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~~CH 3, Sec G~~	~~East West Trade~~ open 4-15-97 NLJ 96-333 ~~Secret [SANITIZED 6/29/83, NLJ 83-71] 26 pp~~		~~A~~

FILE LOCATION

Administrative History of the Dept. of State, Vol. I
Chapter 3, Sec. G

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EAST WEST TRADE

G. EAST - WEST TRADE

1. Pre-1963 Background

At the time when the Johnson Administration took office, the effort to give substance to our policy of encouraging non-strategic trade with the Soviet Union and Eastern Europe was in mid-course. President Kennedy's announcement on October 9, 1963, of willingness to permit sales of surplus American wheat or wheat flour to the Soviet Union was an attempt to take advantage of the first firm evidence of Soviet interest in substantial purchases of consumer goods in the United States.

The decision did not raise a basic policy question, since the Department of Commerce had announced two years earlier, on June 22, 1961, its willingness to consider for approval export license applications to ship US-subsidized surplus agricultural commodities to the USSR and other Eastern European countries for convertible currency.[1/] Any legal questions

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1/ Department of Commerce, Bureau of Foreign Commerce Press Release FC 61-217; Current Export Bulletin No. 852, June 22, 1961.

were disposed of by a letter from the Attorney General to the Secretary of State.[2/] It was anticipated that prospective sales in 1963 might amount to $250 million.

This important transaction, however, had been placed in jeopardy in November 1963 by a bill introduced by Senator Mundt (S. 2310) to prevent the Export-Import Bank from guaranteeing private financing of wheat sales to the Soviet Union. Hearings on this bill before the Senate Banking and Currency Committee took place on November 20 and 21, with Under Secretary Ball testifying as well as Secretary Dillon of the Treasury, President Linder of the Export-Import Bank and other witnesses.

The question of financing was crucial to the completion of the grain transaction with the Soviet Union since the Soviets had made availability of credit on the same terms

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2/ 88th Congress, 1st Session, House of Representatives, Document No. 163, Communication from the President of the United States transmitting a report to the Congress giving the reasons for this Government's decision not to prohibit the sale of surplus American wheat...to the Soviet Union, October 10, 1963.

provided by the Canadians a condition of the sales, and the Soviet trade delegation had suspended its negotiations with American grain dealers until the Senate could deal with the financing issue.

On November 22, following the Senate Committee hearings on November 20 and 21, follow-up actions, including the preparation of a coordinated executive branch statement of views on Senator Mundt's statement of November 20 in support of S. 2310, were being taken to improve the legislative situation at the time that news of President Kennedy's assassination was received. Action along these lines was deferred in the aftermath of the assassination, but President Johnson's continued support of the wheat deal (which he had specifically endorsed early in November in a speech before the Liberal Party of New York) assured the defeat of the Mundt bill (57 to 35) on November 26.

This represented the first legislative victory for the Johnson Administration, and it was characterized by the Washington Post on November 27 as "a dramatic vote of confidence" in the new President. The Senate action cleared the way for completion of the large wheat sales to the Soviet Union and certain other Eastern European countries, totalling $140 million to the Soviet Union alone.

The key policy document on trade with the Soviet Union and the other countries of Eastern Europe as the Johnson Administration took over was the report of August 9, 1963, from the Export Control Review Board to President Kennedy on East-West Trade.[3/] The report included seven recommended actions. On September 19, 1963, President Kennedy had generally approved the recommendations, adding that in giving this approval he would like to have it understood that "I am strongly in favor of pressing forward more energetically than this report and its recommendations imply in our trade with the Soviet and Eastern Bloc." [4/] Specifically, the President

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3/ Memorandum for the President, August 9, 1963, from the Export Control Review Board Chairman (Secretary of Commerce Luther Hodges) on "East-West Trade (SECRET).

4/ Memorandum for the Export Control Board, September 19, 1963, signed by President Kennedy (SECRET).

agreed that the Export Control Review Board should proceed with five studies recommended in the ECRB memorandum of August 9. These were: (1) an analysis of the possibilities and problems inherent in an effort to organize technology sales to nations under Communist control and make policy recommendations; (2) a contingency plan for negotiating a bilateral trade agreement with the USSR; (3) a study of whether US interests in a period of expanded East-West trade could be adequately protected either by a step-by-step or by a bilateral agreements approach, and whether it was necessary also to constitute a US commercial corporation; (4) a study to determine the necessary content of a new East-West Trade Act and to develop data for use in Congressional consideration of such an Act; and (5) an examination of problems arising from relations with our allies and third countries in the sphere of multilateral strategic controls, including exploration of the feasibility of modifying the COCOM system while preserving the substance of mutual security protection.

The President had specifically approved two recommendations. These recommendations, the second and third in the

ECRB memorandum of August 9, 1963, read as follows:

(2) Proposed Action: The Department of Commerce should keep existing procedures under review through the ACEP structure to make sure that individual licensing decisions are not made in a manner so as to weaken a future negotiating posture for the US and so as to reflect the prevailing state of relaxations with the USSR.

(3) Proposed Action: In the light of the rapidly changing conditions in Eastern Europe, the Export Control Review Board should prepare guidelines for a less restrictive, step-by-step expansion in trade with individual nations of Eastern Europe, within the present legal structure.

The President emphasized that the spirit of the third recommendation with respect to Eastern European countries should apply not only to the preparation of guidelines but to the disposition of current licensing issues. He also expressed the belief that someone within the government should have central responsibility for translating the program into action, and he asked for advice from the Secretaries of Commerce, State and Defense on this point.

On October 21, 1963, McGeorge Bundy in a memorandum for the ECRB[5/] reported that the President had accepted the recommendation of the Secretary of State that established channels would be used for consideration of the problem of East-West trade. It was understood that Under Secretary of State Ball would be responsible for coordination, and that Under Secretary Roosevelt was specifically designated for responsibility in this field in the Department of Commerce. The memorandum concluded with the observation that the President had "emphasized his interest in prompt and energetic action in this field."

Work began on the President's September 19 assignment prior to the designation of responsibility on October 21, but the issues connected with the decision to sell wheat took the center of the stage in October and November. By the time of the change of Administration in November, therefore, it can be said that the debate on East-West trade policy within the Executive Branch had finally been resolved in terms of a

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5/ Memorandum for the Export Control Review Board, October 21, 1963, signed by McGeorge Bundy (SECRET).

definite action program. The major thrust of the program was towards increased non-strategic trade and towards greater flexibility of trade control policy.

2. Wheat Sales and Export-Import Bank Financing

The defeat of the Mundt bill made possible the completion of the contracts for sales of wheat to the Soviet Union with provision for credit financing, although the Soviets elected not to purchase on credit but rather made all their purchases on a cash basis. Senator Mundt subsequently renewed his efforts to limit the role of the Export-Import Bank in trade with Eastern Europe in connection with the appropriation of funds for the use of the Export-Import Bank in the Foreign Assistance and Related Agencies Appropriation Act of 1964. The Senator's proposed amendment to the Act contained no provision for waiver and would have in effect prohibited the Export-Import Bank from participating in financing commercial exports to Eastern Europe. This was opposed by the State Department on the grounds that it would tie the President's hands in the conduct of foreign policy and, in particular, obstruct the policy of widening useful contacts with Eastern European countries. The amendment was subsequently modified by Congress to provide for a Presidential waiver. Title III of the Act as amended in January 1964 required the President to determine that credit guarantees by the Export-Import Bank would be in the national interest before the Bank could engage in financial guarantees. During the next two years the President made several determinations upon the recommendations of the State Department. In February 1964 he made a determination to enable the Export-Import Bank to issue guarantees for financing trade with Yugoslavia, and for agricultural sales to the USSR, Romania, Hungary, Poland, Czechoslovakia and Bulgaria.[6/] In June 1964, following commercial discussions with Romania, the President determined that the Export-Import Bank could issue guarantees for financing non-agricultural sales to Romania.[7/] A

6/ Letters to the President Pro Tempore of the Senate and the Speaker of the House of Representatives from President Johnson (White House Press Releases, February 4, 1964).

7/ Letter to the President Pro Tempore of the Senate and the Speaker of the House of Representatives from President Johnson (White House Press Release, June 15, 1964).

determination extending the same treatment to Hungary, Poland, Czechoslovakia, and Bulgaria was made by the President in October 1966.[8/]

These determinations (except for Yugoslavia) were subsequently nullified and the Export-Import Bank was effectively removed from any possibility of export financing activities for Eastern Europe by the amendment of the Export-Import Bank Act of 1968 (PL 90-267) which ruled out Presidential discretionary authority until the end of hostilities in Viet-Nam.[9/] The President signed this law on March 13, 1968. The Department of State opposed this amendment on the grounds that it would not permit the President any flexibility to allow transactions with particular Eastern European countries that might be in the US economic interest and that might advance our national objective towards these countries.

8/ Remarks of the President at the National Conference of Editorial Writers, Carnegie Endowment Building, New York City (White House Press Release October 7, 1966).

9/ "Eximbank Extended and Lending Authority Increased," Department of State, Current Economic Developments, Issue #802, March 26, 1968, pp. 16-17 (LIMITED OFFICIAL USE).

3. US Flag Shipping Requirement

An even more difficult problem affecting the grain sales to the Soviet Union stemmed from the decision by President Kennedy that "the wheat we sell to the Soviet Union will be carried in available American ships, supplemented by ships of other countries as required."[10/] Subsequent discussions with the International Longshoreman's Association resulted in a revision of the Commerce Department regulations that made it clear that a strict 50-50 shipping rule would apply to both wheat and feed grain purchases by the USSR and to wheat and flour shipments to Eastern European countries other than Poland, Romania and Yugoslavia. A somewhat later decision resulted in the extension without publication of the 50 percent rule for all feed grains to all the Eastern European countries already subject to the 50 percent rule with respect to wheat shipments. In late 1964, it was decided that it would not be commercially feasible to apply the 50 percent rule to a single cargo destined only in part to an Eastern European destination. The "part-cargo requirement" thus

10/ "Transcript of President's News Conference" of October 9, 1963, The Washington Post, p. A-14, October 10, 1963.

developed as an informal relaxation of the 50-50 rule.

Although aware of the domestic considerations involved, the Department was opposed to the 50 percent rule because of its negative impact on our foreign relations. In the Department's view, the rule laid us open to the charge of violating treaties of friendship, commerce and navigation, since it extended flag discrimination beyond government-financed cargoes. Domestic considerations, however, prevailed. The United States in 1964 shipped 65 million bushels of wheat to the Soviet Union. However, once the Soviet Union's more urgent needs had been satisfied, the 50 percent requirement became a major obstacle to further Soviet purchases of grain from the United States.

The impact of the shipping restrictions in limiting United States agricultural sales to Eastern Europe was examined from time to time within the executive branch, most definitely in an interagency study of "Wheat and Feed Grain Cargo Restrictions" requested of the Secretary of Commerce by the White House in 1966 and completed in 1967. This study, with full support of the State Department, recommended seeking labor agreement to the elimination of the 50-50 shipping requirement, but, at Alan S. Boyd's request, it was not sent forward to the President because of concern over its impact on the development of a new maritime policy.[11/] The recommendation was revived in 1968 as a result of the report of the East Europe Agricultural Team headed by Henry Hall Wilson, Jr., President, Chicago Board of Trade, and Roy F. Hendrickson, Executive Secretary, National Federation of Grain Cooperatives.[12/] The invasion of Czechoslovakia effectively deferred further action.

4. Expansion of Trade

There were two major threads of East-West trade policy development that continued through the years of the Johnson Administration. The first of these was the encouragement of non-strategic trade including the removal of specific licensing requirements and the simplification of export licensing

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11/ Memorandum for Acting Secretary of Commerce Trowbridge, "Policy re Wheat and Grain Shipments to European Communist Countries," March 31, 1967, signed by Alan S. Boyd (CONFIDENTIAL).

12/ US Department of Agriculture Press Release, USDA 2295-68, July 17, 1968 (UNCLASSIFIED).

procedures. The second grew out of the desire to use discretionary authority in existing legislation, and to seek necessary new authority, in order to respond effectively to developments in the individual nations of Eastern Europe. The movement of events in Romania beginning in 1963 gave special emphasis to the importance of the latter objective.

a. Romanian Talks

A status report with respect to the recommendations of the Export Control Review Board was transmitted to the White House by the Department of State on December 18, 1963, summarizing the progress on the various action headings.[13/] By December 17, 1963, the Department had prepared papers on "Policy Guidelines on Trade with Eastern Europe" and an "Action Program for Romania." The first of these papers set forth general principles and a scenario for the use of expanded trade as a means of advancing our general objectives in Eastern Europe, when developments within individual countries warranted.

13/ Memorandum for Mr. McGeorge Bundy, the White House, "Status Report on East-West Trade Action Program," December 18, 1963, signed by Marion A. Baldwin for Benjamin H. Read (SECRET).

The second gave a very specific set of proposals for negotiations with Romania on commercial and related matters. These papers were approved by the President in February 1964 and served as a basis for initiating talks with Romania in May 1964.[14/]

One of the essential pre-conditions for these talks was the ability of the United States to agree to issue export licenses for the sale to Romania of certain items on a "shopping list" drawn up by that country. The decision to do so was reached in a meeting of the interdepartmental Advisory Committee on Export Policy of the Department of Commerce on May 18, 1964. The Department of State favored approval of most items on the shopping list, and was in agreement with the outcome of the meeting.[15/] The results of the discussion with

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14/ Memorandum for the President, "Trade with Eastern Europe," February 25, 1964, signed by Under Secretary of State Ball with concurrences by Deputy Secretary of Defense Vance, and Under Secretary of Commerce Roosevelt (SECRET).

15/ Operating Committee Document No. 2502, May 18, 1964, "Romanian Shopping List," sets forth and discusses the items; Advisory Committee on Exports Policy (ACEP) Policy Determination No. 33/1, June 11, 1964, sets forth the authorization by the Secretary of Commerce to approve, subject to conditions set forth, certain licenses for export to Romania (CONFIDENTIAL).

the Romanians were set forth in a public communique and in related exchanges of letters.[16/]

The most important of the purchases which the Romanians wished to make were two synthetic rubber plants -- a polyisoprene and a polybutadiene plant, each of 30,000 tons per year capacity. The successful bidder was the Firestone Rubber Company. However, on April 20, 1965, Firestone announced its decision to terminate negotiations with the Romanians. The reason for the decision was the company's concern over the impact on its domestic sales of a right-wing boycott campaign by the Young Americans for Freedom. A letter to Senator Fulbright from Under Secretary Ball on July 27, 1965, described the role of the Department in encouraging Firestone to sell a synthetic rubber plant to the Romanians.[17/]

16/ Joint Communique on US-Romanian Talks, May 18-June 1, 1964, Department of State Press Release No. 263, June 1, 1964 (UNCLASSIFIED); two letters of June 1, 1964 from W. Averell Harriman, Chairman, Delegation of US, to Georghe Gaston-Martin, Chairman, Delegation of Romania, and two letters of the same date in confirmation. One of the two exchanges dealt with the possible purchase of nuclear power plants in the US by Romania. The second covered other understandings reached pertaining to trade. Both exchanges are CONFIDENTIAL.

17/ Letter of July 27, 1965, to Senator Fulbright, drafted by G. W. Ball, Department of State RM/R File 12052.

The major project which resulted from the 1964 agreement with Romania was a catalytic cracking plant sold by the Universal Oil Products Company, valued at approximately $22.5 million with Export-Import Bank guaranteed financing of $15.2 million.

During the May 18-June 1, 1964 talks in Washington, the Romanians expressed serious interest in purchasing nuclear power plants in the United States. One of the letters sent to the Chairman of the Romanian delegation on June 1 gave agreement in principle to such a sale subject to consultation with Congress and our allies, and on the understanding that there would be an IAEA safeguards agreement.[18/] There was consultation with the Joint Atomic Energy Committee, and with the other Coordinating Committee (COCOM) countries. The latter resulted in an amendment of the international atomic energy materials control list early in 1965, supported and negotiated by the State Department, to permit special case-by-case approval of civil research and power reactors subject

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18/ Letter from W. Averell Harriman, Chairman, US Delegation, to Georghe Gaston-Marin, Chairman, Delegation of Romania, June 1, 1964 (CONFIDENTIAL).

to IAEA safeguards.[19] The President was informed of the status of these consultations on August 11, 1965.[20]

The purchase of a nuclear power reactor in the United States did not come to the point of active contract negotiations because the Romanians were uncertain as to the type of reactor they wanted and Congress (through the Joint Committee on Atomic Energy) never gave its approval to the project. The question of a Romanian purchase of a heavy water plant in this country did receive favorable consideration. Such a plant would be tied in with a nuclear power complex with a power reactor supplied by another country. Presidential approval of the heavy water plant, subject to high level State clearance with Senator Pastore, was obtained on April 27, 1968,[21] and following consultation by Under Secretary Katzenbach

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19/ The Battle Act Report 1965, Department of State Publication 8019, February 1966, pp. 4-5; p. 80.

20/ Memorandum for the President, "Nuclear Reactor for Romania," August 11, 1965, signed by Under Secretary for Economic Affairs Thomas C. Mann (CONFIDENTIAL).

21/ Memorandum for the President from the Secretary of State, "Sales of Heavy Water Plant to Romania," April 22, 1968 (S/S #6197); Memorandum to Assistant Secretary of State Leddy from Benjamin H. Read, Executive Secretary, April 27, 1968 (CONFIDENTIAL).

with Senator Pastore, was subsequently conveyed to the Romanians. The State Department fully supported the project because of its importance to the US foreign policy objective of encouraging Romanian independence from the Soviet Union.

b. Efforts at Increased Trade

President Johnson in an address at Lexington, Virginia, on May 23, 1964, spoke of the desirability of building bridges "across the gulf which has divided us from Eastern Europe." The President said that these would be bridges of increased trade, of ideas, of visitors, and of humanitarian aid. In his subsequent State of the Union message in 1965 he referred to government exploration of ways to increase peaceful trade with the Soviet Union and the other countries of Eastern Europe.

On February 16, 1965, the President announced the appointment of a Special Committee on US Trade Relations with East European Countries and the Soviet Union under the chairmanship of J. Irwin Miller, Chairman of the Board of the Cummins Engine Company. A member of the State Department's

Policy Planning Council, Edward R. Fried, was assigned to work with the Committee as Executive Secretary. The Miller Committee made its report to the President on April 29, 1965.[22/] On May 20, 1965, the President commended the Committee for its work and for its searching analysis and recommendations.

The Miller Committee Report, fully supported by the State Department, was accepted as the authoritative summation of Administrative views on non-strategic trade with Eastern Europe. In accordance with its recommendations, a proposed East-West Trade Relations Act was prepared and transmitted to the Congress on May 11, 1965, by the Secretary of State at the direction of the President. The proposed Act was introduced in the Senate on May 17 as S. 3363 and in the House on May 24 as H.R. 15212.

Neither the 89th nor the 90th Congress acted on this proposed legislation. If enacted, it would have provided the

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22/ The Battle Act Report 1965, Appendix A. (UNCLASSIFIED).

President with discretionary authority to negotiate bilateral commercial agreements with individual Communist countries for the purpose of extending non-discriminatory tariff treatment in return for equivalent benefits to the United States, whenever he determined such an agreement to be in the national interest.

The President continued to urge that the Congress enact legislation of this kind, although the Administration bill was not reintroduced in the 90th Congress. He also took actions within existing legislative authority to encourage trade with Eastern Europe. These actions, taken on the Department's recommendation, included the simplification of export licensing regulations, authorization of Export-Import Bank guarantees of commercial credit to Poland, Hungary, Bulgaria and Czechoslovakia, and authorization of Export-Import Bank financing of exports to the Soviet-Italian FIAT auto plant. These actions were announced by the President on October 7, 1966.[23/]

23/ Remarks of the President at the National Conference of Editorial Writers, New York, October 7, 1966 (White House Press Release).

The announcement of willingness for the Export-Import Bank to help in financing exports to Italy for inclusion in the automobile plant FIAT was to build in the USSR served as a focus for efforts in both the Senate and the House to restrict all Ex-Im Bank financial involvement in trade with Eastern Europe. The Subcommittee on International Trade of the House Committee on Banking and Currency made an intensive study of the FIAT project in 1966 and 1967 and recommended favorably on American participation.[24/] Both the House Banking and Currency Committee and the Senate Banking and Currency Committee reported out versions of the Export-Import Act extension that would have permitted continued Export-Import Bank financial involvement in East-West trade on the basis of Presidential discretion. More restrictive proposals were made from the floor in both Houses, however, and the bill finally enacted precluded such financing for the duration of

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24/ "The FIAT-Soviet Auto Plant and Communist Economic Reforms," a report pursuant to H.R. 1043, 89th Congress, Second Session, for the Subcommittee on International Trade, Committee on Banking and Currency, House of Representatives, March 1, 1967.

the Viet-Nam war. Sales of United States machinery without Export-Import Bank financial assistance totaled somewhat over $30 million.

Attempts by certain groups to prevent some commercial transactions with Eastern Europe or to boycott the products of companies trading with Eastern Europe have been met by the Department of State with positive efforts to clarify US policy. These efforts were stimulated in particular by a campaign beginning in 1965 against the products of cigarette companies importing tobacco from Yugoslavia. A special pamphlet, "Private Boycotts vs the National Interest," was prepared for the purpose of summarizing the relevant US policy.[25/]

5. East-West Initiatives

Early in June 1966, former Secretary of State Dean Acheson prepared for the President a memorandum on ways to improve NATO, which included a section on "Suggestions for

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25/ Department of State publication 8117, August 1966.

Improving the Environment in Central Europe." 26/ The latter section encompassed a number of possible steps whose "long-term effect may be in creating a better environment for a step-by-step approach to ending the division of Europe." This memorandum resulted in NSAM 352 of July 8, 1966, reflecting the President's instruction "that -- in consultation with our Allies -- we actively develop areas of peaceful cooperation with the nations of Eastern Europe and the Soviet Union" and that the Secretary of State be responsible for proposing specific actions. 27/

On December 4, 1966, Secretary Rusk sent to the Secretaries of Defense, Commerce and Treasury three proposed initiatives in the trade area dealing respectively with US Export Licensing Policy," "COCOM," and "Foreign Assets and

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26/ Memorandum for the President, "Measures to Increase Cohesion of NATO, Final Response to NSAM 345," signed by Cyrus R. Vance and George W. Ball, covering a memorandum "Measures to Increase the Cohesion of NATO and the North Atlantic Community," (SECRET).

27/ National Security Action Memorandum No. 352, "Bridge-Building," to the Secretary of the Treasury and others, signed by W. W. Rostow, July 8, 1966 (SECRET).

Cuban Assets Control." 28/ Responses to these proposals, qualified on various points, were received in late December and early in 1967. 29/ Subsequently, the Department of State attempted with some success to obtain action on more limited parts of these proposals.

Some items which previously required special validated licenses for export from the United States to Eastern Europe and the USSR could subsequently be shipped under general license. By late 1968, the US position for the forthcoming COCOM List Review included removal from the embargo of some items of limited strategic significance. The procedure of identifying items for simplified exceptions treatment in COCOM had been adopted in certain cases. The recommendation

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28/ Letters with attachments of December 4, 1966, signed by Dean Rusk, Department of State files S/S No. 15301 (SECRET).

29/ Letter signed by Secretary McNamara to Secretary Rusk, February 13, 1967; Letter signed by Secretary Fowler to Secretary Rusk, December 22, 1966; Letter signed by Acting Secretary Trowbridge to Secretary Rusk, March 3, 1967; Letter to Deputy Assistant Secretary of State Joseph A. Greenwald from Acting Assistant Secretary of Commerce Lawrence C. McQuade, June 7, 1967 (all SECRET except last, CONFIDENTIAL).

that COCOM participating countries comment on exception cases rather than approve or disapprove was used as part of a US negotiating position (not accepted) for improved control of technology in COCOM.

The proposals for reducing the impact of the Treasury controls over US subsidiaries abroad trading with Cuba and Communist China were pursued further through the IRG but without resolution.[30/]

30/ Department of State Memorandum from Robert M. Beaudry, EUR/IRG, to EUR/IRG Regular Members, "Proposal to Mitigate the Extraterritorial Effects of US Cuban Assets Control and Foreign Assets Control Regulations," (CONFIDENTIAL with SECRET attachment).