remained, in particular jamming of Voice of America Bulgarian language broadcasts,

^{4/} Department of State Telegram 83516, November 11, 1966 (Confidential/LIMDIS).

continued propaganda attacks on the United States in controlled Bulgarian information media, Bulgaria's failure to initiate talks with the Foreign Bondholders Protective Council as it had undertaken to do in the July 2, 1963 claims settlement, and Bulgarian delay in accepting a 1963 US proposal to negotiate a consular convention. Nevertheless, apart from these the United States at the end of 1966 was reasonably satisfied with its relations with Bulgaria. We had successfully participated in almost every Plovdiv International Trade Fair since 1960. Exchanges of persons between the two countries had begun to increase in 1966 from the very low level which had prevailed since diplomatic relations were resumed in 1960. The Bulgarian authorities appeared to have decided to prevent any further serious demonstrations against the premises of the US mission in Sofia such as had brought relations to the low level of December 1963. Looking towards the future, the United States viewed the raising of the level of the diplomatic representation as a positive "bridge-building" step vis-a-vis Bulgaria.

Perhaps responding to the US action, the Bulgarian Foreign Ministry gave our Embassy in Sofia in February 1967, its long-awaited reply to the 1963 US proposal that a consular convention be negotiated. At the time the proposal was made in 1963, it was felt that conclusion of a convention would be in accordance with our policy of bringing our consular relations throughout the world into conformity with modern conditions. It was also believed that a consular convention would be consistent with our efforts to improve bilateral relations with Bulgaria and would help to enlarge the opportunities available for projecting our influence more effectively in Bulgaria. Additionally, a consular convention would assist US officials in representing more effectively the interests of our citizens in Bulgaria.^{5/} Following several exchanges of information on conditions and practices in the two countries, formal negotiations on the basis of a Bulgarian draft consular convention opened in Sofia at the end of May 1968. These negotiations were still in progress

^{5/} Department of State Airgram A-20 to Sofia, October 24, 1963 (Confidential).

at the end of the year.

From the Bulgarian point of view, development of US-Bulgarian relations over this period was held back in large part by the failure of the United States to enact legislation permitting Bulgarian goods to enter the US market at the lower most-favored-nation tariff rates applicable to the exports of most other countries, including Bulgaria's principal trade competitors. However, the United States demonstrated its interest in developing trade by sending a trade mission to Bulgaria in October 1966 and receiving a Bulgarian trade mission in return in May 1968. The United States in April 1966 established a \$10 million line of credit for Bulgaria to purchase US agricultural commodities,^{6/} but Bulgaria had not drawn upon this credit when it expired in March 1967.

Thus in the period 1964-68 US-Bulgarian relations improved perceptibly, if slowly, although Bulgaria continued to give full public support to Soviet positions on international issues. From our viewpoint, however, the improvement was at

^{6/} To Sofia, Telegram 444, April 12, 1966 (Limited Official Use).

least temporarily interrupted in the second half of 1968 by Bulgaria's action in participating in the Soviet military occupation of Czechoslovakia which we condemned. As one of the moves by which we showed our strong disapproval, the United States cancelled its current exhibition in the Plovdiv Fair.

3. Czechoslovakia

The United States felt a more direct concern for Czechoslovakia than for some of the smaller or more remote East European countries. It occupied a more strategic and central position on the dividing line between East and West. Big-power aggression -- the Nazis' in 1938, the Soviets' in 1948 -- had had a way of sweeping flagrantly over the Czechs and Slovaks in the full glare of world dismay and censure. We knew the Czechoslovaks intimately from their large numbers in our own population, and we regarded them traditionally as champions of a democracy similar to ours. When they fell prey to Stalinist rule after the War, we wanted to believe that they would eventually find ways of shaking it off again.

For the West, it was felt to be particularly frustrating and ominous that this wholly Western and democratic nation in the heart of Europe should remain forcibly cut off from its normal, peaceful European and American ties. Yet hard-core Communist rule prolonged this state of affairs in Czechoslovakia long beyond the time when Poland and Romania had begun to change.

With the belated Communist takeover of 1948, an ultra-Stalinist regime was installed which survived more than a dozen years beyond Stalin's death. Because of this, liberalization trends were delayed until the mid-1960's, and throughout this period US-Czechoslovak relations remained consistently poor. Until the downfall of the hard-line Novotny regime in January 1968, there was little opportunity for any improvement. After that, some movement began to appear toward normalizing US-Czechoslovak relations. But this movement was again interrupted, at least temporarily, by the Warsaw Pact invasion of Czechoslovakia in August 1968, though the United States did what it could to champion the Czechoslovak cause in the

UN Security Council. ^{7/}

Our relations with the Czechoslovak Stalinist regime in the earlier period were virtually confined to a few subjects of immediate concern. The main one of these was the settlement of mutual financial claims. From the early 1950's these were under intermittent but consistently unsuccessful US-Czechoslovak negotiation. In the fall of 1964 and spring of 1965 the long unresolved issue again became acute: the question of an equitable settlement for private US property nationalized by the Czechoslovak Government and the return of Nazi-looted Czechoslovak gold which is held by the Tripartite Gold Commission (consisting of the United States, United Kingdom and France.) Senior officials of the Department of State, after hearing the serious objections of the US claimants, supported by numerous members of the Senate and House, refused to approve a draft agreement which had been initialed ad referendum in Prague in 1961 but had not been put into final

^{7/} From USUN, Telegrams 2900, August 22, 1968
~~(Confidential)~~, and 2901, August 22, 1968
(Unclassified).

form until 1964.^{8/} The Czechoslovak Government called this action politically immoral and irresponsible and insisted on a settlement based on the ad referendum draft agreement. In February 1967 it restated this position in a note to the US Government. The United States responded in November 1967 with an entirely new proposal for the settlement of the gold-claims issue,^{9/} which adequately took into consideration the interests of the claimants. In May 1968, the Czechoslovak Government rejected this new proposal as unjust and unfair. When Czechoslovakia was invaded in August 1968 still another US proposal was in preparation. Although it was much like the one of 1967, it included the additional feature that Czechoslovak payments on the claims beyond the initial payment would be dependent upon the US granting of most-favored-nation treatment to Czechoslovakia. It was realized that if this

^{8/} From Prague, Airgrams A-331, December 27, 1964 (~~Confidential~~), and A-332, December 27, 1964 (~~Confidential~~); US Note No. 109, January 11, 1965 (Unclassified).

^{9/} Czechoslovak Note No. 103.920/67-6, February 24, 1967 (Unclassified); Memorandum from Assistant Secretary Leddy to the Secretary, September 11, 1967 (~~Confidential~~); US Aide Memoire, November 7, 1967 (Unclassified); Czechoslovak Note No. 22.816/68-6, May 2, 1968 (Unclassified).

long-outstanding question could be settled on such a basis it would remove one of the most serious obstacles to the normalization of US-Czechoslovak relations.^{10/}

Poor relations were further exacerbated in October 1966 when a Soviet commercial airliner was diverted to Prague for the purpose of allowing Czechoslovak officials to arrest Vladimir J. Kazan-Komarek, a US citizen, on charges of espionage activities against the Czechoslovak Government during the post-1948 period. Our Embassy in Prague learned of Kazan-Komarek's arrest not from the Czechoslovak officials but from a fellow passenger who reported his failure to re-board the airliner following its unscheduled stop in Prague. Consular access was denied for more than three weeks and was then permitted only intermittently. In February, following numerous high-level representations in Washington, Prague, and Moscow and certain US retaliatory measures, including delaying visa issuances for Czechoslovak citizens, Kazan-Komarek was

^{10/} Memorandum from Assistant Secretary Leddy to the Secretary, August 14, 1968 ~~(Confidential)~~.

released and returned to the United States, but only after ^{11/} having been tried and convicted of espionage activities.

Another crisis over foul-play to a US citizen arose less than a year later. On August 16, 1967, Charles H. Jordan, Executive Vice President of the American Joint Distribution Committee, disappeared in Prague under mysterious circumstances. Three days later his body was found in the Vltava River in Prague. After initial indifference bordering on rudeness, Czechoslovak officials began to show cooperation when their Government realized the seriousness with which the United States viewed Jordan's disappearance and subsequent death. ^{12/} Nevertheless, despite assurances then and later by Czechoslovak officials that a thorough investigation of the circumstances surrounding Jordan's death was being made, and despite the

^{11/} Department of State Telegram 89420, November 22, 1966 (Confidential/EXDIS); From Prague, Telegrams 947, December 2, 1966; 1275, February 3, 1967; and 1282, February 4, 1967 (Confidential)

^{12/} From Prague, Telegrams 0257, August 17, 1967 (Limited Official Use); 0265, August 18, 1967 (Confidential); 0282, August 20, 1967 (Confidential); 0287, August 21, 1967 (Confidential); 0317, August 22, 1967 (Limited Official Use); and 2475, June 28, 1968 (Confidential).

submission of certain preliminary reports to the US Government, a satisfactory explanation remained lacking.

In addition to the Kazan-Komarek and Jordan cases, there were other lesser incidents involving US citizens. However, after the change in the Czechoslovak leadership in January 1968, an improvement became evident in the handling of Americans in trouble. Moreover, Czechoslovak visas requested by US citizens were being handled promptly, and during the spring a number of Czechoslovak exit documents were issued to Czechoslovak citizens wishing to leave permanently in order to join immediate relatives who were US citizens.

In June 1968 the Department of State recommended to the Treasury Department that Czechoslovakia be removed on humanitarian grounds from Treasury Circular 655 listing so as to make possible the payment of social security and other US benefit to annuitants living in Czechoslovakia.^{13/} The step was welcomed by both Governments as a move toward

^{13/} Letter from Assistant Secretary of State Leddy to Assistant Secretary of the Treasury Petty, June 20, 1968 (Unclassified); The Federal Register of June 25, 1968 (Unclassified).

normalizing relations.

In the course of the past five years there has been a steady annual growth in the number of Czechs and Slovaks coming to the United States and Americans going to Czechoslovakia as exchange visitors. By the spring and summer of 1968, however, this steady increase had become a dramatic upsurge as record numbers of Czechoslovak nationals began exchange visits in the United States and the scope and tempo of official efforts toward technical cooperation between the United States and Czechoslovakia widened to include such fields as transportation, coal research, and water pollution.

The Soviet-led military intervention in Czechoslovakia in August 1968 eclipsed, at least for the time being, all other questions of US-Czechoslovak relations. During the period of crisis preceding the military intervention, the United States pursued a policy of extreme caution and restraint. While expressing sympathetic interest in the Czechoslovak cause, the US Government took pains to adopt a position of strict non-involvement in the events then taking place and

to make this position publicly known. When in July the USSR attempted to implicate the United States directly in the crisis by claiming that US arms had been found cached in Czechoslovakia for the use of "counterrevolutionary" forces and by other unfounded charges of Western "imperialist" machinations in the Soviet press, Secretary Rusk called in Soviet Ambassador Dobrynin to inform him of the falsity of the charges and to demand an explanation.^{14/} (A more detailed discussion of this and subsequent representations is found in the section on US-Soviet relations.) During these difficult days Czechoslovakia officials expressed gratitude for the position taken by the United States with regard to the crisis. Following the invasion, the United States co-sponsored a resolution in the United Nations Security Council calling^{15/} for the withdrawal of the invading forces. In subsequent weeks, however, the embattled Czechoslovak Government requested that the United Nations not concern itself with the intervention.

^{14/} Department of State Telegram 206933, July 23, 1968
(Confidential).

^{15/} From USUN, Telegram 2900, August 22, 1968
(Confidential).

The Soviet military occupation of Czechoslovakia inevitably threw open to question the future character of the US-Czechoslovak relationship. Whether the trend toward improvement that was evident in the first half of 1968 could be maintained was problematical. With Soviet forces in occupation and in the face of unrelenting Soviet pressure to undo or restrict the reforms put into effect since January, it appeared doubtful whether the Czechoslovak leadership could respond to US initiatives for better and more normal relations; a new, conservative Party leadership--if one should be imposed -- might have no desire for improving relations with the United States. In the period of flux and uncertainty during the fall of 1968 it was impossible to discern the patterns which might emerge.

4. Hungary

The case of Hungary presents still another variant of US relations with Eastern Europe. We were concerned over Hungary's forcible Communization under Stalin and over the

poising of strong Soviet military forces so close to the West. The presence of nearly two million Hungarian-Americans in our population were an additional cause of affinity and concern. We were shocked by the sanguinary Soviet suppression of the Hungarians' unpremeditated uprising in 1956, and frustrated by our inability to do anything. From a sense of outrage, which was widely shared around the world, we led the opposition in the years 1957-62 to the seating of Hungary's delegation in the UN General Assembly. We similarly refrained from accrediting a Minister to the Soviet-supported regime of Janos Kadar in Budapest after the uprising. We felt it was up to Kadar and his Soviet sponsors first to make amends for the 1956 events and to liberalize the lot of the Hungarian people.

Hence no normalization began in US-Hungarian relations for nearly seven years. By the fall of 1963, however, ways of re-establishing contact with Hungary seemed to be open, following internal conciliatory steps taken by the Kadar Government, which included a broad amnesty affecting political

prisoners. These steps made it possible for us to support the termination of the Hungarian question at the United Nations and the acceptance of the Hungarian delegation's credentials at the 18th General Assembly. Informal conversations concerning the ways and means of settling unresolved bilateral problems, began in Washington during 1963 at our initiative,^{16/} and continued in Budapest in 1964 and again in 1967-68. The agenda of these conversations included financial claims, a consular convention, cultural exchanges and abolition of personnel ceilings on the missions in Washington and Budapest. Owing to a variety of factors results were difficult to obtain. Among these factors were Hungary's continuing close adherence to Soviet foreign policy positions on major international issues such as the Viet-Nam conflict and the Arab-Israeli confrontation, and Hungarian participation in the 1968 Warsaw Pact invasion of Czechoslovakia. The defection in Washington of Hungarian

^{16/} Budapest Telegram 69, August 3, 1963 (Secret);
Budapest Airgram 328, March 1, 1963 (Confidential).

Chargé d'Affaires Janos Radvanyi during the spring of 1967 proved to be another delaying factor.

Consequently, the four rounds of talks proposed by the United States and held between 1965 and 1967 to settle the question of US financial claims against Hungary, amounting to about \$100 million (as well as counterclaims raised by Hungary against the United States) ended inconclusively.^{17/}

In the course of the claims talks the Hungarians linked their ability to pay compensation to US citizens with Hungary's obtaining most-favored-nation tariff treatment. The underscore this point, on January 1, 1968 they introduced a high retaliatory duty on US exports to Hungary. They explained informally that, although they were aware of President Johnson's positive intentions in submitting the East-West Trade Bill of 1966 to Congress, pragmatically they felt that the way to obtain MFN treatment for their goods was through reciprocity rather than by waiting for favorable Congressional action on the Bill. It was evident that their action would lead to a further decrease in US-Hungarian trade, which already

^{17/} Budapest Telegram 1142, May 2, 1967 (Confidential).

showed a downward curve of US exports from \$17.4 million in 1963 to \$7.6 million in 1967, compared with a slight increase during the same period of US imports from \$1.6 million to \$3.9 million.

Some forward movement in the economic field took place in spite of the generally unsatisfactory trend in trade relations. To advertise US achievements and to make our presence felt we made the decision in 1965^{*} to open for the first time a pavilion at the Budapest International Fair^{18/} and were annual participants from that year onward. We proposed and agreed to an exchange of patent gazettes in 1968;^{19/} during the same year, on the recommendations of our Embassy at Budapest the US Department of Agriculture sent an inspection team to Hungary which recommended clearance for the export to the United States of the canned meat products of two Hungarian packing plants.^{20/} At the end

^{18/} Budapest Airgram 121, October 22, 1964 (Limited Official Use).

^{19/} Budapest Airgram 98, September 14, 1967 (~~Confidential~~).

^{20/} The Federal Register, Volume 33, No. 163, August 21, 1968.

* Actually decided on in the fall of 1964.

of June 1968, the US Government removed Hungary, on humanitarian grounds, from Treasury Circular No. 655, which had since 1951 prohibited Social Security and other benefit payments to beneficiaries resident in Hungary.^{21/}

As far as cultural exchanges and the movement of persons are concerned, the gains we made were almost entirely in the private field, because the Hungarians, giving political considerations (Viet-Nam) as an excuse, refused to discuss intergovernmental exchanges. Between calendar years 1963 and 1967 the number of Hungarians coming to the United States under private exchange programs rose from 28 to 42, although the number of American exchange scholars making similar visits to Hungary remained stationary (3). In the matter of general travel, which we promoted in order to increase mutual contacts and to open the door wider to closer relations with the West, the American Legation at Budapest in 1965 reported an increase in the number of non-immigrant visas issued to Hungarians to over 4,500 from about 300 in 1962.

^{21/} The Federal Register, Volume 33, No. 128, July 2, 1968.

United States travel to Hungary also rose dramatically to a figure in 1967 well in excess of an annual 30,000 tourists and transients.

With the increasing number of US visitors to Hungary the question of negotiating a consular convention with the Hungarian Government arose. Our interest lay principally in ensuring the right of consular access to American citizens detained on various, usually minor, charges by the Hungarian authorities. Our Ambassador at Budapest accordingly broached the subject of a consular agreement with the Hungarian Foreign Office in January 1968.^{22/} The actual opening of negotiations was delayed throughout 1968.

A positive step toward improved bilateral relations was the agreement reached with the Hungarians in November 1966, on our proposal, for the reciprocal raising of the Washington and Budapest Legations to Embassy levels.^{23/} The Hungarians responded positively to our initiative and, after some delay

^{22/} Budapest Telegram 813, January 19, 1968 (~~Confidential~~).

^{23/} Department of State Telegram 83517, November 11, 1966 (~~Confidential/LHMIS~~).

in implementation, the exchange of ambassadors agreed upon in November 1966, was completed in September 1968 with the arrival in Washington of the first Hungarian Ambassador to the United States. The Hungarian delay in carrying out the 1966 exchange of ambassadors agreement was due to Budapest's pique over the 1967 defection in Washington of its Charge d'Affaires, to whom, in accordance with our traditions, we had granted permanent residence in the United States.^{24/}

Martin J. Hillenbrand, the first American Ambassador to Hungary, presented his credentials in Budapest on October 30, 1967; the Letter of Credence of Janos Nagy, the first Hungarian Ambassador to the United States, was accepted by President Johnson on October 7, 1968.

5. Poland

The Poles occupy another special place as objects of US interest and policy. World War II started on their territory, and the United States was closely concerned in their struggle to regain their independence during and after the War. We

^{24/} State Department Press Briefing, May 17, 1967.

did not willingly acquiesce in their total submergence in the Soviet sphere of control, but there was little we could do to prevent it. Poland's territory became for Moscow a key link in the extension of Soviet military power into the heart of Germany.

As the largest East European nation, and one having strong historic ties of culture and immigration with the United States, the Poles were bound to remain of major interest to us. The Polish-Americans are much the largest East European ethnic group in our country and have always been an important factor in our policy toward Eastern Europe.

For all of these reasons the United States took great interest in the signs of Communist nationalism and of differences with Moscow that appeared in Poland in 1956. The accompanying measures of internal liberalization by the Gomulka regime, though limited, encouraged Western hopes of more to come. In fact, with the crushing of the Hungarian Revolt of that year, Poland's assertion of greater independence seemed to place her at the head of those forces which, hopefully, might lead

to further liberalization in Eastern Europe and to a loosening of the bonds which bound those countries to the USSR. It seemed important, from the standpoint of US foreign policy interests, that Poland should succeed in her new course and stand as an example to others. With these considerations in view, the United States embarked on a number of programs in the half-dozen years after 1956, the largest of which was the sale to Poland of surplus agricultural commodities under our Public Law 480. Our cultural and scientific exchanges with Poland grew rapidly and helped bring the Polish people back into the mainstream of Western culture. In spite of a subsequent gradual retreat by the Gomulka Government from some of the liberal positions taken in 1956, the United States continued to exercise an influence in Poland through cultural and technical exchanges, trade ties and, until its phasing out in 1964, PL-480 assistance.

During the years of the Johnson Administration the Polish leadership's full support of international Communist goals in Viet-Nam, and its continuing retreat from the relatively

liberal domestic policies of 1956, made implementation of our "bridge-building" policy and improvement of our relations with Poland increasingly difficult. The retrogression in Poland inevitably caused adverse US public and Congressional reactions which, in turn, gave rise to additional strains and obstacles in bilateral relations.

The last local currency sales agreement under Title I of PL-480 was signed February 3, 1964. Further agreements were prohibited by law in October 1964 as a reaction to support given Cuba by Poland and other countries. This Congressional action was opposed by the Department on the grounds that the President should have flexibility in trade policy and that these transactions were an important part of our effort to sell our agricultural commodities abroad.^{25/} The agreement in question, while serving US interests and policy objectives, had brought significant benefits to the Polish people. With their ending, however, it was necessary

^{25/} The Secretary of State's News Conference, September 10, 1964.

to divert trade relations into more directly commercial channels. Accordingly, in 1966 and 1967, the United States granted Poland a total of \$75 million in Commodity Credit Corporation credits for the purchase of US agricultural commodities. We extended these credits on a commercial basis on terms which made US agricultural commodities competitive with those offered by other suppliers.^{26/}

In April 1967, the United States concluded an agreement with Poland for use of a part of the large Polish currency account built up by the US Government in Poland over the years as the result of PL-480 sales.^{27/} Under this agreement, \$16.75 million in Polish currency was set aside to finance US programs. The largest portion of this fund envisaged use of \$9.5 million over a 10-year period to expand English language teaching in Poland. By the end of the following year, however, Congress had not yet authorized such expenditures.

^{26/} NAC Action 67-223 completed July 27, 1967.

^{27/} Exchange of Letters in Warsaw between American Ambassador John A. Gronouski and Polish Minister of Foreign Trade Witold Trampczynski dated April 10 and 11, 1967 (Unclassified).

In 1967 the Viet-Nam issue and in 1968 the issue of an anti-Semitic campaign in Poland led Congress to consider withdrawing most-favored-nation tariff treatment from Polish exports to the United States. Polish participation in the Soviet-led armed invasion of Czechoslovakia in August 1968 was bound to revive Congressional sentiment for withdrawing MFN treatment from Poland. The Department of State opposed any such Congressional action in both 1967 and 1968 because the step would have been in violation of our GATT obligations, and because we doubted that it would basically affect the ^{28/} Polish policies to which we objected.

In spite of these negative aspects of recent US-Polish relations, commercial and cultural relations showed some improvement. The value of two-way trade continued to increase and seemed likely to exceed \$165 million for 1968. With our support, Poland became a full-fledged member of GATT in

28/ Briefing Memorandum from Assistant Secretary of State John M. Leddy to the Secretary dated August 23, 1967 (Limited Official Use); Memorandum from the Under Secretary to the President dated July 8, 1968 (Unclassified).

in October 1967.^{29/} We believed that it was in the US interest to draw Poland further into multilateral trading relationships and thus to afford it some means of reducing its dependence on the Soviet Union. Until 1968, the level of our cultural exchanges with Poland, in both the Government and the private spheres, exceeded that with any East European country other than Yugoslavia.

6. Romania

Situated closer to the USSR than most other East European satellites, and having had a hard-line Communist regime ever since the War's end, Romania was regarded in the West as an unlikely country from which to expect independent developments such as those that had occurred in Poland and, abortively, in Hungary. Yet in the early 1960's the Romanian Communists surprised the world by embarking upon a program that ran counter, in many ways, to the wishes of the Soviet Union. The United States joined with the West European countries in taking advantage of the Romanian regime's new desire for freer trading and other relations with the West.

^{29/} From Geneva, Airgram TAGG A-481, June 27, 1967
(CONFIDENTIAL).

The Romanian move was largely precipitated by Soviet economic interference. In mid-1962 Khrushchev revealed a grand design for Eastern European economic development that would have consigned Romania to an agricultural and light industrial role in COMECON. Intent on developing an economy based on heavy industry but unable to depend on Soviet assistance, the Romanians turned increasingly to the West, took steps to reduce Soviet influence in their country, and gradually loosened their Eastern European ties. This display of independent action offered excellent possibilities for improving the US-Romanian bilateral relationship.^{29a/} The Romanians quickly proved receptive to such possibilities, especially in the economic, commercial, cultural and scientific fields. They continued in this direction in steadily increasing measure from 1962 onward.

With mounting evidence in 1963 and early 1964 that Romania's independent course was solidly-based and would continue

^{29a/} Department of State, Special Information Note, Romania--the Successful Rebel, October 14, 1964.

indefinitely, we invited a high-level Romanian delegation to the United States to discuss steps for improving our relations. As a result of the meetings in Washington (May 18-June 1, 1964), which took place a month after a dramatic open "declaration of independence" had been issued by the Romanian leadership on April 22, the United States agreed to extend to Romania an export licensing procedure which permitted export of a broad range of industrial equipment to Romania without the need for individual licenses. ^{30/} The US delegation, headed by Governor Harriman, also agreed to issue export licenses for 11 of 15 items on the Romanian "shopping list" and to consider granting Export-Import Bank guarantee credits to cover such sales. Ex-Im Bank credit insurance was made available to ^{31/} Romania in June.

We agreed in the same talks to consider authorizing the sale of a nuclear power complex, provided the Romanians

^{30/} Department of State Press Release No. 263, June 1, 1964.

^{31/} Confidential exchanges during Harriman -- Gaston-Marin Talks of May 18-June 1, 1964 (Confidential).

accepted IAEA safeguards. The Romanians subsequently scaled their requirements from the United States down to the purchase of a heavy water plant and accompanying technology. The President indicated that he "strongly" approved the sale, and AEC authorization was granted July 31, 1968.^{32/}

Both because of the 1964 meetings and a more sympathetic US attitude toward trade with Eastern Europe, two-way trade with Romania increased from a volume of \$2 million in 1963 to over \$25 million in 1967. Pressure from certain American right-wing organizations caused the termination of negotiations between the Romanian Government and Firestone for a synthetic rubber plant in 1965.^{33/} Encouraged by the US Government, the Romanians in 1968 reopened talks on a similar transaction, this time with Goodyear.

The 1964 talks and the cordial atmosphere surrounding them also led to the elevation of the US and the Romanian diplomatic missions from the level of legations to that of

^{32/} Letter of AEC Chairman Seaborg to Senator Pastore, July 31, 1968.

^{33/} Congressional Record Volume III, No. 135 -- remarks by Senator Fulbright.

embassies in 1964.^{34/} In a confidential undertaking, the Romanians also permitted the emigration of several hundred dual nationals and others who were eligible to come to the United States.

In the 1964 talks, the United States and Romania also agreed to begin negotiation of a consular convention. We had originally proposed talks on this subject in April 1961. The United States wanted an agreement because the provisions of the convention in force, which was negotiated in 1881, were outdated, partially abrogated, and no longer respected by either side.^{35/} Negotiations began in Washington in January 1965 but were "recessed" sine die in May with several major issues unresolved. The Department hoped that it might prove possible to resume the negotiations in due course.

Since 1960 the United States and Romania have had a written arrangement (the only one we have with an Eastern

^{34/} Department of State Press Release No. 263, June 1, 1964.

^{35/} Position Paper, "Negotiation of New US-Romanian Consular Convention", May 7, 1964 (Confidential).

European country) for cultural, educational and scientific exchanges.^{36/} A steady increase in the volume of two-way exchanges was registered from 1963 onward. A markedly greater US cultural influence was evident in Romania after 1963. The Romanians no longer jammed broadcasts by the Voice of America and Radio Free Europe; they permitted the limited sale of American overseas newspapers; American films, books, and plays were in frequent evidence; and American performers and specialists appeared in Romania in increasing numbers. At the same time, Soviet cultural influence virtually disappeared from Romania.

Encouraged by Romania's independent course and moderate positions on international issues, the United States in 1967 supported the election of Romanian Foreign Minister Manescu as President of the UN General Assembly, the first Communist diplomat to occupy this post.^{37/}

^{36/} Treaty Series 4642, US-Romanian Exchange of Notes, Washington, December 9, 1960.

^{37/} Memorandum from Assistant Secretary of State Sisco to the Secretary of State, March 20, 1967 (Confidential); Telegram from the Department of State to USUN, June 27, 1967 (Confidential); Letter to Senator Jackson from William B. Macomber, Jr., July 26, 1967.

His subsequent performance in that office commanded both general and US respect, and we so informed the Romanians.

In June 1967, Romanian Prime Minister Maurer visited President Johnson. A year later, Deputy Prime Minister Birladeanu and a party of distinguished Romanian scientists spent three weeks (June 18-July 9, 1968) in the United States at the invitation of the White House, under the sponsorship of Presidential Science Adviser Hornig. A joint statement issued on July 8 called for substantially increased cooperation in science, including peaceful uses of atomic energy.

7. Yugoslavia

As the first East European Communist state to become independent of the Soviet Union, Yugoslavia has had a special interest for US policy over a period of twenty years. The Yugoslavs were expelled from Stalin's Cominform in June 1948. Their subsequent display under Tito's leadership of a firm determination to maintain their independence, in the face of heavy Soviet military, political and economic pressures, led

the United States to extend substantial programs of military and economic assistance. The programs were intended to support Yugoslav independence and economic development. At the same time, they were designed to encourage (so we hoped) a development of liberalization and greater freedom within Yugoslavia.

The US program of grant military assistance from 1950 to 1959, when it was terminated by mutual agreement, totaled some \$700 million. Our programs of economic assistance, including sales of surplus agricultural products under the Food For Peace Program, totaled approximately \$2 billion during the years 1950-66.

During the 1963-68 period covered by the present history, the development of US-Yugoslav relations was generally favorable despite a number of stresses and strains. Yugoslavia's domestic politics produced more freedom, and its Communist regime continued on its independent course. We felt that the long-standing US interest in promoting freedom for the peoples of Yugoslavia and in supporting Yugoslavia's independence was

advanced.

Yugoslavia's position as a non-aligned leader, together with its communist ideology, led it during this period to adopt a critical attitude toward our policies in areas such as the Dominican Republic, Greece, the Near East, and Viet-Nam. During the 1967 Arab-Israeli hostilities, Tito's subjective support for his non-aligned colleague Nasser was reflected in Yugoslav charges that the United States was behind an "imperialist conspiracy" allegedly directed at the overthrow of "progressive" governments all over the world. The initiative taken by President Johnson in July 1967 to exchange frank views with Tito on the Near East did much to restore reason on the Yugoslav side.^{38/}

On Viet-Nam, the Yugoslavs maintained strong criticism of US policies. This criticism reached an officially orchestrated crescendo at a mass meeting in Belgrade on April 6, 1968. Tito's regime, however, did not carry on trade with

^{38/} Department of State Telegram 13567, July 27, 1967 (SECRET).

North Viet-Nam, and Yugoslav shipments to that country were limited to gifts of medical supplies, plasma, school supplies, and clothing transmitted by the Yugoslav Red Cross.

Tito's forthright support of Czechoslovakia during 1968, both before and after the Soviet led-invasion, underlined the Yugoslavs' adherence to an independent course. They were careful to show this independence toward us, too, however -- sometimes in small ways. In July 1968, for example, the Yugoslav Government asked us to remove our Military Attache aircraft, which had been maintained in Yugoslavia for 20 years. In requesting its removal and a reduction of our service attache staff, Tito's Foreign Office emphasized that they were doing so in order to be able to better resist pressures from "other" countries for similar representational privileges. Such pressures the Yugoslavs found difficult to resist, since they had to rely increasingly on the USSR for new military equipment, given their positive trade balances with the Soviets, as well as Western restrictions on sale of arms.

Activities by certain Yugoslav emigre groups also continued to handicap US-Yugoslav political relations. The Yugoslav Embassy in Washington and the Yugoslav Consulates-General in New York, San Francisco, and Chicago were bombed in the early morning of January 29, 1967 by unknown persons, probably belonging to such groups. We granted the Yugoslavs ex gratia compensation for repair or replacement of damaged property not covered by insurance, for medical expenses incurred as a result of the bombings, and for personal injuries reportedly sustained by Yugoslav employees.^{39/} Nevertheless, since the culprits could not be brought to justice, the bombings remained a continuing source of irritation. Another irritant in bilateral political relations was the formal commemoration in 1968 by the Governor of California and the Mayor of Cleveland, at the request of certain Croatian-American

^{39/} Department of State Notes to the Embassy of the Socialist Federal Republic of Yugoslavia dated April 21, 1967, and February 5 and September 12, 1968. (UNCLASSIFIED)

groups, of the anniversary of the establishment of a Nazi-puppet Croatian government in Zagreb in 1941.

A positive note in US-Yugoslav relations was struck on November 9, 1964, when a Fulbright Agreement providing for educational exchange was signed.^{40/} This is the only Fulbright Agreement we have with a Communist government. Under this agreement there were, by 1968, 30 Yugoslav students and 25 Yugoslav professors, researchers, and educational administrators in the United States. Additionally, there were 225 Yugoslav students and 101 Yugoslav faculty members, researchers, and educational administrators in the US under other than Fulbright sponsorships. In Yugoslavia, there were 10 US students and 10 US faculty members under United States Government sponsorship, and 10 more American students under other sponsorships. Furthermore, numerous research projects in Yugoslavia were being funded under P.L. 480.

^{40/} TIAS 5689; 533 UNTS 39. (UNCLASSIFIED)

By November 1963, US grant economic assistance to Yugoslavia had been limited to disaster relief and voluntary agency deliveries.^{41/} On January 1, 1967, new legislation took effect which removed the remaining possibility for dollar sales under PL 480, because of Yugoslav ship-trade with Cuba.^{42/} The voluntary agencies terminated their programs in July 1967. However, Yugoslavia continued to enjoy most-favored-nation treatment. (Under the provisions of Section 402 of the Foreign Assistance Act of 1963 (PL 88-205), the President, on March 26, 1964, had made a determination^{43/} permitting continuation of MFN treatment to Yugoslavia).

^{41/} Subsection (f) of Section 620 of the Foreign Assistance Act of 1961, as amended, which was added by Section 301 (d) (3) of the Foreign Assistance Act of 1962.

^{42/} Section 103(d) of the Agricultural Trade Development and Assistance Act of 1954 as amended (PL 480). The amendment precluding sales for dollars was contained in the Food for Peace bill, signed November 11, 1966, by President Johnson, which took effect January 1, 1967.

^{43/} Department of State Press Release No. 144 of April 3, 1964 (UNCLASSIFIED).

Yugoslav legislation adopted in July 1967 makes Yugoslavia the first Communist country to permit the investment of foreign private-venture capital in its economy. Contacts between American and Yugoslav business organizations began at once, and the prospects were that, following some modification of the Yugoslav law, American private investment would enter the Yugoslav scene.

In 1967 Yugoslavia approached the United States for a \$30 million debt rollover. We did not meet this request, largely because of US balance of payments considerations. We did, however, in that year grant Yugoslavia \$40 million in CCC credits for purchase of wheat and cotton.^{44/} Also, the EXIM Bank began guaranteeing loans by US commercial banks to Yugoslav importers. Additionally, a Presidential determination in May, 1968 provided authority for the EXIM

^{44/} National Advisory Council Actions 67-133 of May 5, 1967 and 67-237 of August 4, 1967 (UNCLASSIFIED).

Bank to extend loans directly to Yugoslav importers. ^{45/}

US exports to Yugoslavia dropped in 1967 due to the prohibition of sales under Title IV of P.L. 480. Nevertheless, in 1967, US exports to Yugoslavia totaled \$124 million and imports from Yugoslavia were \$80 million. Copper, zinc, and lead were significant US imports from Yugoslavia. Industrial equipment was a major US export item to Yugoslavia.

The development of US-Yugoslav trade did not proceed without opposition and criticism in the United States. In response to attacks against the Reynolds Tobacco Company by certain private groups because of Reynolds' purchases of Yugoslav tobacco, the Secretaries of State, Defense and Commerce in joint letters, dated October 10, 1965 and August 8, 1968, assured the Reynolds Tobacco Company that its purchases of Yugoslav tobacco were "entirely consistent with our national

^{45/} Letters, dated May 7, 1968, from the President to the Vice President and the Speaker of the House of Representatives advising them of this determination. (UNCLASSIFIED)

security." In their letter of August 8, 1968, the Secretaries said that they believed that the independence which Yugoslavia had been able to maintain for twenty years with continued support from the United States had been responsible in some measure for the increasing political and economic independence shown by other Communist countries in Eastern Europe.

The Soviet invasion of Czechoslovakia on August 20, 1968, gave added significance to United States-Yugoslav relations. The Yugoslavs were alarmed over the possibility that this sensational military-political move by Moscow foreshadowed further Soviet actions against Communist states seeking to pursue independent courses.^{46/} President Johnson on August 30 at San Antonio expressed our concern over this possibility when he warned the Soviets not to "unleash the dogs of war" with the invasion of any other country. Since a Soviet invasion of Yugoslavia would create an international situation

^{46/} From Belgrade, Telegrams 4075, August 21 (LIMITED OFFICIAL USE), and 4088, August 23, 1968 (~~CONFIDENTIAL~~).

of extreme gravity, the United States took steps to re-emphasize its interest in Yugoslavia's independence. In this connection, Ambassador C. Burke Elbrick, who was in Washington on consultation, was authorized to state the President's interest in Yugoslavia's independence, sovereignty, and economic development, following his meeting with President Johnson October 14.^{47/} Previously, on October 4, President Johnson had received Yugoslav Deputy Prime Minister Gligorov.^{48/} Subsequently, October 17-19, Under Secretary Katzenbach visited Belgrade where he was received by Tito.^{49/} The Yugoslavs asked for no grant military or economic assistance, but expressed their interest in developing economic ties with the West. This they believed would signal strongly to Moscow Western interest in

^{47/} Department of State Telegram 255682, October 15, 1968 (UNCLASSIFIED).

^{48/} Department of State Telegram 246777, October 4, 1968 ~~(CONFIDENTIAL)~~.

^{49/} Department of State Telegram 261355, October 24, 1968 ~~(SECRET)~~.

Yugoslavia's independence. US officials were agreed on the desirability of developing economic ties with Yugoslavia and studied the possibilities in this direction. ^{50/}

In this regard, the United States has been particularly interested in supporting Yugoslavia's program of economic reform, begun in 1965, which is intended to transform what was essentially a centrally controlled, command-type economy into a Western-style, market-type economy. This program has led to pressures on Yugoslavia's hard currency reserves. As a result, the Yugoslavs have been especially interested in actions by the United States and other countries which might alleviate some of these pressures during the next few years when demands on Yugoslavia's hard-currency reserves are expected to be greatest. The Soviets in attacking Yugoslavia have condemned the economic reform as incompatible with socialism and have predicted the reform's failure. ^{51/}

^{50/} Department of State Telegram 248753, October 2, 1968 (SECRET).

^{51/} From Belgrade, Telegrams 4740 and 4741, October 22, 1968 (LIMITED OFFICIAL USE).