

12. With regard to sub-paragraph (b) of paragraph 7 the minimum facilities which the two Governments have in mind would be the provision of fuel and temporary and minor servicing arrangements sufficient to enable the satellite aircraft to make the return journey to its country from the airport concerned.

13. With regard to restrictions proposed in sub-paragraph (c) of paragraph 7 the two Governments have found that export controls reinforced by good relations between themselves and manufacturers and exporters of aircraft and aircraft equipment in their countries have made it possible effectively to prevent the sale and export of aircraft and spare parts directly to Soviet or satellite agencies, but there is always the possibility that equipment sold to a purchaser may subsequently find its way by resale and re-export into the hands of Soviet or satellite agencies. Warranties that this shall not happen may be extracted from the purchaser, but it is inherent in the transaction that such warranties will rarely be enforceable in the courts of the vendor's country. The conclusion is that no country can by itself exclude the possibility of new or second-hand equipment exported by its nationals reaching countries to which it desires to deny them. To the extent however that agreement is reached among the Governments concerned that each of them will take steps to prevent the export or re-export of equipment to the Soviet Union and satellite countries, the individual national restrictions imposed in pursuance of this common policy will supplement each other and combine to produce an effective measure of containment.

14. It does not seem feasible to draw up a comprehensive list of the types of equipment which might for this purpose be denied to the Soviet Union and satellite countries. Such a list would almost certainly, in practice prove incomplete, and there would always be borderline cases on which one Government might desire to consult another. The two Governments have, however, in mind that, broadly speaking, not only aircraft frames and engines and spare parts for these should be subject to the policy, but also all accessories necessary to the operation of aircraft, including navigational aids and aerodrome equipment generally.

15. The two Governments believe that it would be desirable for themselves and other Governments who agree to cooperate with them in the course of action set out in this memorandum to keep each other informed of developments which affect its realization and to consult with each other whenever necessary.

## UNITED STATES POLICY ON TRADE WITH THE SOVIET UNION AND EASTERN EUROPE<sup>1</sup>

Policy Planning Staff Files: Lot 64 D 563

*Paper Prepared by the Policy Planning Staff<sup>2</sup>*

SECRET

[WASHINGTON,] November 26, 1947.

PPS 17

UNITED STATES EXPORTS TO THE U.S.S.R. AND THE SATELLITE STATES

Problem: To determine what position this Government should take at this time on trade with the U.S.S.R. and the Satellite States

### BACKGROUND

1. On November 12, 1947, the Policy Planning Staff received from the Secretariat the paper entitled, "Immediate U.S. Economic Policy

<sup>1</sup> Additional documentation bearing in part on the question of trade with various Eastern European countries is included elsewhere in this volume. The reader should consult the index for references to these additional materials. Documentation on the measures considered and undertaken in connection with the control of exports of equipment and materials used in the production of atomic energy is included in volume I.

<sup>2</sup> This paper was submitted to Under Secretary of State Robert Lovett by George F. Kennan, Director, Policy Planning Staff, under cover of a memorandum of December 2, 1947 which in the main read as follows:

"The paper represents the views of the Staff alone, and I have the impression that Mr. Thorp [Willard L. Thorp, Assistant Secretary of State for Economic Affairs] would not agree with all of its conclusions. You may therefore wish to get his views before acting on it.

"You will see that we have thought it best to leave to the National Security Council the basic decision as to whether action along these lines should be taken at all at this time. This is a decision of importance to several other departments of the Government and one which has a definite national security angle. I think it should be taken after further discussion within the Security Council. I have therefore suggested that our paper be transmitted to the Council for the information of the other members and as a basis for further discussion."

A marginal notation on the source text indicates that this paper was not approved by Under Secretary Lovett.

The Policy Planning Staff was established in May 1947 for the purpose of assuring the development of long-range policy. The purpose, functions, and organization of the Policy Planning Staff were described in a Department of State press release, Department of State *Bulletin*, May 18, 1947, p. 1007.

The National Security Council (NSC) was established by the National Security Act of July 26, 1947 (PL 253, 80th Congress; 61 Stat. 495). It met for the first time on September 26, 1947. Council membership included the President, the Secretaries of State, Defense, Army, Navy, and Air Force, and the Chairman of the National Security Resources Board. The Director of the Central Intelligence Agency participated as an adviser. The duties of the National Security Council included the consideration of policies on matters of common interest to the departments and agencies of the Government concerned with the national security and the making of recommendations to the President in connection therewith.

toward Eastern Europe". This paper (EWP D-9/i) was prepared by a working group within the Department and is attached under Tab A. The comments of the Staff were requested.

The gist of this paper lies in the recommendation that while we should continue to restrict shipments of military significance and shipments which are in short supply, goods not in short supply, including capital equipment, raw materials and consumer goods, should be permitted to flow freely.

2. On November 14, the Secretary of Commerce submitted to the National Security Council a paper (Tab B) recommending (a) immediate termination of shipments from the U.S. to the U.S.S.R. and satellites of all commodities critically short in the U.S. or which would contribute to the Soviet military potential; and (b) that all exports to Europe should be placed under control and shipments should be permitted to go forward only when:

- (a) the country furnishes adequate justification for its requirements,
- (b) European recovery and world peace are served thereby, and
- (c) the position of the U.S. is not adversely affected.

3. Both of the above papers have been referred to the Policy Planning Staff for comment and recommendations.

#### FACTS BEARING ON THE PROBLEM

1. Although the U.S.S.R. does not exert complete economic domination over its satellites, Soviet control is sufficiently comprehensive to justify the U.S.S.R. and its orbit being regarded as an economic unit. The trend is in the direction of even closer integration.

2. U.S.S.R. economic policy is directed primarily at the increase of its military potential. Since the development of the European Recovery Program it has become evident that it is Soviet policy to do everything within its power to sabotage the ERP. In so far as circumstances permit the U.S.S.R. has sought to force its satellites to follow it in these two respects.

3. U.S. exports are not essential to the economic development of the U.S.S.R. and its satellites; they are important, however, to these countries. Critical items in this respect are Diesel and electric locomotives, precision instruments, cranes, some types of machine tools, electric generating equipment, blast furnaces, machinery for mines, and refineries.

4. U.S. imports from the U.S.S.R. and its satellites are neither vital nor of great importance to this country. The only important items are manganese ore, chromium, and iridium. Stoppage of manganese might diminish U.S. stockpiling; the loss of Soviet iridium might create a scarcity of that metal in the United States.

5. U.S. exports to the U.S.S.R. and its satellites during the first six months of 1947 totalled \$125 million, constituting 1.5 percent of total U.S. exports. A large proportion of these exports were accounted for by the carry-over of lend-lease, pipeline, and UNRRA shipments. These residual items have lately fallen off. U.S. exports to the U.S.S.R. in September amounted to approximately \$3 million and those to the satellites to about \$14 million.

6. In general, the U.S. is committed by treaties and agreements with the U.S.S.R. and eastern European countries not to engage in discriminatory practices against them and to extend to them most-favored-nation treatment.

7. In the current context of abnormal conditions under which international trade is being conducted these undertakings have not been scrupulously observed by the U.S.S.R. and its satellites; provisions concerning restrictions and prohibitions have not been enforced. Special arrangements, including exchange controls and restrictions which discriminate against the trade of some countries in favor of others, have been prevalent. There has been a general recognition throughout Europe that such arrangements must be tolerated while abnormal conditions exist in international trade.

8. Article 94 of the ITO draft charter provides that: "Nothing in this Charter shall be construed . . . to prevent any Member from taking any action which it considers necessary for the protection of its essential security interests . . . taken in time of war or other emergency in international relations".<sup>3</sup>

9. Under the provisions of the Second Decontrol Act of 1947, twelve percent of the items that enter into U.S. foreign trade are now under export control. This list does not include many items of machinery which the U.S.S.R. is continuing to purchase and which can contribute to the expansion of Soviet economic-military power. The Act is phrased with sufficient flexibility to permit virtually unlimited control over all shipments we may decide to place under license. Motivation for our action is not limited to the "short-supply" consideration. National interest may also be cited as grounds for holding up shipments.

#### DISCUSSION

1. There is general agreement that it is not desirable for U.S. merchandise or technology to go forward, directly or indirectly, to the Soviet Union or its satellites, where these shipments would increase Soviet military potential or operate to the detriment of the European recovery program.

<sup>3</sup> For the text of the Draft Charter of the International Trade Organization of the United Nations, prepared by the Department of State, see Department of State Publication 2927, Commercial Policy Series 106.

2. There are, however, two main concepts of how this Government should proceed.

The first, which is reflected in the paper prepared in the Department of State, envisages the establishment of no special controls applicable to the European area alone and of no controls at all on goods *not* in short supply going to Russia and the satellite area. It takes account of the recent decline in exports to the U.S.S.R. and its satellites and anticipates that the operation of the European recovery program will increase the number of commodities in short supply and thus enable us to bring about a further restriction of goods flowing to these countries within the limits of present Executive procedure. The proponents of this concept believe that in this way some further curtailment would be achieved of shipments to the Soviet and satellite areas, but by means which could not raise any question of the propriety of our action in the light of the principles of non-discrimination and trade freedom which we have stood for in our international trade policies.

The second and more far-reaching concept, evolved in the Department of Commerce and in the staff of the National Security Council, calls for the screening of all exports to the entire European area, with the intention that only those shipments would be cleared which promote the purposes of European recovery and world peace, which do not affect adversely the position of this country, and which are adequately justified by stated requirements. Under this concept, there would be no appreciable loop-hole whereby any exports could flow to the Soviet Union or the satellite area unless they meet these requirements.

3. There is much to be said for each of these concepts. The first would undoubtedly be easier to reconcile with the letter of our stated position on international trade matters and of our international commercial engagements. It would not involve a new departure in U.S. policy and would not raise any new questions for international discussion. On the other hand, it would presumably leave without control a considerable body of U.S. exports to this area, including (particularly until passage of the new Munitions Control Bill) many items which would undoubtedly contribute to Soviet military potential and to the ability of the U.S.S.R. to sabotage the Marshall Plan. In most cases, it would not be practicable for us to institute controls of these items on grounds of short supply. If they were to be put on the controlled list, this would have to be done on straight grounds of military security and would raise strong considerations of political effect. In addition to this, it would establish a heavy contingent burden of screening these items for shipment to other parts of the world.

The second concept really enables us to close the door to all undesirable shipments to Russia and the satellites and to reply with assurance to critics who allege that shipments are going forward which are contrary to the national interest or to the interest of European recovery. On the other hand, it does raise serious questions as to its compatibility with the principles we have so strongly espoused in matters of general international trade. And it might well lead to charges that this country is embarking on a policy of embargoes and economic warfare just at a time when it is urging other nations at Habana<sup>4</sup> to accept the ITO Charter.

4. The opponents of this second concept also argue that its adoption would lead the countries of the Soviet area to curtail shipments to western Europe as a means of reprisal. The Planning Staff is not persuaded that this is a serious consideration. It feels that we must face the bitter fact that in present circumstances any increase in the economic strength of the Soviet Union and the satellite countries will be used to oppose, rather than to promote, the interests of real European recovery, unless some compulsion operates in the other direction. It believes that the chances for satellite cooperation with the European recovery program will be best if the satellite countries are pressed for trade with western Europe and are forced to seek it even at the price of making concessions to European recovery. To the extent that this Government supplies the U.S.S.R. and the satellite areas, without insisting on real *quid pro quos* from the standpoint of European recovery, it will be made easier for the Communists to oppose European recovery.

5. As for the reconciliation of a screening of exports to Europe with the ITO Charter and other U.S. treaty commitments, the Staff recognizes that this is a serious problem. It considers that such screening would be justified by a broad interpretation of the ITO draft charter. Real European recovery, conducted in the interest of the people themselves and not as part of the program of extending Communist political power, cannot fail to promote the objectives listed in Chapter 1, Article 1 of the Charter. Unless there is such recovery, it is hard to see how any of these objectives are to be achieved in the European area. If this is true, then it follows that we are not inconsistent in taking measures to assure that our shipments to the European area should not operate to the detriment of the recovery program.

A more serious problem exists in the most-favored-nation provisions embodied in our agreements with Russia and other European

<sup>4</sup> For documentation concerning the participation by the United States in the World Conference on Trade and Employment, held in Havana, November 1947-March 1948, see volume I.

countries. The 1937 agreement with the Soviet Union,<sup>5</sup> still in effect, contains, for example, the provision that products exported from the United States to the U.S.S.R. shall in no case be subject to any rules or formalities other than or more burdensome than those to which the like products may be subject when consigned to the territory of any third country. If, therefore, restrictions were to be placed on shipments to the Soviet Union, even in the form of export controls, the Soviet Government could claim that technically these restrictions constituted formalities more burdensome than those applying to countries not in the European area.

We would have to be prepared to meet this charge. We could do this by taking a broad view of the purposes of these agreements and by holding that our action was motivated by the overall considerations of achieving European recovery. It could be pointed out that the very necessity of an aid program of these dimensions makes it clear that the situation we are dealing with is not a normal one from the standpoint of international trade; that it might well be classified as the sort of emergency in international relations which is envisaged by Article 94 of the draft ITO charter; that it has been recognized many times in the past that in abnormal circumstances of this nature governments have been warranted in departing temporarily from the strict interpretation of the most-favored-nation principle; and that our overall purpose is to restore in Europe and throughout the world a state of affairs in which the needs of all nations could be adequately met by freely-flowing commercial exchanges.

6. It has been suggested, as an alternative to the plans discussed above, that it be required that exports from the United States to countries maintaining a complete state monopoly of foreign trade be carried out only through a United States Government agency, under such procedure as it may require in order to assure itself of the justification of the requirement and of the commercial nature of the considerations leading to the transaction.

In principle, the Staff welcomes this suggestion. It does not consider that the interests of U.S. economy in dealing with state foreign trade monopolies are adequately protected by the ITO principle that governments having such monopolies should promise to be motivated solely by commercial considerations in their foreign trade activities. It believes that in the long run some form of counter control will be necessary on the part of this Government to prevent unfavorable consequences to U.S. interests from the operations of foreign trade monopolies in the American market.

<sup>5</sup> For the text of the commercial agreement between the United States and the Soviet Union, effected by an exchange of notes of August 4, 1937, see Department of State Executive Agreement Series 105 or 50 Stat. (pt. 2) 1619.

However, the adoption of such a policy would represent a fundamental change in U.S. economic policy. It is complicated by a number of factors. There are various degrees and types of state trading, which would require a differentiated treatment on the part of this Government. Any system of restriction wide enough to blanket immediately the whole satellite area would also blanket a number of countries outside that area. It would involve serious questions of relationship to other features of our trade policy. It would involve, no less than the Commerce plan, a departure from the most-favored-nation principle. It would mean that we would have to find some way of departing from the present provisions of the draft ITO Charter. For these reasons, no approach along these lines to the problem of trade with Russia and the satellite area could be evolved without long study and preparation.

For this reason the Staff considers that, while the question of our relations with state trade monopolies should be given further study at once with a view to finding more adequate protection for U.S. interests than that implicit in the present ITO conception, this suggestion cannot be an answer to the immediate problem of trade with Russia and the satellite area.

7. The immediate question therefore narrows down to one of whether, in the face of the fact that shipments to the Soviet and satellite areas are rapidly declining and have already reached a point where they are not of great monetary importance, we wish to proceed to the unusual measure of the establishment of a system of special screening for shipments to the European area, or whether we should carry on with present procedures at the risk of leaving a gap in our system of controls and of permitting goods, however small in value, to flow to the debatable areas for purposes probably contrary to our interests.

8. Officials of the Department of Commerce estimate that to achieve the effective screening of our exports to Russia and the satellite area by taking more items under general control for the world at large would call for an outlay 100 to 150% greater than to establish a system of screening of all shipments going to Europe. To support this estimate they cite the fact that whereas a large part of the items now on the control list are raw materials which are fairly simple in nomenclature, those which would have to go onto the list in order to cover most shipments to Russia would be, for the most part, manufactured goods of which the nomenclature is elaborate and complicated. Hundreds of items would have to be added to the existing list. This would raise many questions of interpretation as to whether items were or were not covered by the list, and would impose a considerably greater work load on the Government and burden on the business community than if blanket controls were set up over shipments to Europe.

There is the further consideration that a relatively high proportion of European orders are placed by state trading organizations, thus making it possible for large amounts to be covered by a single license. This is much less the case in other areas. If, therefore, items are to be placed on the list for world-wide control merely in order to make possible screening for the Soviet sphere, a disproportionate burden arises, in the necessary screening for other areas.

In addition to this, it must be noted that a fairly large percentage of the shipments to Europe in the coming period will probably be covered by the recovery program allocations. Those shipments would be automatically cleared and would require no processing.

Another very real consideration has arisen in connection with the export controls to be exercised at the request of the Atomic Energy Commission. The Commission is anxious to avoid the necessity of publishing a list of the items which it does not wish to see shipped to the Soviet sphere. The Commission is not much worried about such shipments going to countries outside of Europe. If there is no blanket screening arrangement for shipments to Europe, the Department of Commerce will be obliged to publish the list of these items. This would be undesirable from the standpoint of military security. If there is a blanket screening arrangement for Europe, this will not be necessary, and the national security will be protected to that extent.

One more consideration speaks for the establishment of a blanket control over shipments to Europe. During the period of operation of the recovery program, we will wish to be able to exercise some pressure on countries receiving our aid, to make sure that their purchases in this country outside the aid program do not run counter to the requirements of the program. A blanket control would give us the means for exercising this influence.

#### CONCLUSIONS AND RECOMMENDATIONS

The Staff's findings are as follows:

1. Present arrangements governing trade between the United States and the Soviet sphere do not give adequate protection, in principle, to United States interests. A certain proportion of the shipments now going to this area may well be undesirable from the standpoint of United States security or of the ERP. However, the total amount of trade between the U.S. and this area at the present time is so small that this loophole does not now have serious significance. Thus it cannot be stated that the direct detriment to national interest arising at this particular moment out of the exchanges of goods from this area is great enough to warrant, of itself, extreme corrective measures which might embarrass our policy in other fields. On the other hand,

we have no assurance that this situation will not change for the worse at any time.

2. If, despite the small amount of trade now involved, the NSC nevertheless feels that some action is necessary at this time, to enable us to control shipments to Russia and the satellites, the best course would be to establish in connection with the European aid program, at such time as the President may see fit, arrangements permitting this Government to exercise control over shipments to all European countries, including the U.S.S.R.

3. The problem would not be adequately or usefully met just by increasing the number of items under export control for the world at large.

4. It would also be unfeasible to attempt to work out on short notice any sound solution of the problem along the lines of restrictions on purchases by foreign state trading organizations.

Existing arrangements for operations of state trading organizations in the United States market are admittedly inadequate, as are the arrangements outlined in the draft ITO charter. Our position in this respect calls for thorough review and it should be our aim to see that such operations by state trading organizations can be effectively controlled by this Government.

This is a matter, however, which will require careful and many-sided study, and on which no abrupt action could be taken now without serious prejudice to the ITO negotiations now in progress in Habana.

The economic offices of the Department of State should accordingly be requested to undertake at once a thorough review of our position in this matter and to formulate recommendations as to our future line of procedure. This review should include an examination of the adequacy of existing commercial agreements with eastern European countries and of the relative desirability of terminating or permitting to remain in effect the individual agreements concerned.

5. Any announcement of the establishment of general export controls over shipments to Europe should be framed along the lines of the statement attached hereto as Tab C. Should we at any time be pressed as to how these controls can be reconciled with the most-favored-nation provisions of our agreements with countries in the European area, we should explain that we feel this action to be justified by the broad purpose of the ITO concept, and that the implementation of a recovery program of these dimensions naturally overshadows normal trading operations with the general area concerned and creates temporarily a situation to which provisions defining normal trading conditions would obviously not be applicable.

6. If a general control is established over shipments to Europe, administration of this control should be exercised technically by the De-

partment of Commerce, but all decisions involving policy should be taken conjointly with the Department of State. The two Departments should be guided, in the exercise of this control, by the national interest and by the interests of the ERP. They should have authority to require justification of requirements; but this should not be made mandatory upon them.

7. If approved, this paper should be submitted immediately to the National Security Council for its information and as a basis of further discussion with relation to the paper (Tab B) presented by the Department of Commerce. An appropriate communication to the Executive Secretary of the NSC is attached.<sup>6</sup>

8. Except in so far as it may be modified by action taken by the NSC, the paper prepared in this Department entitled "Immediate U.S. Economic Policy Toward the Soviet Sphere" and attached as Tab A should be approved and referred to the Assistant Secretary of State for Economic Affairs for further elaboration and implementation.

[Attachment—Tab A]

*Paper Prepared in the Department of State*<sup>7</sup>

SECRET

EWP D-9/i

[WASHINGTON,] November 19, 1947.

IMMEDIATE U.S. ECONOMIC POLICY TOWARD SOVIET SPHERE

I. GENERAL PRINCIPLES

The basic factors affecting U.S. economic policy toward the Soviet sphere are first, the fact of effective Soviet control, which is progressively tightening in those countries where it is not already complete;

<sup>6</sup> This paper was not approved. The communication under reference here was not attached to the source text. For the text of the letter eventually sent to the Executive Secretary of the National Security Council on December 11, 1947, see footnote 1, p. 508.

<sup>7</sup> This paper was prepared by officers of the Department of State comprising the Eastern Europe Economic Working Party (EWP). Following the decision of the National Security Council on December 17, 1947 (see the Report of the National Security Council, p. 511), this paper was revised and redesignated EWP D-9/j. Changes in Part I are indicated in footnotes at the appropriate places. Part II was very extensively revised, but those changes are not indicated here. The revised paper was transmitted to Under Secretary Lovett by Assistant Secretary of State Thorp under cover of a memorandum dated February 9, 1948, which concluded as follows:

"It would be of considerable assistance to us to have a definite formulation of the Department's policy respecting economic relations with Eastern Europe. I should like to inquire, therefore, whether we may regard the attached document, which has been revised in accordance with the National Security Council decision, as having the Department's approval." (611.6131/2-948)

There is no indication in the files that any further action was taken on the paper either as D-9/i or D-9/j.

second, the fact that in the Soviet Union and to an increasing extent in all the countries under its control foreign trade is conducted as a state monopoly, or under direct state control, subservient to political and autarchical as well as economic considerations; and third, the fact that, as stated by Zhdanov at the time of the organization of the Cominform,<sup>8</sup> the Soviet Union is determined to cause the failure of the Marshall Plan. Under these circumstances it becomes essential to define U.S. economic policy towards this area as clearly as possible, while maintaining all necessary flexibility and while recognizing the probable need for constant review and possible frequent changes.

For the immediate future our economic relations with countries in the Soviet sphere should be governed by the following broad principles:

A. Although the declared Soviet intention of preventing the success of the European Recovery Program, as well as other unfriendly acts and statements, precludes normal political relations between the U.S. and the Soviet sphere at least for the present and the near future, it is not considered that U.S. interests would be served or the success of the European Recovery Program furthered by economic warfare, or by steps which would represent a general reversal of our present international economic policy and commitments, as reflected, for example, in the ITO, IMF and World Bank. In particular, it is considered desirable to maximize the benefits which would accrue to the countries participating in the European Recovery Program as a result of trade with the Soviet sphere.

B. At the present time political and security considerations dictate the following exceptions to normal economic relations with the Soviet sphere. The U.S. should prevent:

1. Acts by the U.S. or its nationals which, individually or cumulatively, will result in significant increases in the military potential of the area or will decrease U.S. security;

2. Acts by the U.S. or its nationals which, individually or cumulatively, will significantly diminish the economic welfare of the U.S. and its citizens, without contributing to the success of a positive economic recovery program in which U.S. and other powers are jointly associated.

3. The extension of U.S. governmental credits to countries in the Soviet sphere, except on the basis of positive benefits to the U.S. or to recovery programs with which the U.S. is associated.

<sup>8</sup> At a conference held at Wiliza Gora, Poland, September 22-23, 1947, the Communist Parties of Yugoslavia, Bulgaria, Romania, Hungary, Poland, the Soviet Union, France, Czechoslovakia, and Italy, agreed to establish the Communist Information Bureau (Cominform). For documentation on the conference, including a very lengthy extract from a speech by Andrey Aleksandrovich Zhdanov, member of the Political Bureau of the Communist Party of the Soviet Union, see *Documents on International Affairs 1947-1948*, selected and edited by Margaret Carlyle under the auspices of the Royal Institute of International Affairs (London, New York, Toronto, Oxford, Melbourne, 1948).

C. It is important that, if U.S. economic relations with the Soviet sphere deteriorate to the point of unmistakable economic warfare, there be no doubt as to Soviet responsibility. It is also desirable that the program in Paragraph B should be followed only in cases which can be publicly justified in specific terms as a means of achieving the established U.S. policy objective, or where the measures involved are required by statute, or can be taken without involving official commitments or official actions.

D. The steps called for in Paragraph B should be taken only when there is a reasonable prospect that the intended result will be accomplished. In some cases there is no such prospect because of a lack of Congressional authority. Measures should be taken promptly to secure the requisite authority.

E. Specific U.S. interests with respect to countries of the Soviet sphere should be protected and furthered by vigorous and realistic bargaining. Appropriate countermeasures should be taken in Germany and Austria to protect the U.S. position against Soviet non-cooperation.

F. In applying these principles to specific situations, the countries in the Soviet sphere may be grouped at the present time as follows:

1. Class I: The U.S.S.R., Yugoslavia, Albania, Rumania, and Bulgaria.

These countries should for all purposes herein be treated rigorously and alike, since no relevant distinctions on the basis of current political or economic conditions exist or appear likely.

2. Class II: Poland, Hungary, Czechoslovakia, and the Soviet Zone of Germany.

These countries should for the present be treated in the same manner as the above, with the qualification that the ardent desire of their people for a western orientation may from time to time permit greater flexibility in the application of the principles laid down herein than in the case of the governments mentioned above.

3. Class III: Finland and Austria.

These countries call for more favorable treatment, but in the case of Austria only to the extent to which it is possible to deal with the country as a unit through the Austrian Government.

G. No general attempt should be made at present to persuade other countries to cooperate in the program outlined in Paragraphs B-F, except as the acts envisaged will contribute directly to the success of joint programs for economic recovery.

H. This policy should not be publicized in any way, nor, insofar as possible, should the arrangements for its implementation.

I. To the extent feasible the U.S. should seek to secure the application of policies similar to the above by the responsible Western Powers in the Government of the zones occupied by them in Germany and Austria.

## II. RECOMMENDED ACTION

The foregoing general principles do not provide automatic answers to the various classes of cases currently calling for action. Their application requires an exercise of judgment in appraising the facts surrounding each situation. As a further guide an attempt has been made to draw up a more precise set of rules for the principal types of cases, rules which represent an application of the general principles to each type of issue in terms of the known facts.

(*Note:* By decision of the Secretary's Staff Committee of October 4, 1946, [SC-202<sup>9</sup>] inquiries made of the Department regarding the appropriateness of exports of unclassified goods and technology which have security implications are to be referred to the Division of Commercial Policy. This procedure has been in effect for some time, and it is recommended that similar inquiries arising in connection with this paper be referred to CP in the same way. CP is responsible for securing the necessary clearances from other interested divisions. In those cases in which arms, ammunition, implements of war, classified goods and technology are involved the inquiries would normally be referred to MD for action. Similarly, questions arising in connection with credits should be considered by ED.)

### A. *Export of Goods*

#### 1. Military Equipment

The present controls under the President's Neutrality Proclamation should continue to be applied to prevent the shipment of any such goods from the U.S. to the Soviet sphere. The proclamation expires June 30, 1948 and it is imperative that the proposed Munitions Control Act be enacted to authorize controls of this character on a permanent basis.

2. Semi-military equipment (explosives, link trainers, specialized tools for production military items, etc.)

In general these types of goods should not be made available, though special circumstances insuring civilian uses in countries of Class II and III may be permissible.

It would be possible fully to control such exports under the proposed Munitions Control Act. This is a strong reason for pressing for enactment of this statute at the earliest possible date. Lacking this act the following possibilities are open:

a. The present policy of indicating to manufacturers who request State Department views that such shipments are objectionable should be continued wherever there is reason to believe that the flow can in fact be controlled by these means. This is, however, unsatisfactory and incomplete.

<sup>9</sup> Brackets appear in the source text; not printed.

b. It is possible that the situation might be controlled to the extent the goods are in short supply within the framework of the export controls over goods in short supply administered by the Commerce Department. This possibility should be studied, particularly if it seems likely that enactment of the Munitions Control Act will be delayed.

c. If the present approach to the solution of Greek security problems in the United Nations General Assembly should fail, careful consideration should be given to putting the countries charged with aiding guerilla activities against Greece on the E List. Among other things, such a proposal would facilitate preventing equipment which might be useful in such activities from reaching these countries. This step may involve violations of existing treaty commitments and this possibility should be examined and recognized before taking action.

### 3. Capital Equipment for War-Supporting Industries.

Capital equipment which will permanently add to the capacity of industries closely associated with production of war materials should not be made available by the U.S. except to Class III countries.

This is almost impossible to control at present except for occasional cases in which manufacturers of particularly vital equipment consult us and are told that if they can make good excuses we have no objections. The positive list of items in short supply should be examined with a view to the possibility of adding items made of commodities in short supply. Even so, it will be difficult for the present to treat exports to the Soviet sphere differently from those to other areas, but measures such as requirement of end use justification for items on the positive list should be used to facilitate different treatment.

When the European Recovery Program is in effect further controls may become necessary in order to establish the priority status of the European Recovery Program countries, though discrimination against the Soviet area, as opposed, for example, to Asia and Latin America, will remain difficult under present conditions.

Of course projects in the Soviet area which will contribute to the success of the European Recovery Program or other recovery programs would still have favorable consideration.

Curtailement of exports in this category should be undertaken cautiously to permit evaluation of Soviet reaction and its significance to us, particularly in terms of availability of food, timber products and coal to Western European countries.

### 4. Capital equipment other than that covered in the preceding paragraph, raw materials, and consumer goods.

These types of goods should be permitted to flow freely, except for those in short supply.

Control problems exist for materials in short supply, including those made from commodities in short supply, but every effort should be made to direct exports of such commodities to areas where they will

contribute to the success of economic recovery programs with which the U.S. is associated.

### 5. Goods used in production of Atomic Energy.

Goods whose export is now controlled by the Atomic Energy Commission should not be exported to countries in the Soviet sphere.

This restriction covers atomic energy source materials and specialized equipment designed for use in production of atomic energy and fissionable products. Control of export of goods useful in production of atomic energy and for other purposes is under study but no steps should be taken in this field for the present.

### B. Export of Technology

#### 1. Classified, by armed services or Atomic Energy Commission.

These should not be made available to any countries in the Soviet sphere.

This may involve continual examination of present classification techniques, but it is clear that primary responsibility in this field is in the hands of the military and atomic energy authorities. New developments of great military significance should not be published if the armed services or the Atomic Energy Commission desire to utilize them; an amendment of the Patent Secrecy Act has been proposed to Congress, which will accomplish the desired objectives. This should be passed by Congress as a security measure. It was reviewed and endorsed by the Interdepartmental Committee on Unclassified Technology before presentation to Congress by the Navy Department.

#### 2. Unclassified, but related to new developments in industries of major importance in production of war material.

Although no action of an overall nature is possible at present, it is desirable to press for reciprocity, to be informed as to the flow of information, and to stop the most valuable and unique types of information.

The Interdepartmental Committee on the Export of Unclassified Technology has done some work on legislation requiring the registration of technical aid contracts of critical military significance. This legislation should be pressed, but in an amended form which would permit licensing of such contracts under certain conditions. The Munitions Control Act, as presented to Congress, is also capable of being used to control the export of certain technology, if it seems desirable. The proposed Patent Secrecy Act should be reviewed to insure it can be applied in this field. Until such measures have been taken there is little that can be done to promote reciprocity or to limit the flow of really critical data, but every effort should be made to accomplish as much as possible.



### 3. All other technology

No action is necessary or useful.

The lack of reciprocity between the U.S.S.R. and the U.S. in this field is much to be regretted, but is obvious from a governmental standpoint, and is reasonably clear to business and academic groups. In cases in which reciprocity does not exist it is desirable to discourage U.S. groups from giving away valuable technology.

## C. Credit Policy

### 1. International Bank Loans

U.S. representatives in International Bank should:

a. Support loans to countries in the Soviet sphere which will contribute to the success of a positive economic recovery program in which the U.S. and other powers are jointly associated.

b. Raise no objections to other loans to countries in the Soviet sphere for which there is adequate economic justification.

The United States is bound by commitments of the Bretton Woods Agreement. Article IV, Section 10, of the Bank's Articles of Agreement provides that the officers of the Bank shall not be influenced in their decisions by the political character of the members concerned and "only economic considerations shall be relevant to their decisions". Pertinent economic considerations include the past record of a country in meeting its international commitments and obligations. To the extent that the record of certain of the countries in the Soviet sphere is questionable in this respect, their promise to repay loans may be viewed with suspicion. Certainly any loans granted should be surrounded by adequate financial safeguards. It would also be well to take due notice of the general Communist principle of meeting obligations only on the basis of expediency.

Of the countries in the Soviet sphere only Czechoslovakia, Poland and Yugoslavia are at present members of the Bank and can receive credits. Finland was admitted to membership at the September meeting of the Board of Governors and is expected to ratify the agreement shortly. Austria is also expected to apply for membership in the near future.

### 2. U.S. Government Credits

a. Policy should be applied uniformly regardless of the source of funds within the U.S. Government.

b. Credits which will make a positive contribution to the success of economic recovery programs with which we are associated may be extended to any Soviet sphere country.

c. Credits for liquidation of a lend-lease obligation may be extended to any Soviet sphere country.

The authorization of credits for liquidation of lend-lease obligations in fact only involves one or two countries and is not a new extension permitting the purchase of additional goods but merely a postponement of payment of a previous obligation in circumstances in which the U.S. has no alternative.

d. Commodity and exporter credits designed to promote exports of goods where export to these areas is permissible under the provisions of A above, may be authorized in individual cases for countries in Class III (Austria and Finland) and under appropriate circumstances for countries in Class II, when one or more of the following criteria are met:\*

(1) They retain a market for American commodities in surplus supply, or

(2) They achieve limited political objectives in certain cases, or

(3) They demonstrate to the peoples of these countries the continuing interest of the U.S. in their welfare through the supply of needed consumer goods, or

(4) They prevent a completely Eastern orientation of those countries' economies and serve to maintain economic contacts with the West.

e. Except as provided in b above, no reconstruction or development credits should be extended.

For the most part these conclusions derive directly from the statement on general principles. Because U.S. Government credits are frequently interpreted, sometimes erroneously, as approval by this government of the government to which the credit is extended, policy with respect to them must be stricter than in the case of commercial exports. Nevertheless, the door is left open for special circumstances in which important U.S. objectives can be aided by loans to countries which we consider still open to influence.

### 3. Private Credits

In general the policy toward extension of private credits other than short term paper should be dictated by the nature of the goods to be procured, and governed according to the rules for various classes of goods in Section A. In special circumstances it may be desirable to discourage the extension of substantial credits when this would appear

\*Circumstances at present are not considered politically appropriate to permit such loans to any Class II countries. [Footnote in the source text.]

to be detrimental to and in direct conflict with the political policy aims of the U.S. Government.

[Attachment—Tab B]

*Paper Submitted by the Secretary of Commerce (Harriman) to the National Security Council*<sup>10</sup>

SECRET

[WASHINGTON, November 14, 1947.]

#### CONTROL OF EXPORTS TO THE USSR AND EASTERN EUROPE

One of the primary objectives of United States foreign policy is the revival of a working economy in the world as a necessary step toward the establishment and maintenance of world peace. The United States Government has offered to cooperate with any government that is willing to assist in the task of recovery. Sixteen European countries have voluntarily joined in the development of a European economic recovery program, and have requested US assistance. The USSR and its Eastern European satellite nations have refused to join (and in fact actively opposed) this program for European recovery. This opposition to European recovery constitutes a threat to world peace and, in turn, to US security.

The National Security Council therefore considers that US national security requires the immediate termination, for an indefinite period, of shipments from the United States to the USSR and its satellites of all commodities which are critically short in the United States or which would contribute to the Soviet military potential. This result, however, should be achieved if possible without any overt act of arbitrary discrimination against the USSR and its satellites.

The National Security Council therefore recommends, in the interests of economic recovery, world peace, and, in turn, US national security, that Europe, including the USSR, and such affiliated areas as the Secretary of State may designate, should be declared a recovery zone to which all exports should be controlled. Exports to any country in this zone should be permitted only when (a) the country furnishes adequate justification for its requirements, (b) European recovery and world peace are served thereby, and (d) [*sic*] the position of the United States is not adversely affected.

<sup>10</sup> This paper was considered by the National Security Council at its Second Meeting, November 14, 1947, but action was deferred pending the formulation of views on the matter by the Department of State. The paper was considered again by the Council at its Fourth Meeting, December 17; for the action taken at that time, see the Report of the National Security Council, p. 511, and footnote 1, thereto.

The Secretary of Commerce believes that this recommendation is practicable and could be put into effect by about December 1, 1947 until the statutory authority to control exports expires on March 1, 1948. The cost to supplement the present export control staff is estimated at \$141,750.00.

[Attachment—Tab C]

*Proposed Statement Prepared by the Policy Planning Staff, Department of State*

SECRET

#### PROPOSED STATEMENT BY THE PRESIDENT

Convinced that without the recovery of Europe there can be no real world recovery and hence no reasonable prospect of a stable and peaceful development of international life, the United States is undertaking a large-scale program of assistance to a number of European nations which have pledged their effort and resources to a common attempt to bring about European recovery.

Leaving aside specific commodities in short supply, it is clear that this program is going to constitute a heavy drain on the economy of this country in general, and that our resources will not be sufficient to meet all the demands that are being placed upon them.

In these circumstances, we owe it both to ourselves and to the peoples of Europe to see that these resources are expended with the utmost economy, and that they achieve the maximum effect.

For this reason, the Secretary of Commerce proposes to institute, for the period of the recovery program, a system of controlling all shipments going from the United States to European countries in order to make certain that these shipments do not operate to the detriment of that objective.

This does not mean that an embargo will be placed on the export of any particular category of goods, or on the shipments to any particular country or countries. On the contrary, it remains the policy of this Government to promote in every way healthy and stable trade relationships, which can contribute to a balanced and expanding world economy; and in fact, one of the purposes of the recovery program is to make this possible. As soon as the recovery period is over, we intend that normal trade practices and procedures shall be restored at once. But we do intend to see that in this period of exceptional demands on the labor and generosity of our people, American goods going to the European area are not used for purposes which do not serve the needs of European and world recovery.