

Eastern Europe; Austria and Finland

General Policy

1. Telegram From the Department of State to Certain Diplomatic and Consular Posts¹

Washington, September 12, 1968, 0109Z.

236888. Subject: U.S. Economic Response to Invasion of Czechoslovakia.

1. This message outlines Department's thinking and decisions taken thus far on U.S. economic policy toward Warsaw Five as well as consideration of possible economic help we might offer Romania.

2. Request action addressees make high-level approaches to Fonoffs to present U.S. ideas in this field and obtain Fonoffs reactions. In discussing U.S. approach Embs should make clear that U.S. has no intention to resort to economic sanctions or return to cold war measures. Our approach is to emphasize: (a) the need for keeping our guard up and maintaining the possibility of controlling economic transactions with the Communist countries; (b) avoiding extension of economic benefits to invading countries which western countries do not give each other; and (c) avoiding gestures of good will, friendship, and business-as-usual during current period.

3. Our review covered unilateral measures U.S. could take and the possibility for multilateral action. U.S. has decided for the time being on following measures: (a) discourage important new business by U.S. firms with the invaders, principally the USSR, (b) turn down or delay some major pending cases of high visibility for U.S. export licenses, and (c) delay proposed arrangements for verification and payment of annuities in USSR.

¹ Source: National Archives, RG 59, Central Files 1967-69, POL 27-1 COMBLOC-CZECH. Confidential. Drafted by Ruth H. Phillips and James Stromayer (EUR/RPE) on September 11; cleared by Jacob M. Myerson (EUR/RPM), William A. Root (EWT), Raymond E. Lisle (EUR/EE), Thomas O. Enders (E/IMA), Adolph Dubs (EUR/SOV), and Anthony M. Solomon (E); and approved by Leddy. Also sent to Bonn, London, Paris, Rome, and The Hague. Repeated to Budapest, Moscow, Prague, Sofia, Warsaw, Bucharest, Zurich, USNATO, and Paris for OECD.

4. Embs should describe scope of U.S. unilateral measures, and suggest possibility of similar unilateral action by Europeans, e.g. discouraging important new business and delaying some major pending new exports. Moreover, in view of greater economic involvement of western Europeans with invading countries, we believe it appropriate that they consider, on multilateral basis, greater restraint on credits to invading countries, such as temporary suspension of new long-term credits, limiting credits to Berne Union guidelines, and non-subsidization of interest payments.

Rusk

2. Circular Airgram From the Department of State to All Diplomatic and Consular Posts¹

CA-1888

Washington, March 26, 1969.

SUBJECT

US Trade Policy Towards Eastern Europe and the Soviet Union

REF

State 236888²

1. Recent reporting from certain Eastern European missions suggests desirability of a restatement of US policy on trade with Soviet Union and other countries of Eastern Europe in aftermath of invasion of Czechoslovakia.

2. (This message does not apply to trade with Yugoslavia which, although a Communist country, is not a Warsaw Pact member and is treated as a Western European country for US export control purposes.)

3. Existing US export controls are still more extensive than those exercised by our COCOM³ and NATO partners. 1968 ban in Export-Import Bank Act on Export-Import Bank participation in financing trade with Eastern Europe effectively places American firms well behind Western

¹ Source: National Archives, RG 59, Central Files 1967-69, FT 1 EUR E-US. Confidential. Drafted by Robert B. Wright (E/ITP/EWT), on March 22; cleared by Toon, Carl W. Schmidt (EUR/EE), James L. Colbert (EUR/SOV), David G. Shaw (EUR/RPE), Ralph H. Graner (E/OT/GCP), Stanley Nehmer, Deputy Assistant Secretary of Commerce for Resources, and Mountain, Department of Defense; and approved by Joseph Greenwald (E).

² Document 1.

³ Documentation on U.S. policy with regard to COCOM and East-West trade is in *Foreign Relations, 1969-1976*, volume IV, Foreign Assistance, International Development, Trade Policies, 1969-1972, Documents 288-387.

European and Japanese firms in doing business with countries of Eastern Europe. Eastern European countries are still handicapped in competing on an equal basis with other suppliers to the US market because of US legislation denying most-favored-nation tariff treatment to all Communist countries other than Poland and Yugoslavia.

4. The foregoing restraints on trade by US with Eastern Europe, together with those applied by Eastern European countries themselves, make substantial expansion of US trade relations with these countries unlikely. The maintenance of additional restrictive measures or guidelines imposed to reflect US concern at role of Warsaw Pact countries in invasion of Czechoslovakia last year would seem to have little additional impact in absence of parallel restraints by our allies.

5. By this time it is clear that other Western countries are not curtailing their trade with Eastern Europe or significantly altering pre-invasion policies on extension of credits. Under these circumstances, we have concluded that existing US trade control procedures are adequate to cover US political or strategic interests respecting East-West trade. Important new business is therefore no longer being discouraged. Export license applications are being processed in accordance with established procedures. Proposed export transactions for which licenses are sought are considered on their individual merits and licensed or denied according to their implications for the national security and welfare. In assessing these implications, Department of Commerce, in conjunction with Departments of State and Defense and other interested agencies, takes into account prevailing security and foreign policy considerations as well as the government's long range trade policy.

6. Businessmen who wish to trade with the Soviet Union and the other countries of Eastern Europe are being told that it is consistent with US policy to carry on such trade so long as it is conducted in accordance with applicable rules and regulations, but are cautioned that individual transactions are subjected to the consideration alluded to above. This policy is based on the view that trade can have a positive impact on Eastern European societies. It can also improve somewhat the climate of relations between Eastern European countries and the US, can help reduce their economic dependence on the USSR, and in turn lessen the economic integration of the Communist countries. In case of USSR, trade is one of the means available to us for the development of some useful non-official relations with that country.

7. To the extent that Czechoslovakia is able to maintain some independence and continues to seek to expand its trade with US, we believe we should respond as fully as possible.

8. With respect to Romania, its continuing independent foreign policy, including its non-involvement in the Czechoslovak invasion and its strong condemnation of this Warsaw Pact action, warrant continued

special treatment in trade matters where strategic considerations are not overriding.

9. Missions may draw as appropriate on the foregoing in responding to inquiries by government officials or businessmen. It should be borne in mind, however, that the USG is reviewing its East-West trade policy. Modifications, if any, will be communicated to Missions promptly. This instruction supersedes previous guidance.

Rogers

3. Editorial Note

On March 28, 1969, President's Assistant for National Security Affairs Henry Kissinger approved NSSM 35. "The President," the NSSM reads, "has directed a review of U.S. Trade Policy toward Communist countries. . . . This study should examine policy towards COCOM, U.S. differential controls, trade with Eastern Europe, Asian communist and Cuban trade embargoes, and extraterritorial effects of trade controls." For the full text of the NSSM, see *Foreign Relations, 1969–1976*, volume IV, Foreign Assistance, International Development, Trade Policies, 1969–72, Document 288. For the resulting study, see *ibid.*, Document 292.

After the study was completed, Kissinger forwarded a summary to President Richard Nixon in May in order to brief the President for an upcoming NSC meeting. Kissinger wrote: "All agencies agree that our present East-West trade policy hurts the Communist economies marginally, if at all; is a source of irritation between us and our allies and between us and our business community; and that increased trade could be of some help in improving East-West political relations.

"But there are three sharply different approaches to liberalizing our present policy:

"1. To seek political concessions *before* we take any forward steps, including requests for Congressional authority to liberalize (Defense view);

"2. To request Congressional authority prior to negotiations but *then* liberalize in the expectation that it will lead to improvement in the political climate (State view);

"3. To seek authority but *then* liberalize in return for purely *economic* concessions (Commerce view). . . .

"State advocates an immediate major legislative initiative to liberalize the Export Control Act, seek authority for the President to extend MFN treatment to the Communist community and remove the

proscriptions on Export-Import Bank lending. They see this approach as most clearly reflecting your desire to move into an 'era of negotiations' and to enhance your bargaining power with the USSR. . . .

"Commerce is firmly opposed to any major legislative initiative at this time, fearing Congressional rebuffs and hence a setback to the improvement in trade relations which they foresee under existing law.

"The other agencies are in between State and Commerce . . . but generally leaning more toward Commerce's caution.

"I recommend that the Administration take no major legislative initiatives at this time but go along with Congressional liberalizing initiatives. My judgment is based largely on foreign policy considerations, however, and domestic political ramifications must be a major element in your decision." For the full text of the memorandum, see *ibid.*, Document 298.

On May 28 Kissinger signed NSDM 15, "East-West Trade," which conveyed the following Presidential decisions concerning Eastern Europe:

"1. Present legislation provides an adequate basis for U.S. trade policy toward the USSR and the Communist countries of Eastern Europe at this time, in view of the status of our overall relations with them. There is thus no current need for the Administration to make any proposals, or support proposals of others, to change the Export Control Act or provide authority for the President to extend most-favored-nation treatment to these countries. Neither is there a need to try to facilitate sales by amendment of the regulations governing shipment to them of agricultural commodities. . . .

"3. We should be prepared to move generously to liberalize our trade policy toward the Soviet Union and the other Eastern European countries whenever there is sufficient improvement in our overall relations with them.

"4. The United States should continue to liberalize its export control list, within the framework of present legislation. As soon as possible, we should align our controls to the list agreed internationally by COCOM except where the United States can maintain effective unilateral control because the items are not available from non-U.S. sources. The United States should not place pressure on other countries not to pursue trade policies toward Eastern Europe more liberal than our own." For the full text of NSDM 15, see *ibid.*, Document 299.

4. Airgram From the Office of the Permanent Representative to the North Atlantic Treaty Organization to the Department of State¹

A-119

Brussels, May 12, 1969.

SUBJECT

Statement on US Trade Policy toward Eastern Europe and the USSR read in
NATO Committee of Economic Advisers

REF

State CA-1888, March 26;² USNATO 1804;³ State 62758⁴

There is attached a copy of the statement on US policy on trade with Eastern Europe and the Soviet Union which was read at a meeting of the NATO Committee of Economic Advisers on May 8, 1969. This statement is based on the text of the Department's CA-1888 with editing provided by USNATO and the Department in the reference telegrams cited above. For distribution within NATO channels it is classified as NATO Confidential.

Cleveland

Enclosure⁵

U.S. TRADE POLICY TOWARD EASTERN EUROPE AND THE USSR

At present US export controls for trade with Communist countries are more extensive than those imposed by many of our partners in

¹ Source: National Archives, RG 59, Central Files 1967-69, FT 1 EUR E-US. Confidential. Drafted by Smith (E); cleared by Luzzatto and van Heuven; and approved by William Cargo. Repeated to Ankara, Athens, Belgrade, Berlin, Bonn, Brussels, Bucharest, Budapest, Copenhagen, The Hague, Lisbon, London, Luxembourg, Oslo, Moscow, Ottawa, Paris, Prague, Reykjavik, Rome, Sofia and Warsaw.

² Document 2.

³ Telegram 1804 from USNATO, April 18, reads in part: "During the approximately eight months since Soviet troops entered Prague, we have made maximum effort . . . to measure the extent of allied economic response through some slowdown or interruption of trade and credits to the Warsaw Five group. We have noted only a very few slight interruptions, even when Western public reaction to Soviet intervention was strongest. And now . . . in the spring of 1969 we find that the situation is almost completely back to normal. The few restrictions which may have been imposed are removed and Western countries are not curtailing their trade, nor are their pre-invasion policies on extension of credits in any way altered." The telegram also included a draft of airgram A-119. (National Archives, RG 59, Central Files 1967-69, FT 1 EUR E-US)

⁴ Telegram 62758 to Brussels, April 23, suggested revisions to the draft statement provided in telegram 1804 from USNATO. (Ibid.)

⁵ Dated May 7, 1969; Confidential. A handwritten notation reads: "Brussels 5-12-69."

NATO, as well as those established in COCOM. Furthermore, certain US legislation such as that prohibiting Export-Import Bank financing of trade with Eastern Europe⁶ and that denying most-favored-nation tariff treatment to all East European countries except Yugoslavia and Poland,⁷ in addition to restraints applied by the East-European countries themselves, make substantial expansion of US trade with Eastern Europe and the USSR unlikely. To reflect US concern at the role of certain Warsaw Pact countries in last year's invasion of Czechoslovakia, the US adopted certain measures to intensify its already highly restrictive policy regarding trade with these countries; however, in the absence of significant parallel restraints on trade and credit policy by other NATO members, these further restrictive measures have had little additional impact. Largely for that reason, their continuance did not appear to be indicated.

Against this background, the US Government believes that existing US trade control procedures are adequate to cover US political or strategic interests respecting East-West trade. Important new business is therefore no longer being discouraged. Export license applications are being processed in accordance with established procedures. Proposed export transactions for which licenses are sought are considered on their individual merits and licensed or denied according to their implications for the national security and welfare. In assessing these implications, the Department of Commerce, in conjunction with Departments of State and Defense and other interested agencies, takes into account prevailing security and foreign policy considerations as well as the government's long range trade policy.

Businessmen who wish to trade with the Soviet Union and the other countries of Eastern Europe are being told that it is consistent with US policy to carry on such trade so long as it is conducted in accordance with applicable rules and regulations, but are cautioned that individual transactions are subjected to the consideration alluded to above. This policy is based on the view that trade can have a positive impact on Eastern European societies. It can also improve somewhat the climate of relations between Eastern European countries and the US, can help reduce their economic dependence on the USSR, and in turn lessen the economic integration of the Communist countries. In the case of the USSR, trade is one of the means available to us for the development of some useful non-official relations with that country.

⁶ The Fino Amendment of 1968 to the Export-Import Bank Act (P.L. 90-267, 82 Stat. 47) prohibited Export-Import Bank financing of trade with all Communist countries except Yugoslavia.

⁷ Section 231 of the Trade Expansion Act of 1962 (P.L. 87-794, 76 Stat. 872) denied MFN status to all Communist countries except Poland and Yugoslavia.

To the extent that Czechoslovakia is able to maintain some independence and continue to seek to expand its trade with the US, we believe we should respond as fully as possible. With respect to Romania, its continuing independent foreign policy, including its non-involvement in the Czechoslovak invasion and its strong condemnation of this Warsaw Pact action, warrant continued special treatment in trade matters where strategic considerations are not overriding.

This statement does not apply to US trade with Yugoslavia which, though a Communist country, is not a member of the Warsaw Pact and is treated as a West European country by the US Government for export control purposes.

In view of the continuing uncertainty of the situation in Eastern Europe, the US hopes that its other allies concur in the need to keep their own trade policies under continuing examination with a view to taking appropriate prompt action in the event of any further aggression by Warsaw Pact members.

5. Memorandum From the President's Deputy Assistant (Butterfield) to the President's Assistant for National Security Affairs (Kissinger)¹

Washington, June 2, 1969.

The following account appeared, among others, in the Staff and Department Briefs prepared for the President on May 24:

“Astronaut Frank Borman arrived in Prague on May 20 to attend the May 12–24 International Committee on Space Research and present a paper. NASA arranged his invitation with State concurrence. He was welcomed by Czech officials and greeted tumultuously by airport workers, and the arrival was well covered by Czech journalists and radio-TV people. However, the TV program was not permitted to go out over the Czech network. Although Borman has been recognized everywhere, and enthusiastically welcomed in Prague, public references to the visit have been limited and two TV shows which he taped were not transmitted. Czech journalists report severe restrictions on their coverage of the visit.”

¹ Source: National Archives, Nixon Presidential Materials, NSC Files, Box 672, Country Files, Europe, Czechoslovakia, Vol. I. No classification marking.

With reference to this news item the President directed these comments to you:

“Henry, I believe we could needle our Moscow friends by arranging more visits to the Eastern European countries. The people in those countries, if given a chance, will welcome our Cabinet officers and others with great enthusiasm. It is time we start causing *them* some trouble.”²

Alex

² In a June 5 memorandum to Butterfield, Kissinger replied: “The President took up this subject at the Cabinet-NSC meeting on Tuesday, June 3. I think he has made his guidelines and desires clear, and thus I see no need for further comments.” (Ibid.)

6. Memorandum From the President’s Assistant for National Security Affairs (Kissinger) to President Nixon¹

Washington, January 12, 1970.

SUBJECT

Secretary Rogers’ Recommendation re Expansion of Scientific Exchanges with Eastern Europe

In a memorandum to you (Tab A),² Secretary Rogers has recommended that you authorize steps toward an expansion of scientific and technical exchanges with Eastern Europe. The main points of his memorandum are:

1. Following their recent visits to Eastern Europe, both Chairman Seaborg and Dr. DuBridge have recommended expanding scientific and technical exchanges with Eastern European countries.

2. Expansion of these programs, consistent with export controls and other security considerations, could lend valuable substance to our policies toward these countries.

¹ Source: National Archives, Nixon Presidential Materials, NSC Files, Box 667, Country Files—Europe, General through May 1970. Limited Official Use. A handwritten note from the President reads: “K. I generally support this initiative—(on a practical trade-off basis).” A stamped notation reads: “Jan 16 1970.”

² Attached but not printed.

3. Eastern Europeans are interested in these exchanges not only to support industrialization and economic development, but also to decrease dependence on the Soviet Union.

4. Exchanges in science and technology are useful also as a trade-off against cultural exchanges, an activity in which we have greater interest than the Eastern Europeans.

5. Joint research and scientific cooperation could have not only scientific results, where Eastern Europeans can make a contribution, but also valuable political and psychological results.

6. Romania offers a particularly attractive possibility for expansion because of the highly favorable climate there for cooperation.

7. To give substance to possibilities and opportunities in Eastern Europe, State is prepared to undertake a coordinated effort with the National Science Foundation and other interested agencies to explore avenues of new or expanded activity.

8. The basic obstacle is that no meaningful program can be funded out of existing or promised budget allocations.

9. An expanded program would require new fiscal authority for both the Department of State and the National Science Foundation after a division of responsibilities has been worked out. A reasonable beginning could be made during FY 1971 with about \$1 million in additional funds for such programs.

In response to this general proposal, I have written the Secretary³ stating that you have reviewed the proposal and requesting that a more detailed program outline be submitted for your consideration before seeking any new fiscal authority or program commitments. This outline would include reference to specific program activities and lines of responsibility, along with indications of actual costs, methods of funding and an evaluation of the political implications. (FYI: As a result of your trip to Romania⁴ and Dr. DuBridge's trip thereafter, the National Science Foundation will be earmarking approximately \$50,000 for exchanges necessary to implement our agreements with the Romanians on the peaceful uses of nuclear energy.)

³ Dated January 12. (National Archives, Nixon Presidential Materials, NSC Files, Box 667, Country Files—Europe, General through 1970)

⁴ See Documents 183 and 184.

7. Editorial Note

In his "First Annual Report to the Congress on United States Foreign Policy for the 1970's" on February 18, 1970, President Richard Nixon made the following statement on Eastern Europe:

"The nations of Eastern Europe have a history with many tragic aspects. Astride the traditional invasion routes of the Continent, they have suffered long periods of foreign occupation and cultural suppression. . . .

"We are aware that the Soviet Union sees its own security as directly affected by developments in this region. Several times, over the centuries, Russia has been invaded through Central Europe; so this sensitivity is not novel, or purely the product of Communist dogma.

"It is not the intention of the United States to undermine the legitimate security interests of the Soviet Union. The time is certainly past, with the development of modern technology, when any power would seek to exploit Eastern Europe to obtain strategic advantage against the Soviet Union. It is clearly not part of our policy. Our pursuit of negotiation and détente is meant to reduce existing tensions, not to stir up new ones.

"By the same token, the United States views the countries of Eastern Europe as sovereign, not parts of a monolith. And we can accept no doctrine that abridges their right to seek reciprocal improvement of relations with us or others.

"We are prepared to enter into negotiations with the nations of Eastern Europe, looking to a gradual normalization of relations. We will adjust ourselves to whatever pace and extent of normalization these countries are willing to sustain.

"Progress in this direction has already been achieved in our relations with Romania. My visit to that country last summer—which will remain unforgettable for me in human terms—set in motion a series of cooperative programs in the economic, technical, scientific and cultural fields. We intend to pursue these with vigor. My talks with President Ceausescu also began the process of exchanging views on broader questions of mutual concern, which, in our view, will contribute to a general improvement of the communication between East and West. A similar relationship is open to any Communist country that wishes to enter it." (*Public Papers: Nixon, 1970*, pages 180–181)

8. Memorandum From the President's Assistant for National Security Affairs (Kissinger) to President Nixon¹

Washington, March 10, 1970.

SUBJECT

U.S. Port Security Policy

The following changes in U.S. port security policy applicable to Soviet and East European merchant vessels have been proposed by the Department of State and concurred in by other interested departments:

- Opening additional U.S. ports to Soviet bloc vessels.
- Eliminating the automatic requirement for continuous surveillance of Soviet bloc vessels while in U.S. ports.

At the present time, entry of Soviet bloc vessels is restricted to twelve coastal ports: Boston, New York, Philadelphia, Hampton Roads, New Orleans, Galveston–Houston, Corpus Christi, Miami, Los Angeles, San Francisco, Portland and Seattle. Congressmen from the Great Lakes region claim that ports in their area are suffering “economic discrimination.” Moreover, the Polish government is pressing particularly hard for admission of vessels from Poland to Great Lakes ports. The State Department believes that these changes will result in increased trade and a reciprocal relaxation in Soviet restrictions. The Soviets have repeatedly sought to improve maritime relations, and Foreign Minister Gromyko has made a direct approach to Secretary Rogers on this subject.

The opening of additional ports should not necessitate an increase in Coast Guard security personnel since elimination of the automatic requirement for continuous surveillance will free men for boarding and search operations in new ports who are presently assigned to in-port surveillance duties. It is considered that search of each vessel by the Coast Guard prior to admission to a port is an acceptable countermeasure to the threat of clandestine introduction of nuclear weapons or other materials intended for use against the United States. Moreover, under the proposed system, continuous surveillance of Soviet bloc vessels would be instituted if available intelligence information indicated the desirability of such a precaution.

¹ Source: National Archives, Nixon Presidential Materials, NSC Files, Box 369, Subject Files, U.S. Port Security Program. Secret. Sent for action.

The proposed new policy directive (Tab A),² which supersedes NSAM 203 of November 7, 1962.³

—assigns primary responsibility for port security to the Secretary of Transportation, reflecting the shift of the Coast Guard from Treasury to Transportation;

—requires the Secretary of Transportation to consult with the Departments of State, Defense and Justice and the Director of the CIA in determining the action to be taken with respect to each Soviet or East European merchant vessel seeking admission to a U.S. port.

The revised security measures appear to be adequate. There is some possibility that dockworkers may strike in protest against Communist cargoes in new ports. However, on balance the easing of current restrictions appears to be a sound move which is consistent with your efforts to develop an era of negotiations.

Recommendation

That you authorize the issuance of the attached National Security Decision Memorandum at Tab A.⁴

² Attached but not printed is a draft National Security Decision Memorandum. The final, revised version, approved by the President on September 1, became NSDM 82 (Document 16).

³ Attached but not printed.

⁴ Nixon did not check either the approval or disapproval options. Instead, he wrote over the approval option: "No. Not unless & until there is direct Soviet reciprocity when we do it." A notation on the memorandum indicates the President made the decision on March 12.

9. Memorandum From the President's Assistant for National Security Affairs (Kissinger) to President Nixon¹

Washington, March 11, 1970.

SUBJECT

Proposed Elimination of Restrictions on PL 480² Transactions with Communist Countries

You decided on February 2 to seek changes in our PL 480 legislation to relax the restrictions on sales to Communist countries.³ These changes were submitted as part of the over-all farm bill now under consideration in the Congress.

The House Agriculture Committee opposes our proposals. Chairman Poage⁴ particularly feels strongly that inclusion of these provisions would jeopardize the over-all farm package on the House floor. He thus wishes to keep them out of the bill. The main argument is that there is no need to legislate such changes now, since the proscription on PL 480 sales to countries trading with North Vietnam—which we did not seek to remove—will continue to be overriding for the duration of the war.

Bill Timmons suggests that the changes might fare better if made part of your proposals for a new U.S. foreign assistance program, when they are submitted in legislative form early next year (Tab A).⁵ The timing would be better and the Foreign Affairs Committee, rather than the

¹ Source: National Archives, Nixon Presidential Materials, NSC Files, Subject Files, Box 368, PL-480. Sent for action.

² Public Law 480, signed into law on July 10, 1954, was formally known as the Agricultural Trade Development and Assistance Act of 1954.

³ In a February 2 discussion with Kissinger, Secretary of Agriculture Clifford Hardin, Ehrlichman, and others, the President "asked whether we could write language into the bill [P.L.-480] to provide Presidential authority to waive the present restrictions. He wished to get us into position to have something with which to bargain with the Communist countries. As a practical matter, we cannot make subsidized sales to countries trading with North Vietnam. The present prohibition will thus over-ride until that situation changes, but it certainly could change." Kissinger responded that the prohibition was "helpful" because it allowed the administration "to blame Congress when the issue comes up, as it did with Romania." For a fuller record of the conversation, see *Foreign Relations, 1969–1976*, volume IV, Foreign Assistance, International Development, Trade Policies, 1969–1972, Document 313.

⁴ W.R. Poage (D-Texas) Chair of the House Committee on Agriculture.

⁵ Attached but not printed.

Agriculture Committee, would have primary jurisdiction. Poage is also willing to contemplate an amendment at some later date, even later in this Congressional session after the over-all farm bill has passed.

Recommendation

That we not push these amendments now, but await a later opportunity when the Congressional situation for passing them appears more favorable.⁶

⁶ Neither the approval nor disapproval option was checked. A routing slip dated March 20 from John Brown III of the Chief of Staff's Office, attached to the front of the memorandum, reads: "Per Mr. Ehrlichman's office there is no need for this memo to go to the President. His office agrees with Dr. Kissinger not to push on the amendments." On April 14 Bergsten followed up in a memorandum to Kissinger: "In the memorandum at Tab A, Bill Timmons informs you that the House Committee on Agriculture has rejected the President's request that PL 480 local currency sales be allowed for Communist countries, and that the USSR and China no longer be wholly excluded from *any* PL 480 sales. We had expected this development. You sent a memo to the President on March 11, informing him that the Committee would probably turn down the proposals." (National Archives, Nixon Presidential Materials, NSC Files, Box 368, Subject Files, PL-480)

10. Memorandum From Helmut Sonnenfeldt of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)¹

Washington, March 26, 1970.

SUBJECT

Policy Toward Eastern Europe

In early March, after reading the CIA's paper on "The World Situation in 1970,"² the President asked whether we can do more to cause trouble in Eastern Europe. Responding by memorandum on March 11,³

¹ Source: National Archives, Nixon Presidential Materials, NSC Files, Box 667, Country Files—Europe, General through May 1970. Secret; Eyes Only. Sent for action. Attached to the memorandum is a routing tab that reads: "NOTE: This did not go thru Secretariat. The Log number is one given to the previous papers on this."

² Dated January 9. (Ibid., Box 207, Agency Files, CIA, Vol. 2)

³ Not further identified.

you noted the inherent limitations under which we must operate and suggested that the policy of offering the East Europeans a relationship similar to that which we have with Romania if and when they themselves are ready for it is the best available. You suggested that in time we could relax economic policies and, in consonance with the Allies, take other steps that tend to encourage greater autonomy in Eastern Europe. The President thereupon asked if we can do more to take advantage of the changing situation and commented that our present policy is too gradual and asked you to develop a more aggressive approach with a few bold and unexpected moves. General Haig on March 18 asked me to make recommendations to you “on how to go about developing this program for the President.”

Procedure

It is unlikely that the EUR/IG—the normal body if this is to go through the NSC process—would produce a useful effort. Even if a specific directive on what policies to flesh out were sent to the Under Secretaries Committee, the same people as are in the EUR/IG would be involved, and the result would be little more rewarding than if a regular NSSM were issued.

Moreover, since I take it from the President’s original comment his purpose is to cause a certain amount of “trouble” with a more active East European policy, I think it would be unwise to mount a formal exercise. It would be hard to convey that Presidential wish without risking leaks and bureaucratic resistance. On the other hand, failure to convey something of the underlying rationale would make the exercise even less responsive than it would turn out to be in any case.

Consequently, as regards procedure, there would appear to be two alternatives:

1. We could undertake an in-house project which could then either be put to the Review Group and NSC (questionable) or directly to the President in a memorandum from you; *or*
2. You could discuss the project with Elliot Richardson and ask him quietly to assign one or two of Cargo’s people (Neubert and/or Davies) to work with one or two NSC Staff officers on an informal memo to the President.

Substance

While there undoubtedly is scope and opportunity for more active US policies, we should be very conscious of the limitations. We have achieved what we have with Romania (and Yugoslavia) because it has suited it to take the risks and initiatives required. Except, conceivably, for Albania no other East European country today or in the foreseeable future is prepared to move as dramatically as these two. The reasons are numerous; and, in any event, the only two countries where

there may be some promise are Poland and Hungary. (Bulgaria is rigidly pro-Soviet and its leaders are of a most conservative stripe; Czechoslovakia is occupied and hog-tied and while eager to make certain limited arrangements with us on the long-stalled gold claims issue, hardly in a position to move; East Germany is inappropriate for obvious reasons.)

In the case of Poland, geopolitics, Gomulka's personal proclivities and the peculiar nature of the Polish political situation leave only relatively little room for effective movement. Hungary is somewhat more promising, but there are four Soviet divisions in the country, our Romanian policy creates certain inhibitions and Kadar is a cautious and complicated operator. In both cases, there is a fair chance of improving relations somewhat at our initiative (e.g. Great Lakes shipping for Poland, now stalled by the President's negative decision on Port Security; further normalization with Hungary), but this is not likely to have much impact on the near or medium-term political orientation of these two countries and their leaders; nor is it likely to bother the Soviets much. The recent episode with the Astronauts suggests the extreme caution with which both Warsaw and Budapest view anything very dramatic.

Without now attempting to do the actual study, I would think that the major areas for anything far-reaching will continue to be in our relations with Romania and Yugoslavia. In the former case, we could consider removing the anomaly of not having an MFN agreement (when we do have one with Poland) and of improving Romania's status under the Export Control Act. (Both would be in the "unexpected" category.) In the case of Yugoslavia, the most dramatic move would be a Presidential visit. We could also institute more active political consultations with both. (Incidentally, it will be wise not to single out Romania entirely; hence the parallelism with Yugoslavia.)

The biggest thing we could do for Poland would be to offer to change our position on the Oder-Neisse. But there are many problems which would have to be examined, including French reluctance. Even if we did this, however, it is not clear exactly what would be the impact on Poland; it would, of course, clear the way for a German-Polish agreement but with highly ambiguous consequences.

Recommendation

In specific response to General Haig's request for a recommendation on *how* we develop a program for the President, I recommend that you *either* ⁴

1. Consider an in-house paper which could then either be introduced into the NSC mechanism or sent directly to the President.

⁴ None of the options below was checked.

Subsequently, after a Presidential decision, there could, if appropriate, be some follow-up by the Under Secretaries.

2. Or, talk to Elliot Richardson to get a small (two or four-man) NSC Staff–Cargo Staff group to develop a program which could then either go into the NSC machinery or directly to the President.

As regards the President's further comment that we should review RFE for the Fiscal 72 budget and that he favors continuing rather than cutting it, I assume this is to be staffed by Frank Chapin.

11. Memorandum From the President's Science Adviser (DuBridges) to President Nixon¹

Washington, April 14, 1970.

SUBJECT

Scientific Cooperation with Eastern Europe

At your suggestion I have looked into the chances for new cooperative scientific initiatives toward Eastern Europe—specifically Czechoslovakia, Hungary and Poland.

Initially, I considered the possibility of leading a science delegation to these countries this spring as I did to Romania, Yugoslavia and other countries last fall.² I would recommend, however, that any visit involving the prestige of the Presidential office be postponed until we have “tested the water” with specific proposals or until concrete policy decisions or statements can be made on our side to set the stage for better cooperation. Otherwise, there is a danger that the Eastern Europeans may be unwilling or unable to upgrade their cooperation or that we will engender hopes with the visit which cannot be realized. Our cooperative scientific relations with these countries over the past several years have *not* gone smoothly and the unlikelihood of a sudden

¹ Source: National Archives, Nixon Presidential Materials, NSC Files, Box 667, Country Files—Europe, Eastern Europe. No classification marking.

² DuBridges visited Bucharest September 24–27 and Belgrade September 27–October 1, during a September 18–October 7 trip to Europe. For text of a statement outlining the trip and its objectives, see Department of State *Bulletin*, October 20, 1969, pp. 338–339.

change for the better leads me to the conclusion that a gradual, persistent approach is best.

In general these Eastern European nations want help in industrial technology more than in science. This is an area of concern to U.S. commercial firms, who for the most part have not yet found attractive business opportunities in Eastern Europe. However, the collaboration in this area depends on decisions regarding trade and export control policy rather than on scientific considerations. Both Czechoslovakia and Hungary (like Romania) would like to have Most Favored Nation status (MFN) in order to increase their sales to this country and to earn the hard currency for making purchases of American equipment and processes. They also seek Export-Import Bank financing for purchases from the United States. Poland, of course, has MFN but seeks better financing opportunities. Both of these concessions would require legislative action and the time may not be right for that. However, the importance of these factors to the Eastern European countries must be borne in mind as one considers projects for better scientific and, particularly, technical cooperation.

Even independent of MFN and Ex-Im financing all three countries seek to purchase modern technology from the U.S. Presently, one of the hottest areas is petroleum cracking technology. During the recent preparation of recommendations to you on interpretation of the Export Administration Act, sharp differences of opinion among the agencies on refining technology were apparent. Without attempting to referee among those views, I can assert on the basis of our Romanian trip that the selective approval of certain export licenses can be a useful tactic in demonstrating a genuine U.S. desire to cooperate. Conversely, generous statements about scientific cooperation, in the face of denial of technologies deemed by these countries to be important and essential to their civilian economies, are not convincing evidence of our sincerity to Eastern European officials faced with sagging economies and lagging industries.

With regard to the areas of basic and applied sciences, a number of specific proposals are now under consideration by U.S. agencies, which could lead to more science cooperation with Eastern Europe. For instance, the State Department is assembling details of a generally expanded program of scientific exchanges for submission to Henry Kissinger. In Czechoslovakia there is some good work on water pollution control in which Interior may decide to participate. With Hungary, after four years of waiting, we are about to sign a scientific exchange agreement between the American and Hungarian Academies of Sciences. There are of course always funding problems.

Several agencies are preparing proposals for additional projects with Poland to be funded by U.S.-held excess currency under PL-480.

The Smithsonian is also exploring the possibility of locating a large surplus computer in Poland, in connection with the 500th anniversary of Copernicus' birth, as a basis for cooperative work in astronomy and other fields requiring computational capacity.

As these efforts continue on the U.S. side, I would propose to show the U.S. interest in closer cooperation by arranging through my office for visits to Eastern Europe of distinguished American scientists to test the receptivity for closer ties. If the visitors are well-received and if U.S. preparations for the programs mentioned above are successful, then it would seem appropriate for you to announce your desire to send your Science Adviser to these countries to explore in more detail the opportunities for scientific and technical cooperation. Such a visit would take place in the fall of 1970 at the earliest or the spring of 1971.

If you agree with this general strategy I will move promptly to accelerate the U.S. preparations and to arrange for the initial visits of American scientists. I would plan to report our progress to you within three months and to present a recommendation for further action.

Lee A. DuBridge

12. Editorial Note

On April 23, 1970, President's Assistant for National Security Affairs Henry Kissinger sent a memorandum to the Secretaries of State, Defense, and Commerce on the issue of export controls. Copies were sent to the Director of Central Intelligence, the Chairman of the Atomic Energy Commission, and the Administrator of the National Aeronautics and Space Administration. The memorandum reads, in part, as follows:

"The President has made the following decisions on this subject [export controls] on the basis of several memoranda recently submitted by the Secretary of Commerce:

"1. The list of items and data subject to control for export to the USSR and the Communist countries of Eastern Europe should henceforth be limited to:

"a. COCOM items

"b. Those non-COCOM commodities and technical data, which, in the judgment of the U.S., could contribute significantly to the development, production, or use of military hardware, or to the military-supporting industrial capability of the USSR and the countries of Eastern Europe, to the detriment of our national security, regardless of foreign availability. . . .

“3. Decisions on specific cases should take account of over-all U.S. policy toward the specific country for which the export is destined. At present, this would mean, for example, more liberal treatment for Romania than for other Eastern European states.”

For the full text of the memorandum, see *Foreign Relations, 1969–1976*, volume IV, Foreign Assistance, International Development, Trade Policies, 1969–1972, Document 318.

13. Memorandum From Helmut Sonnenfeldt of the National Security Council Staff to the President’s Assistant for National Security Affairs (Kissinger)¹

Washington, June 3, 1970.

SUBJECT

Port Security

In early January you sent a memo to the Secretaries of State, Defense, and Transportation, the Attorney General and Director of Central Intelligence seeking their concurrence in a revision of the U.S. Port Security Program originally proposed by State. Their comments and general concurrence were received before the end of January. You sent a memorandum to the President in mid-March (Tab C)² noting that the basic suggested changes in the program were:

- the elimination of the automatic requirement for continuous Coast Guard surveillance of Soviet bloc vessels calling at U.S. ports, and
- removal of the blanket restrictions which currently permit Soviet bloc vessels to call at only 12 U.S. ports (no port on the Great Lakes).

The NSDM, which you recommended the President approve, also assigned to the Secretary of Transportation the responsibility to promulgate the detailed port security program, in close consultation with State, Defense, Justice and the CIA.

The President disapproved the recommendation, and noted that he would not approve “unless and until there is direct Soviet reciprocity

¹ Source: National Archives, Nixon Presidential Materials, NSC Files, Box 369, Subject Files, U.S. Port Security Program. Secret. Sent for action. Concurred in by Ash.

² Printed as Document 8.

when we do it." In recent months there has been increasing interest in resolving this issue: the Poles have been pressing for permission to enter the Great Lakes (the Ambassador has raised this with you).³ Congressmen from that area have strongly urged similar action, particularly as the St. Lawrence Seaway revenues are declining, and State has gently pressed for a response. I understand that during lunch on June 2, the Attorney General inquired about the status of this issue, and that you offered to provide him with a report.

In disapproving the NSDM, the President perhaps did not focus on the fact that the restrictions imposed by the Soviets on the entry of U.S. ships to their ports were instituted *in retaliation for the restrictions we first placed on their port entry*. The Soviets have repeatedly proposed improvements in our bilateral maritime relations, and Gromyko took this up directly with Secretary Rogers. In addition, the proposed NSDM did not provide for an automatic opening of new ports for the Soviets (or for the Eastern Europeans), but indicated that Defense and Justice should concur in the opening of any additional ports to ensure adequate protection of sensitive defense facilities.

To step up the momentum on this issue, and to respect the President's instruction that reciprocity must prevail with respect to relaxing the restrictions on Soviet port entry, it would seem desirable to provide the President with a revised NSDM fully reflecting his wishes but which permits the agencies to implement the operation without further delay. A memo for the President containing such a revised NSDM is at Tab A.⁴ At Tab B is a memo for the Attorney General providing a status report on the general port security issue.⁵ *Note:* The memo for the Attorney General is written on the assumption that you will also sign the memo to the President.

Recommendation

That you sign the memo for the President at Tab A, and the memo for the Attorney General at Tab B.⁶

³ See Document 133.

⁴ Printed as Document 15.

⁵ Attached but not printed.

⁶ On June 16 Winston Lord forwarded to Kissinger Sonnenfeldt's memorandum on port security, along with a memorandum from Russell Ash of the NSC staff on the same subject. "Ash's primary difference with Sonnenfeldt," Lord wrote, "is that he sees no documentary proof that the Soviet restrictions were in retaliation to our own and that they are likely to relax them as we relax ours. Sonnenfeldt believes that both these facts are true, but says that it is primarily a judgment call on Soviet motivations. In either event, we will find out when we insist on Soviet reciprocity and the President's objective would be protected." At the top of Lord's memorandum, Kissinger wrote: "I've signed Tab C. I'm inclined to go along with Ash." For the resulting NSDM, see Document 16.

14. Editorial Note

On August 20, 1970, President's Assistant for National Security Affairs Henry Kissinger submitted a memorandum to President Nixon on the sale of petroleum refining technology, including catalytic cracking plants, to Poland and Romania. Kissinger recommended that the President approve the sale of such technology to Romania because "whatever minimal strategic costs might exist seem clearly outweighed by your commitment to economic cooperation." In the case of Poland, Kissinger recommended postponement of a decision. "The key is the signaling effect," he wrote. "The Poles have made strong pleas for approval, describing the project as an important test case in our relations. It is clear that our decision on the license will be a major signal to them on two levels: (a) U.S. interest in participating in Poland's new industrialization plans, and (b) our attitude toward overall U.S.-Polish relations. Approval of the license would give a positive signal on both counts. Refusal of the license would be negative on both, particularly if coupled with approval for Romania. Deferral of the decision would be a middle course, which would be read as negative on (a) but leaving (b) essentially open.

"As long as we base our relations with Poland largely on its attitude toward Vietnam, which has not changed, I do not believe that approval is justified. They could read approval as a relaxation of our concern about their attitude on Vietnam."

On August 26 President Richard Nixon approved Kissinger's recommendations to permit the sale of the refining technology to Romania and to postpone a decision in the case of Poland. For the full text of the memorandum, see *Foreign Relations, 1969-1976*, volume IV, Foreign Assistance, International Development, Trade Policies, 1969-1972, Document 319.

15. Memorandum From the President's Assistant for National Security Affairs (Kissinger) to President Nixon¹

Washington, August 22, 1970.

SUBJECT

U.S. Port Security Policy

¹ Source: National Archives, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H-219, National Security Decision Memoranda, NSDM 82. Secret. Sent for action.

Earlier this year I submitted to you a proposed NSDM reflecting suggested changes in our port security program² which had been suggested by the State Department and concurred in by the other interested agencies. The changes related to:

- administrative matters (assignment of prime responsibility to the Secretary of Transportation);
- the elimination of the current automatic requirement for continuous surveillance of Soviet bloc vessels while in U.S. ports, and
- the prospect of opening additional ports to calls by Soviet and Eastern European shipping, currently restricted to 12, none of which are on the Great Lakes.

You decided not to approve the proposed NSDM, noting that there should be provision for direct Soviet reciprocity.

The Poles have expressed a very strong interest in securing permission for their vessels to call at our ports in the Great Lakes.³ In addition, members of Congress from the Lakes area have pressured to have the Great Lakes ports opened to Eastern European shipping, since they feel such a change would help the economy of that area. In late April the Soviets raised with the State Department the question of entry of two Soviet vessels at U.S. Great Lakes ports. The State Department reports that (1) prospects are good for reciprocal arrangements between the U.S. and the USSR regarding ports accessible to merchant shipping, and (2) ports of the East European countries are considered fully open to U.S. shipping.⁴

In keeping with your comment on my earlier memorandum I have revised the proposed NSDM (Tab A)⁵ expressly to provide, in Paragraph 2, page 2, that requests for the entry of Soviet and East European vessels into U.S. ports must be considered on the basis of direct reciprocity insofar as the designation of accessible ports, advance notice of arrival and frequency of port calls are concerned, but without relaxation of the U.S. port security measures provided elsewhere in the NSDM. An unknown factor is the relative U.S./Soviet volume of shipping and numbers of port calls expected for the future. (U.S. merchant shipping to Russia has been nil since 1964, while Soviet vessels have visited U.S. ports at a modest but steady rate. At this rate the Soviets can pledge reciprocity without having to grant it, if U.S. merchant vessels do not have occasion to seek entry to Russian ports.) Another un-

² See Document 8.

³ See Document 133.

⁴ Reported in a memorandum from Eliot to Kissinger, July 23. (National Archives, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H-219, National Security Decision Memoranda, NSDM 82)

⁵ Document 16.

known is the position which may be taken by some members of the International Longshoremen's Association who on past occasions have refused to work Soviet ships calling at U.S. ports.

The security measures prescribed in the NSDM appear to satisfy national security requirements. There is provision for interdepartmental consultation of the security risk presented by the presence of a particular Soviet or East European vessel applying for entry into a particular U.S. port. Also, denial of entry is required if information indicates that presence of a vessel in a U.S. port would constitute an unacceptable risk to the national defense and security. Depending upon the risk factor involved, a vessel may be admitted subject to, or without, continuous surveillance by the Coast Guard.

The NSDM makes no change in the present policy which excludes from all U.S. ports the vessels of Communist China, North Korea, North Vietnam, Albania, East Germany and Cuba.

Recommendation

That you authorize the issuance of the National Security Decision Memorandum (Tab A) revising the U.S. port security program.⁶

⁶ According to the attached routing memorandum, Nixon initiated the approval option on August 29.

16. National Security Decision Memorandum 82¹

Washington, September 1, 1970.

TO

The Vice President
The Secretary of State
The Secretary of Defense
The Attorney General
The Secretary of the Treasury
The Secretary of Commerce
The Secretary of Transportation
The Director of Central Intelligence
The Chairman, Joint Chiefs of Staff

¹ Source: National Archives, Nixon Presidential Materials, NSC Files, Box 369, Subject Files, U.S. Port Security Program. Confidential.

The Director, Office of Emergency Preparedness
The Chairman, Atomic Energy Commission

SUBJECT

Revision of the U.S. Port Security Program

The President has approved the following statement of policy on U.S. port security, which supersedes National Security Action Memorandum No. 203 dated November 7, 1962, and previous issuances of national security policy statements on the subject.

U.S. PORT SECURITY POLICY

National security interests require that measures be taken for the protection of vessels, harbors, ports and waterfront facilities of the United States from threats of espionage; sabotage; intelligence collection operations directed against sensitive U.S. defense facilities from foreign vessels; and, related subversive activities including the introduction into the United States of persons or materials in the pursuance of such activities. It is also in our national interest to insist that entries of Soviet and East European vessels into U.S. ports be permitted only in direct reciprocity for the admissions of U.S. vessels to ports of the Soviet bloc countries. With a view to fulfilling these national requirements, the Secretary of Transportation is hereby assigned the responsibility for the promulgation—in consultation with the Departments of State, Defense, and Justice, and the Director of Central Intelligence—of a U.S. port security program meeting the following objectives:

1. The exclusion from U.S. ports of vessels known to be under the effective control of or bearing the flag of Communist China, North Korea, North Vietnam, Albania, East Germany, and Cuba.

2. The requirement that requests for entry into U.S. ports by merchant vessels known to be under the effective control of or bearing the flag of the USSR, Czechoslovakia, Hungary, Romania, Bulgaria and Poland are to be considered on the basis of direct reciprocity for actions taken by the Governments of those countries with respect to requests for the admissions of U.S. vessels to their ports. (In exercising primary responsibility for obtaining an understanding with the Soviet Union and East European Governments regarding this requirement, the Department of State will limit reciprocal arrangements to such non-security matters as the designation of accessible ports, advance notice of arrivals, and frequency of port calls. The U.S. port security measures prescribed in Paragraphs 3-b and 3-c of this policy statement are not subject to modification through reciprocal agreement and are therefore to be excluded from discussions of understandings reached with the USSR on the reciprocity issue.)

3. Application of the following port security measures in the case of requests for entry into U.S. ports on the part of vessels known to be

under the effective control of or bearing the flag of the USSR, Czechoslovakia, Hungary, Romania, Bulgaria and Poland:

a. Each such vessel must submit an advance request for entry into a U.S. port and notification as to scheduled time of arrival.

b. The Secretary of Transportation—in consultation with the Departments of State, Defense and Justice, and the Director of Central Intelligence—shall determine the action to be taken with respect to each such vessel seeking admission to a U.S. port, including Great Lakes ports, as follows:

—denial of entry, if information indicates that the presence of a particular vessel in a U.S. port would constitute an unacceptable risk to the national defense and security; or

—depending upon the degree of security threat judged to be present, admission of the vessel subject to continuing dockside and seaside surveillance, or admission without the requirement for surveillance;

—when a vessel is admitted, timely notification to other U.S. Government departments and agencies having internal security responsibilities and programs associated with the arrivals of such vessels admitted to U.S. ports.

c. Each such vessel shall be boarded and searched by the United States Coast Guard prior to admission to a U.S. port.

Henry A. Kissinger

17. Memorandum From Secretary of State Rogers to President Nixon¹

Washington, October 22, 1970.

SUBJECT

Trade Relations with Communist Countries

¹ Source: National Archives, Nixon Presidential Materials, NSC Files, Box 326, Subject Files, The President's Annual Review of US Foreign Policy, Vol. II—part 2. Confidential.

Recommendation

As Europe evolves—especially in the aftermath of the Soviet-FRG treaty²—we foresee closer and expanded economic relations between East and West. We believe that the Soviet-West German Treaty will probably give a marked impetus to the broadening and deepening of economic relations between Eastern and Western Europe. It is our concern that unless we have new foreign policy tools, we will not share in the commercial benefits, or the economic and political influence, that may emerge from this developing economic cooperation. Specifically, I propose that you seek from Congress the authority, for use at your discretion, to extend most-favored-nation (MFN) tariff treatment and Export-Import Bank credits and guarantees to individual Communist countries with which we have diplomatic or trading relations in return for equivalent benefits to the United States. (Yugoslavia, as a recipient of MFN treatment and Export-Import Bank facilities, is not included in this discussion.)³

Discussion

Your policy decision of May 28, 1969 (NSDM 15)⁴ was that we should not seek at that time authority to extend MFN tariff treatment to Communist countries, although, according to the NSDM, we should be prepared to move generously to liberalize our trade policy whenever there is sufficient improvement in our overall relations with those countries.

A new situation in East-West European relations is arising as a result of the Brandt Government's initiatives. The USSR has responded positively to the German moves and the other East European Governments are echoing this response.

Whatever the degree of success enjoyed by Brandt's Eastern policy, it seems certain to lead to closer economic relations between the FRG and its Eastern neighbors. Brandt recognizes that, with the completion of the Ostpolitik package, political influence in both directions will be more than ever directly linked to the degree of economic collaboration.

With East-West relations in a more fluid state than might have been predicted several months ago, the United States has few foreign pol-

² The text of the Moscow Treaty of August 12, 1970, between the Federal Republic of Germany and the Soviet Union is in *Documents on Germany, 1944–1985*, pp. 1103–1105. Documentation on the U.S. reaction to the treaty is scheduled for publication in *Foreign Relations, 1969–1976*, volume XL, Germany and Berlin, 1969–1972.

³ Neither the approval nor disapproval option is initialed. For the result of Rogers' recommendation, see Document 21.

⁴ See Document 3.

icy tools for advancing its own interests and taking advantage of the emerging possibilities.

The legislative prohibitions against MFN tariff treatment and Export-Import Bank export financing for the USSR and Eastern Europe, pose serious constraints on our commercial and diplomatic relations with those countries. (Section 231 of the Trade Expansion Act denies MFN to all Communist countries except Poland and Yugoslavia, and the Fino Amendment to the Export-Import Bank Act excludes all Communist countries except Yugoslavia.)

I believe that this legislation would have the following advantages for your Administration:

(1) it would permit practical steps following through on the most recent and effective demonstrations of continuing U.S. interest in the area—your 1969 trip to Bucharest and the 1970 flood aid; (2) it would advance the time when U.S. exporters can compete on an equal footing with their West European and Japanese competitors in making sales, and it would provide practical evidence of U.S. Government interest in Eastern Europe; (3) it would provide us additional leverage with which to increase our economic and cultural influence *inside* Eastern European countries; (4) it would help allay concern in Eastern Europe that the Bonn-Moscow Treaty was tantamount to Western recognition of a Soviet “sphere of influence” in Eastern Europe; and (5) in the longer perspective, our commercial and economic presence in Eastern Europe might provide a desirable balance and offset to what otherwise may become a preponderant West European and particularly West German presence there.

There are, of course, additional economic and structural barriers to expanded trade with Eastern European countries—such as their shortage of convertible currencies, their preference for bilateral and barter trading arrangements, and the existence of more restrictive U.S. export controls than those applied by other Western countries. Thus, in 1969, the USSR and Eastern Europe imported goods from the free world valued at more than \$7 billion, of which only \$250 million worth came from the United States. The Western Europeans, Canadians, and Japanese make full use of government export credits and extend MFN status to Communist countries.

It is difficult to predict the economic effect of MFN treatment and Export-Import Bank participation in export financing on United States trade with Eastern Europe. It can be assumed, however, that there would be some gradual increase in trade. For example, MFN treatment is partly responsible for the fact that Poland’s trade with the United States exceeds that of any other East European country and exceeds Soviet/United States trade in most years. In fact, however, the availability of Export-Import Bank credits and guarantees would have a considerably

greater trade impact than the extension of MFN treatment. For the short run at least, the main benefit the Soviets and the East Europeans would gain from MFN would be psychological—the removal of discrimination. Experience has shown that they will need far more market research, sophisticated sales techniques, and more competitive products to take full advantage of MFN status in the United States market.

Our purpose in seeking more flexible foreign policy tools would not be unilaterally to grant MFN or credit facilities, but to obtain flexibility through having these measures available for selective use in order to advance our own interests. When we decide to move forward with a given Communist country, we would expect to negotiate for equivalent benefits, with the framework of trade agreements, or in parallel economic and political agreements for the settlement of outstanding U.S. nationalization and defaulted bond claims (as well as Lend-Lease with the Soviet Union), and non-discriminatory treatment for the export of American products. We might also negotiate for commitments to purchase specified amounts of American goods. We would utilize these bargaining tools in an effort to reduce restrictions on U.S. information and cultural activities and to secure favorable resolution of pending bilateral issues such as consular conventions. Any agreements entered into could provide for periodic review and confrontation procedures covering not only commercial matters but other significant aspects of our bilateral relations.

Alternative Approaches to Congress

While the authority I recommend be requested would be discretionary, allowing the President to decide when and with what countries to negotiate, there are several possible approaches that we might take in preparing draft legislation for submission to Congress:

1. request authority to extend MFN and Export-Import Bank credit and guarantees to Communist countries with which we have diplomatic or trading relations;
2. request authority to extend MFN and Export-Import Bank credit and guarantees to all of Eastern Europe including the USSR;
3. request authority to extend MFN and Export-Import Bank credit and guarantees to all Eastern European countries, except the USSR;
4. request authority to extend MFN and Export-Import Bank credit and guarantees to Romania alone;
5. request authority to extend MFN, but not Export-Import Bank credit and guarantees, to the countries as grouped above.

The arguments pro and con these choices are as follows:

1. *Coverage to Communist countries with which we have diplomatic or trading relations (authority would include Communist China as soon as direct trade is opened with U.S.)*

Pro

—to request this general authority would be consistent with your policy of initiating an “era of negotiation”;

—would demonstrate to Moscow a further U.S. capacity to improve our relations with Peking, which could have a healthy effect on the Soviet attitude towards the U.S.;

—would be consistent with our desire to improve the climate of United States-Communist Chinese relations; there is fairly general Congressional and public agreement that improvement in our relations with Mainland China is in our long-term national interest.

Con

—it would be more difficult to obtain Congressional approval if Mainland China were included as a possible beneficiary.

2. *Eastern Europe and the USSR*

Pro

—would provide the Administration with the capability to make maximum use of actions to liberalize and promote trade in support of other objectives in our relations with the USSR;

—would not arouse Soviet suspicions about United States aims in Eastern Europe to the same extent as choices 3 or 4;

—would go far toward harmonizing United States East-West trade policy with that of its allies.

Con

—so long as major fighting continues in Vietnam, there is likely to be significant Congressional opposition to granting this authority with respect to the USSR, even if only on a stand-by basis.

3. *All of Eastern Europe except the USSR*

Pro

—would permit an expanded United States influence in these states and enable them to reduce their economic dependence on the USSR;

—in view of Vietnam, additional Congressional support might be forthcoming if the USSR were excluded.

Con

—excluding only the USSR might be even more irritating to Moscow than limiting these actions to Romania alone.

4. *Limiting coverage to Romania*

Pro

—the climate in Congress is particularly receptive to action benefiting Romania because of Romania’s relatively independent stance, the desirability of strengthening Romania against Soviet pressure, and Romania’s need for credit growing out of the floods earlier this year;

—urgent action is needed to permit MFN for Romania if the United States is to be able formally to participate in negotiating terms under which Romania may accede to the GATT;

—a request limited to Romania would not only fare better on the Hill than a broader proposal, but would be consistent with our continuing efforts to take actions favorable to United States-Romanian relations.

Con

—to single out Romania by specific legislation would be irritating to the Soviet Union and the other countries of Eastern Europe. It might be embarrassing to Romania in its relations with its Warsaw Pact partners;

—would signal that we intend to remain out of step with other Western trading nations which accord MFN status to all European Communist countries.

5. MFN but not Export-Import Bank credit and guarantees

Pro

—since the prohibitions of the Fino Amendment to the Export-Import Bank Act were aimed at countries supplying goods by direct government action to North Vietnam, it may be difficult to persuade Congress to drop the Amendment as long as major fighting involving U.S. troops continues in Vietnam.

Con

—the offer of MFN without credit and guarantee facilities would have much less potency as a bargaining tool with Communist governments;

—the contribution to expanded U.S. exports would also be considerably less.

Conclusion

On balance I am inclined to think that the best approach would be to ask Congress for general authority to offer MFN status and Export-Import Bank export credit and guarantees, in return for equivalent concessions, to any Communist country with which we have diplomatic or trading relations. This authority would be a highly useful bargaining instrument. Moreover, if we are going to make the effort with Congress, we might as well ask for broad rather than limited authority. We would make it clear that the only action contemplated for the immediate future was with respect to Romania. Assuming that the recent improvement in relations continues, we might later take up the terms under which we might negotiate a trade agreement with Hungary. Negotiations with Poland, Czechoslovakia and Bulgaria, as with the USSR, might follow under the right conditions. We would not, however, begin negotiations with either the Soviet Union or Communist China without first sounding out Congressional leaders.

William P. Rogers

18. Memorandum From the President's Assistant for National Security Affairs (Kissinger) to Secretary of State Rogers¹

Washington, November 6, 1970.

SUBJECT

Scientific and Technical Exchanges with Eastern Europe

With reference to your memoranda of December 24, 1969 and July 29, 1970,² with President agrees that there is much scope for increased scientific exchanges and some cooperative technical projects in Eastern Europe.³ However, we should emphasize only those cooperative projects which do not exceed the limitations of current East-West trade legislation. In other words, we would not want to initiate scientific projects we can foresee leading to requests from the participating country that would require changes in our legislation or our refusal to implement a previously agreed program.

The President has noted with approval the proposed program for the National Science Foundation. He agrees, moreover, that an agency such as the Foundation should be equipped with funds for international scientific programs sufficient to respond effectively to initiatives and to use the leverage of the United States scientific and technical strength to serve foreign policy interests. (It is understood that the proposed increase of \$500,000 for exchanges with Eastern Europe is within the Foundation's FY 1972 budget ceiling.)

The President has noted that the additional funds in the range suggested will be directed primarily towards Romania, Hungary, Czechoslovakia and Bulgaria in that order of priority, thereby introducing a new dimension in our scientific relations with these countries. The President has directed that cooperation with Yugoslavia continue to be pursued vigorously. This, of course, does not mean that useful initiatives involving Poland should be ignored.

The Department of State should continue to work closely with the National Science Foundation in allocating resources among the Eastern European countries. If the Romanians press for an expansion of scientific exchanges during negotiation of a new two-year exchanges agreement this autumn, we should respond positively.

¹ Source: National Archives, Nixon Presidential Materials, NSC Files, Box 667, Country Files—Europe, Eastern Europe. Confidential. Copies were sent to the Directors of the National Science Foundation, the Office of Management and Budget, and the Office of Science and Technology.

² Neither printed. (Ibid.)

³ Nixon initialed an October 22 memorandum from Kissinger, authorizing the instructions contained in the memorandum. (Ibid.)

Activities with respect to Eastern European programs should also be coordinated with my office and, in their scientific and technical aspects, with the Office of Science and Technology. Periodic progress reports should be forwarded for the President's information.

Henry A. Kissinger

19. Editorial Note

On November 19, 1970, Secretary of Commerce Maurice Stans submitted a memorandum to President Richard Nixon on U.S. commercial relations with Eastern Europe. He wrote: "I am concerned over the rapid growth of Western Europe's share of the Eastern Europe market. Japan, starting later, is also increasing its exports rapidly and is already ahead of the United States. Eastern Europe imported \$8.5 billion from the free world in 1969. Western Europe's share was \$5.8 billion and Japan's about \$400 million. By contrast, U.S. exports were less than \$250 million. . . . It should be possible for us to widen our business relationships with Eastern Europe, despite current difficulties in the broader political sphere, and by doing so strengthen the foundation for progress in political relationships. . . .

"We accordingly propose to increase our recently initiated drive to enlarge peaceful U.S. trade with East Europe and to encourage the development of joint venture arrangements between American and Eastern European enterprises."

Having recommended "vigorous trade promotion and export de-control measures," Stans went on to advocate "early legislative action to authorize you [Nixon] to extend most-favored-nation tariff treatment to U.S. imports from, and Export-Import Bank financial support to U.S. exports to, Eastern Europe." Such changes in the existing legislation, Stans concluded, "would enable you to remove two major obstacles still impeding expanded economic relationships. Any major long-term growth in our trade with Eastern Europe depends upon their removal."

For the full text of Stans's memorandum, see *Foreign Relations, 1969–1976*, volume IV, Foreign Assistance, International Development, Trade Policies, 1969–1972, Document 320. For the outcome of his recommendations to Nixon, see Documents 20 and 21.

20. **Memorandum From C. Fred Bergsten of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)**¹

Washington, December 3, 1970.

SUBJECT

Administration Initiatives on East-West Trade

Issue

At Tab I is a memo for the President on our basic East-West trade policy.² It was triggered by memos to the President from Secretaries Stans and Rogers,³ proposing that in the near future we seek Congressional authority to extend MFN treatment and Export-Import Bank credits to individual Communist countries.

I solicited memos from Secretary Laird⁴ and the various interested parties in the White House to round out the picture, which—along with the lack of policy urgency—explains the delay from the original Stans submission. I attach only the Stans, Rogers, Laird and Shultz memos to your memo for the President; I attach all of the others to this cover note to you, and list them at the bottom.⁵

Stans has also indicated that he wishes to see you as soon as possible on this issue (Tab 3),⁶ and has noted to the President that you

¹ Source: National Archives, Nixon Presidential Materials, NSC Files, Box 326, Subject Files, The President's Annual Review of US Foreign Policy, Vol. II—part 2. Secret. Sent for action. Concurred in by Sonnenfeldt. Printed from an uninitialed copy. Handwritten notations at the top of the page, apparently in Sonnenfeldt's hand, read: "until I see where we get," and "Why held-up for 4 weeks[?]" At the bottom of the page a note in the same hand reads: "Must be rewritten & shortened. Pres needs 1 Recommendation. I want to hold-up MFN."

² Not found, but presumably a draft of Document 21.

³ See Documents 19 and 17.

⁴ For the memorandum from Laird to the President, November 21, see *Foreign Relations, 1969–1976*, volume IV, Foreign Assistance, International Development, Trade Policies, 1969–1972, Document 321.

⁵ All attached but not printed. On October 1 Bergsten sent a memorandum to Schultz, Flanigan, Timmons, and McCracken. Bergsten's memorandum and the responses to it are in the National Archives, Nixon Presidential Materials, NSC Files, Box 326, Subject Files, The President's Annual Review of US Foreign Policy, Vol. II—part 2.

⁶ Stans forwarded to Kissinger a copy of his November 19 memorandum to the President (see Document 19). In the attached November 19 memorandum to Kissinger at Tab 3, Stans wrote: "I would like to discuss this with you as soon as you have a chance to read it."

have held up his proposed trip to the USSR (Tab 4).⁷ I presume that you would prefer to defer seeing him until after the President makes his substantive decision, though Stans would of course like to see you before then.

My memo to the President is longer than the usual effort. However, it has to cover a number of issues and different viewpoints, and the subject is clearly of great interest to the President. In view of these factors, you might also want to consider holding a meeting of the various involved parties of the White House before sending the memo (Timmons, Shultz, McCracken, Flanigan)—though I have gotten written viewpoints from all of them and they all essentially defer to the foreign policy considerations as dominant. I think a meeting of the agencies would be a useless rehash of well known viewpoints, though we might consider an NSC meeting to convey the President's decisions if they are along the fairly subtle lines which I recommend (or any other subtle lines).

Substance

In my view, our East-West trade policy is based on precisely the right premise: that it should be determined by our overall foreign policy objectives toward the Communist countries. The economics of the issue are marginal to us.

However, it is also my view that we have not used our East-West trade policy effectively to pursue our foreign policy objectives toward these countries. It is simply an error to think that we will extract significant concessions from the Soviets in return for granting an export license on particular cases, such as Gleason.⁸ We cannot pursue our Romanian policies very far without additional policy tools, and MFN treatment and Export-Import Bank credits are precisely the concessions which Romania wants—and others will want—in return for playing our game in the broader sense.

I therefore think there is a strong substantive reason for us to try to get the additional legislative authority proposed by Stans and

⁷ Tab 4 was a November 23 memorandum to Kissinger, in which Flanigan wrote: "At a recent meeting between Secretary Stans and the President, Secretary Stans urged strongly a relaxation of the limitations on trade with Eastern Europe. He pointed out the USSR wanted to buy \$12 billion worth of goods and our U.S. industry is missing those markets. He further said he had delayed his trip to Russia at your request. The President responded by saying the delay in the trip to Russia might well be temporary, perhaps only until after the Party Congress. With regard to sales of U.S. products to countries in Eastern Europe other than the USSR, the President indicated that Stans was free to encourage sales to any of these countries."

⁸ Reference is to Gleason Works of Rochester, New York. See *Foreign Relations, 1969–1976*, volume IV, Foreign Assistance, International Development, Trade Policies, 1969–1972, Documents 312, 315, and 320.

Rogers. (Incidentally, both are interested quite personally in the issue and I have therefore used their names in the memo for the President rather than the names of the agencies which they head as per usual.)

It seems to me that the tricky issue is how to obtain the authority without signaling that we regard our overall relations with the Communist world as having undergone any significant improvement. My proposed recommendations attempt to do that, by playing on the action which Congress is likely to take on its own and separating into individual actions—rather than packaging—any other steps:

—There will be a Senate initiative to eliminate the Fino amendment from the Export-Import Bank Act, which has a high probability of success.

—We can seek the elimination of the PL-480 restrictions which the President has already decided to seek (and sought once before unsuccessfully) in the new foreign aid legislation.

—We can seek the investment guarantee authority, which would be applied immediately only to Yugoslavia and Romania, in the separate OPIC legislation.

—We need no changes in the Export Administration Act to permit liberalization of our export controls so need take no initiative here, and could take a relaxed posture if the Senate tries to liberalize it on its own.

—The only place where we might need to take an initiative ourselves would be on MFN, and it could be submitted by State and Commerce instead of by the President. In addition, we might roll it into broader trade legislation either early in the year (if the Mills bill⁹ does not pass in this session) or later in the year after we get the report of the Williams Commission.¹⁰

—Hal Sonnenfeldt would prefer to defer any action at this time, mainly due to the present uncertainties surrounding U.S.-Soviet relations and the resultant acute likelihood that any new action, however mild, would be misread in Moscow. He also prefers not to imply to the Western Europeans any softening of the U.S. stance on the issue at this point, which he feels might encourage them to further step up their trade and extension of credits to the Soviets.

I am certainly in no hurry. The scenario which I recommend would stretch out over many months anyway, but there is not even any urgency in deciding to start down that path. The only problem is bureaucratic since Stans and Rogers are both eager to move and they deserve some answer in the next few weeks.

⁹ A reference to H.R. 18970, reported by the Chairman of the House Ways and Means Committee, Wilbur D. Mills (D-Arkansas), to the full House of Representatives on August 21. The bill, which established import quotas on shoes and textiles, passed the House on November 19. (*Congressional Quarterly, Congress and the Nation, Vol. III, 1969-1972, p. 124*)

¹⁰ A reference to the Commission on International Trade and Investment, chaired by Albert Williams. Nixon appointed the commission in 1970 to prepare recommendations on U.S. trade and investment policy. (*Public Papers: Nixon, 1971, p. 301*)

Sonnenfeldt would also prefer to clearly limit any new initiatives to Romania alone, but recognizes the bureaucratic and substantive difficulties—mainly to Romania itself, since this would single it out much too sharply.

He also has some sympathy for seeking new authority vis-à-vis only Eastern Europe and China, to avoid any possibility of a misleading signal toward the Soviets. Here too, however, the discrimination—in this case solely *against* Moscow, especially if China were included—would be so blatant as to produce the wrong result in the other direction. Nevertheless, I have included an option of supporting/seeking authority for Eastern Europe alone in the choices under recommendation 1 for the President.

Recommendations

1. That you sign the memo at Tab I for the President.
2. That your office inform Stans that you would be pleased to see him on East-West trade matters and set up a time for the meetings.

21. Memorandum From the President's Assistant for National Security Affairs (Kissinger) to President Nixon¹

Washington, February 9, 1971.

SUBJECT

Administration Initiatives on East-West Trade Policy

Issue

Secretaries Stans and Rogers, in separate memoranda to you (Tab A and Tab B),² have proposed that the Administration seek legislative authority sometime next year to extend most favored nation treatment (MFN) and Export-Import Bank credits and guarantees (XMB) to Communist countries in exchange for “equivalent benefits to the U.S.”

¹ Source: National Archives, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H-222, National Security Decision Memoranda, NSDM 99. Secret. Sent for action. A notation on the memorandum indicates the President saw it on February 22. At the top of the memorandum is a handwritten comment by Sonnenfeldt: “Notify Bergsten.”

² Regarding Tab A, see Document 19. Tab B is printed as Document 17.

I have also solicited a memorandum on the issue from Secretary Laird (Tab C),³ who recommends that we make no Congressional requests until we have: (a) developed a broad plan of action to use the request for such trade authority to pursue our political objectives, (b) developed negotiating packages for individual Communist countries, and (c) determined which Communist countries have sufficiently improved their relations with us to warrant new trade liberalization toward them.

Background

In May 1969, you decided that present legislation provided an adequate basis for U.S. trade policy toward the Communist countries in view of our overall relations with them at that time. You also indicated that we should move generously to liberalize this policy “whenever there is sufficient improvement in our overall relations.” Adoption of the State/Commerce proposal would thus require either a determination that there has now been sufficient improvement in our relations with at least some of the Communist countries, or a shift from your earlier decision.

Whatever decision you make with regard to the Commerce/State proposals for new initiatives, we will probably have to have a position on the XMB issue in the new session of Congress. The Export-Import Bank must submit legislation to increase its borrowing authority, and, when it does, there is certain to be a Congressional effort to eliminate the Fino amendment, which prohibits XMB lending to countries trading with North Vietnam—a move which is likely to succeed at least in the Senate.

Secretary Stans recommends that we seek authority to extend MFN and XMB credits in order to expand U.S. exports to Eastern Europe. He is particularly concerned about the growing penetration there of the Western Europeans and Japanese, and feels that U.S. firms will be permanently frozen out unless we begin to compete more actively. He concludes that we must extend XMB credits to sell more now, and that we must enable the Eastern Europeans to export more to us—which is possible only if we give them MFN—if they are to buy more from us over the longer run.

Secretary Rogers shares Secretary Stans’ interest in expanding U.S. business in Eastern Europe. His primary emphasis, however, is on getting additional U.S. foreign policy tools to extend our influence there, especially in the era of expanded East-West economic relations which he foresees as a result of general European evolution and particularly the Soviet-German treaty. The Secretary also believes that our seeking more authority would help allay Eastern European fears that we have recognized Soviet hegemony over them. Over the long run, he feels

³ See footnote 4, Document 20.

that increased U.S. trade with Eastern Europe would help offset a preponderant Western European, especially German, presence there.

Secretary Laird, on the other hand, sees no change in the political situation which justifies a change from your decisions of May 1969. He also feels that increased trade, especially financed by U.S. credits, could *reduce* the likelihood that the Eastern European countries would liberalize their regimes by reducing the economic pressures on them to do so. It should be added that any signs of U.S. relaxation on this issue will accelerate European willingness to trade with the Soviets and thus—especially since financed partly via credits—will increase the resource levels which the Soviets can devote to their military program.

All three Secretaries agree that any new authority to actively liberalize East-West trade should only be used on a country-by-country basis, in return for concessions to the U.S. Secretary Stans would seek concessions related to U.S. exports to the country involved. Secretary Rogers would seek broader liberalization of the Eastern European economies, both to benefit our trade and to open their societies increasingly to the West, and minor political concessions. Secretary Laird, on the other hand, recommends that we insist on major political concessions, such as a Soviet move to urge Hanoi to move toward release of U.S. prisoners of war, *before* we seek Congressional authority to liberalize trade. He would also require major changes in their economic systems as part of the bilateral packages which would be negotiated under the authority.

There does seem to be general agreement on three key points. The immediate gains to the U.S. from even the most liberalized conceivable East-West trade package would be small. The contribution of such expanded trade to the Eastern European economies would also be marginal, at least in the short run, and would have no impact on their strategic capabilities. But such steps would clearly be more important for the Eastern European countries than for the Soviet Union.

From an economic standpoint, the issue is thus quite minor to the U.S. and to the Soviet Union and more important to the Eastern Europeans. It thus seems unlikely that the Soviet Union would make major political concessions even to get MFN and XMB financing; they are clearly not going to do so to get our approval of export licenses on individual cases. On the other hand, some of the Eastern Europeans might make more significant political concessions. For example, our effort to find concrete steps to improve our relations with Romania, which has taken major political steps in our direction, has not yet been hampered by our inability to meet their most pressing requests—MFN and XMB credits—but it might well be in the future. Extension of MFN would appear to have a greater political and psychological impact in Eastern Europe, while XMB credits would have a greater concrete economic effect in at least the short run.

It would thus appear desirable for us to have additional legislative authorities to carry out a selective policy toward individual Communist countries, especially the Eastern Europeans, which gave you sufficient leverage to extract meaningful concessions from them. However, in view of the notorious uncertainties of Congress, it is highly unlikely that we could extract such concessions as a price for *requesting* such authorities; and there is always the question of whether we would require these prior concessions from *all* of the Communist countries, or only from the Soviets.

The issue thus remains one of timing. Any request for new legislative authority would of course have to be clearly portrayed only as seeking authority to position you to participate more fully in this era of negotiation, not as presaging any major actual steps at this time with the exception of Romania. Even so, I would prefer to hold off any Administration initiative until we see how our overall relations with the USSR develop this spring.

Bill Timmons feels that Congress would not now pass MFN or repeal Fino anyway, although a request for MFN would trigger hearings—which President Johnson's proposed East-West Trade Act of 1966 failed even to do.⁴ Timmons recommends that we should first relax our export controls administratively if you want a liberalization of East-West trade, and then consider submitting MFN legislation if there is no public outcry. (Such liberalization has already been going on under the new law, however, and there has been no outcry at all.) He would withhold proposing XMB changes until the international situation improves significantly.

On the other hand, Congress significantly liberalized the Export Control Act only a year ago over our low-key opposition. They may try to liberalize it further when it comes up again this spring. As noted above, they may also strike the Fino amendment from the Export-Import Bank Act, whatever we do. So we may very well get some new authority without taking any initiative, and I think we should accept it with no fanfare.

Recommendation

That you defer at this time a decision on any new Administration initiatives to liberalize U.S. trade policy toward the Communist countries, as recommended by Secretary Laird, but that we not oppose Congressional initiatives in this direction which might develop in the new session.

⁴ An October 6, 1970, memorandum from Timmons to Bergsten voicing these views is in the National Archives, Nixon Presidential Materials, NSC Files, Box 326, Subject Files, the President's Annual Review of US Foreign Policy, Vol. II—part 2.

Approve⁵

Disapprove, prefer to seek authority to extend MFN treatment and XMB credits to Communist countries (indicating that we would use them only for Romania at this time) as proposed by Secretary Rogers, Secretary Stans, and Paul McCracken

Other

⁵ Nixon initialed this option.

22. Memorandum From C. Fred Bergsten of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)¹

Washington, February 26, 1971.

SUBJECT

Stans' Proposals for (a) Another Eastern European Trade Mission, and (b) His Own Trip to Europe and the Near East

Eastern Europe Trade Mission

Secretary Stans has proposed that his Deputy Assistant Secretary for International Business, Harold B. Scott, lead a U.S. trade and investment mission to Bulgaria, Czechoslovakia, Hungary, Poland and Rumania in June 1971. (Tab B)² The mission would consist mainly of senior representatives of U.S. firms. Stans believes that the mission is justified in order to demonstrate continued U.S. government interest in expanding trade to Eastern Europe. He says that the State Department has offered planning and staffing support.

Scott led a similar mission to Eastern Europe last June, and he has strongly supported increased trade with the Communist European countries in a number of public statements. In fact, with the full backing of Stans, he has tread on the edge of pushing a policy line contrary to the President's own decisions. For example, on February 4 he told

¹ Source: National Archives, Nixon Presidential Materials, NSC Files, Box 213, Agency Files, Commerce, (1971)–Vol. II. No classification marking. Sent for action. Concurred in by Sonnenfeldt and Saunders.

² Attached but not printed.

a Boston business group that Commerce and State had suggested that the President seek Most-Favored-Nation treatment for Communist products; this could have been the source of Senator Brooke's call to you on the subject.³ Scott also told the group that the President's decision might be revealed in the State of the World report, for which there was of course absolutely no basis in fact. And he actively agitated for opposition to the President's policy by saying that "political awareness of the tariff problem can be heightened by agitation by the business community for even broader trade . . ."

Stans himself has often given the same impression. In recent testimony before the Joint Economic Committee, the *Journal of Commerce* reported that he said that the only area in the world with potential for expanded U.S. exports was Eastern Europe—the obvious implication of which was that the business community should lobby for USG help to do so.

The President told Secretary Stans orally sometime back that he would not stand in the way of increased trade with Eastern Europe—apart from the USSR.⁴ However, I do not see how our present policy could condone a second trade mission within a year, with its strong implication that we favor expanded East-West trade, particularly in view of the President's recent decision to defer any Administration initiatives in this area.⁵ (I held Stans' memo until the President made this decision.)

Secretary Stans has not specifically asked your permission for Scott to go, but Commerce will undoubtedly follow up to find out if the trade mission can proceed. You could of course let it pass or you could object in the name of the President's policy. An objection would make it clearer to Stans that Commerce should be more restrained in its East-West trade statement.

Stans' Trip to Europe and the Near East

Secretary Stans has also (Tab C)⁶ asked for comments on his own planned trip in April and May to Ireland, Spain, Greece, Romania, Iran and Turkey. The only problem is the reaction he can expect in Spain if the President decides to agree with Stans on the need to increase shoe duties in response to the Tariff Commission report. Nevertheless, I see no reason to discourage his trip at this time.

³ Not further identified.

⁴ See footnote 7, Document 20.

⁵ See Document 21.

⁶ Attached but not printed.

Recommendation

That you sign the memorandum for Secretary Stans at Tab A, approving his trip in April and May but suggesting a delay before another trade mission to Eastern Europe (except of course to Romania and Yugoslavia).⁷

⁷ Haig responded to Bergsten in an undated memorandum: "I have discussed this with Henry and he would like your memo rewritten as a memo for the President; also, he wants you to be sure and get Peterson's attitude and incorporate it in the memo for the President." With Peterson's concurrence, Bergsten prepared a shortened memorandum from Kissinger to the President expressing similar views. Kissinger approved the revised text on Nixon's behalf and followed up on March 15 with a memorandum to Stans, in which he wrote: "The President fully approves your trip to Europe and the Near East during the period April 17 through May 3, 1971. He is particularly pleased at your intention to include Romania in your itinerary. There is doubt, however, about the need for a second trade and investment mission to Eastern Europe, which you raised in your earlier memorandum to me. I do not believe that the status of our relations with these countries, apart from Romania and Yugoslavia of course, justifies a second business mission within a year led by a Deputy-Assistant Secretary." All three memoranda are in the National Archives, Nixon Presidential Materials, NSC Files, Box 213, Agency Files, Commerce (1971)–Vol. II.

23. Editorial Note

On March 1, 1971, President's Assistant for National Security Affairs Henry Kissinger sent to the Secretaries of State, Defense, and Commerce NSDM 99 on East-West trade, which reads as follows: "In response to the recent memoranda from the Secretaries of State, Defense and Commerce on possible measures to increase U.S. trade with Eastern Europe and the Soviet Union, the President has decided to defer any decision on new Administration initiatives to liberalize U.S. trade policy toward the Communist countries in regard to most-favored-nation tariff treatment or Export-Import Bank transactions. The President has also decided, however, that Congressional initiatives in these areas should be opposed only in a very low key way."

Regarding the referenced memoranda from the Secretaries of State, Defense, and Commerce, see Document 20.

24. Memorandum From Helmut Sonnenfeldt of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)¹

Washington, October 18, 1972.

SUBJECT

Relations with Eastern Europe

In the wake of the Moscow Summit, the East European countries are hastening to settle long-standing economic issues with us, indicating their willingness to conclude consular and Science and Technology Agreements, and showing great interest in economic concessions such as MFN. They obviously have Soviet approval for their approaches. Our economic negotiating package with the USSR serves as a model and a cover. The rush is on, with the Poles and Hungarians in the forefront and even the Czechoslovaks and Bulgarians proposing negotiations.

Secretary Rogers has been responsive to such approaches. As a result of discussions held during his trip to Budapest last July, the Hungarians came here and negotiated a claims settlement (see memo of October 13, Log 7335 at Tab C).² At his October meeting with the Czechoslovak Foreign Minister, he suggested that we are ready to negotiate on claims, an S&T agreement, and a consular convention.³ (We may expect soon the Secretary's formal proposal to begin these negotiations.) State has also told the Bulgarians that we would welcome a high-ranking economic delegation. Our economic relationships with Poland and Romania are, of course, already well developed but several issues are currently hanging fire: We have supported MFN legislation for the Romanians and the debt rollover which the President promised the Poles for instance. State and Commerce are now also giving thought to concluding commercial agreements, mainly of a facilitative nature but also perhaps embodying MFN clauses, with all the East European countries.

You will find an overview of our current economic and other relations with the East European countries at Tab D. It shows that there are a number of agreements which we could negotiate soon if we wish.

¹ Source: National Archives, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H-194, National Security Study Memoranda, NSSM 163. Confidential. Sent for action. Haig signed the memorandum, indicating that he saw it.

² Document 129.

³ See Document 91.

To my mind, the State Department's way of dealing with the East Europeans' approaches lacks coherence. If we proceed ad hoc, as we seem to be starting to do, we run several risks:

- that the pace and scope of our relations with the East Europeans will be determined more by them than us;
- that we may lose some of the benefits of reciprocity;
- that differentiation in our policy disappears between those countries who have been helpful to us when it was dangerous to do so, such as Romania and Yugoslavia, and the latecomers; and
- that the undesirable impression is given that our policies toward individual East European countries are only a function of our rapprochement with the Soviet Union.

If you agree, there are two things to do now:

1. *Request the Secretary of State to refrain for the moment from opening new negotiations with the East European countries until we have worked out a comprehensive plan.*

A vehicle is at hand to accomplish this: The Secretary has sent the President a memorandum with his proposal to begin negotiations with Czechoslovakia (Log 7333 at Tab B).⁴ If you agree, you should (a) ask the Secretary to delay these negotiations until we have developed a coherent approach for all of Eastern Europe; and (b) notify the President of this. These recommendations are included in my separate memorandum to you covering the Secretary's report on Czechoslovakia (also at Tab B).⁵

Recommendation

That you approve my recommendations on Secretary Rogers' memorandum on Czechoslovakia (Tab B).

2. *Request that the agencies undertake an urgent study of the issues involved in normalizing our economic relations with the Eastern European countries.* The objective should be to develop a political and phased plan for our negotiations with these countries. Since initial negotiations are likely to be on economic matters, Peter Flanigan will want to participate in directing this study be carried out.

The draft NSSM/CIEPSM, which Flanigan has approved, would ask that the Secretary of State organize such a study and submit it along with his policy recommendations by December 1.

Recommendation

That, with Peter Flanigan, you sign the proposed NSSM/CIEPSM at Tab A.⁶ Bob Hormats concurs, as does Dick Kennedy.

⁴ Document 90.

⁵ See Document 92.

⁶ Not attached and not found. Presumably it was a draft of NSSM 163 (Document 25).

Comments

The outcome of our current economic negotiations with the Soviets will set certain parameters for our policy decisions regarding Eastern Europe. The NSSM/CIEPSM response will then permit us within that framework to formulate a comprehensive policy for all aspects, including the economic, of our relations with the individual East European countries.

Note that the proposed NSSM/CIEPSM requests that the GDR and Albania be studied along with the other countries. Policy decisions on the GDR are, as you know, pending separately in the response to NSSM 146.⁷ We have not addressed Albania in the NSSM context so far. This is a low-key way to begin.

Tab D

OUTSTANDING ECONOMIC AND OTHER ISSUES WITH THE
EAST EUROPEAN COUNTRIES—SURVEY

Romania

*Economic: MFN—Administration supports.*⁸ *No Congressional action yet.*

Agricultural Credits—Romanians want PL 480 type sales. We increased CCC line to \$61 million last summer, but indicated no PL-480 possible under present legislation.⁹

Government Loan—We told Romanians last summer we couldn't arrange one under our system.¹⁰

EX-IM—Granted September 1971. First loan made.¹¹

OPIC—Granted September 1972.

Private Bonded Indebtedness—Negotiations suspended. Romanians agree to negotiate when MFN received.

Joint projects in Africa—Romanians have approached us but we were negative.

⁷ See *Foreign Relations, 1969-1976*, volume XL, Germany and Berlin, 1969-1972, Document 341.

⁸ See Document 208.

⁹ See Document 193.

¹⁰ See Document 214.

¹¹ The administration announced Nixon's decision to extend Export-Import Bank facilities to Romania on November 30, 1971. (Telegram 216475 to Bucharest, November 30; National Archives, Nixon Presidential Materials, NSC Files, Box 702, Country Files, Europe, Rumania, Vol. II, 9/69-Jun 70)

Other:

Cultural Exchanges—Both sides want to expand under current Cultural and Scientific Exchanges Agreement. Negotiations begin in November for 1973–74.

Civil Air Agreement—No interest on either side.

Poland

Economic:

MFN—Provided in 1960.

PL-480 Debt Deferral—President promised deferral at two year tranches during Warsaw trip;¹² negotiations interrupted over interest issue.¹³

Agricultural Credits—Poles have requested new long-term local currency sales agreement last June. We have not replied, but Poles told that there is little hope.

EX-IM—We have tied it to bond settlement.¹⁴

Private Bonded Indebtedness—Interim settlement ready for conclusion with Bondholders.¹⁵

Other:

Science and Technology Agreement—Ready for signature.¹⁶

Civil Air Agreement—Concluded in July 1972¹⁷ but CAB permit still pending.

Czechoslovakia

Economic:

MFN—Do not have.

Claims—Czechs want to settle, link with our holding of Czechoslovak monetary gold, have suggested February 1973 as starting date.¹⁸

EX-IM—Not eligible.

Private Bonded Indebtedness—Czechs have refused to negotiate some \$2.7 million in outstanding claims.¹⁹

¹² Regarding Nixon's trip to Poland, see Documents 163–166.

¹³ See Document 173.

¹⁴ See Document 170.

¹⁵ See Document 173.

¹⁶ See Document 175.

¹⁷ For the agreement, see 23 UST 4269.

¹⁸ See Document 85.

¹⁹ See Document 90.

Blocked Accounts (both ways)—About \$5 million.

Surplus Property Debt—Owed by Czechs in amount of \$5 million.

Other:

Consular Convention—Czechs want to negotiate. State prepared to start in November, 1972.

S & T Agreement—Czechs want to negotiate, but we want broad, general agreement covering culture as well.

Consulates—Czechs want a Chicago consulate and will permit us to reopen in Bratislav.

Hungary

Economic:

MFN—Do not have but indicated interest.

Claims—Settlement initialled 10/12/72.²⁰

EX-IM—Don't have.

Private Bonded Indebtedness—Negotiations have begun.

Other:

Crown of Saint Stephen—We have custody. Hungarians want it; émigrés opposed to return.²¹

Culture, Science and Technology Exchanges Agreement—We have given a draft. Hungarians plan reply.

Civil Air Agreement—Concluded June 1972.

Bulgaria

Economic:

MFN—Do not have, indicated interest.

Claims—None.

EX-IM—Don't have; Bulgarians have indicated interest in "credits."²²

Private Bonded Indebtedness—Outstanding claims of \$6.5 million.

Other:

Consular Convention—Bulgarians have for several years delayed reply to our draft.

Status of Embassy—Harassment by Bulgarians.

²⁰ See Document 129.

²¹ See Documents 116 and 126.

²² See Document 75.

Cultural Exchange—Bulgarians unresponsive until this month; now propose expansion.

Maritime Agreement—Bulgarians have proposed.

Arbitration Agreement—Bulgarians have proposed.

Civil Air Agreement—No interest on either side.

German Democratic Republic

Economic:

General—We have no agreements with the GDR and it is not eligible for MFN, EX-IM, or CCC credits. It is subject to more stringent export controls than the other East European countries.

Claims—U.S. claims exist. State Department is compiling updated list of amounts.

Other:

No relations. GDR has evinced some interest in privately-sponsored cultural exchanges.

Albania

Economic:

General—1926 Commercial Treaty (including MFN)²³ whose validity Albanians won't acknowledge.

Claims—Since 1946 we have had claims outstanding. We holding Albanian gold.

Other:

No relations. No Albanian interest shown so far. In 1946 we asked for confirmation of several previous agreements: Pre-war extradition, nationality, arbitration, and visa treaties whose validity Albanians won't acknowledge.

Yugoslavia

Economic:

MFN—Have since before World War II.

EX-IM—Granted.

OPIC—Available.

Financial Claims—None, but Yugoslavia faces a repayment problem on previous credits.

²³ On the commercial treaty with Albania, see *Foreign Relations, 1925*, volume I, p. 511.

PL-480 Credits—Potential U.S. sales restricted by Findley Amendment.²⁴

Other:

Civil Air Agreement—No interest in bilateral. U.S. interest in charter agreement.

²⁴ The Findley–Belcher Amendment to the Food for Peace Act (Section 103 (d) (3) of P.L.–480) forbade the sale of agricultural commodities on credit to “any nation which sells or furnishes or permits ships or aircraft under its registry to transport to or from Cuba or North Vietnam . . . any equipment, materials, or commodities so long as they are governed by a Communist regime.” (80 Stat. 1527)

25. National Security Study Memorandum 163¹

Washington, October 27, 1972.

TO

The Secretary of State
The Secretary of the Treasury
The Secretary of Defense
The Secretary of Agriculture
The Secretary of Commerce
The Special Representative for Trade Negotiations
The Director of Central Intelligence

SUBJECT

Economic Policies for the Eastern European Countries

The President has requested a comprehensive review of the issues involved in further normalizing our economic relations with the countries of Eastern Europe.

The study should encompass economic relations with: Albania, Bulgaria, Czechoslovakia, the German Democratic Republic, Hungary, Poland, Romania, and Yugoslavia. It should examine current and potential areas of economic interaction between these countries and the United States in light of our political and economic objectives in each country and in Eastern Europe as a whole. It should examine policy

¹ Source: National Archives, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H-194, National Security Study Memoranda, NSSM 163. Confidential. Also issued as Council on International Economic Policy Study Memorandum 24.

options with respect to the individual countries of the area and to the area as a whole. Taking into account the policy options developed, the study also should provide time-phased negotiating scenarios which:

- a. pursue the various policy options in bilateral negotiations on economic and other issues with the individual countries, and
- b. establish priorities among the individual countries in respect to the pursuit of negotiations on the specific issues involved.

An illustrative list of topics for examination is included in the attachment to this memorandum. This list is not intended to be exhaustive. The report also may include country profiles and trade projections.

The study should be prepared by an Ad Hoc Group comprising representatives of the addressees and of the Assistant to the President for National Security Affairs and the Assistant to the President for International Economic Affairs, and chaired by the representative of the Secretary of State. The study should be forwarded not later than December 1, 1972 for consideration by the NSC Senior Review Group and the CIEP Review Group.²

Henry A. Kissinger
Peter Flanigan

Attachment

STUDY OF ECONOMIC POLICIES FOR EASTERN EUROPEAN COUNTRIES

Suggested List of Topics

Overall Policy

1. What are the major implications for U.S. economic policy toward the Eastern European countries of our trade and financial negotiations with the USSR?
2. Should we seek comprehensive settlements of economic issues, including trade agreements, with individual East European countries, or deal with specific issues on a case-by-case basis?
3. Which outstanding issues should be handled on a bilateral basis? On a multilateral basis? How, if at all, do we deal with CEMA institutions?
4. What political, economic, and other quid pro quos should we seek in the East European countries in exchange for particular steps taken by us to normalize economic relations?
5. What conditions govern the timing of such moves?

² See Document 26.

6. A differentiation should be made between those policy moves that would require legislative action (e.g., Johnson Act,³ Findley Amendment) and those that would not.

B. Specific Issues

Among those which might be considered country-by-country and regionally as appropriate are:

- a. MFN
- b. EXIM Bank credit facilities
- c. Export Controls
- d. Financial claims. For example, how should we approach nationalization and war damage claims, defaulted dollar bonds, public debts, blocked accounts, annuity payments and Czech and Danzig gold?
- e. Capital control programs
- f. PL-480 Debt
- g. Agricultural credits and sales
- h. Reciprocal business facilities and official commercial representation.
- i. Taxes, royalties, patents and copyrights
- j. Joint ventures
- k. Insurance, such as OPIC
- l. Participation in multilateral trade and payments institutions such as the IMF, IBRD, and the GATT. Role of the ECE?
- m. Should any East European countries be made eligible for U.S. generalized tariff preferences?

³ The Johnson Debt Default Act, approved April 13, 1934, prohibited the purchase or sale of bonds, securities, or other obligations of any foreign government in default on the payment of its debts to the U.S. Government. See 48 Stat. 574.

26. Response to NSSM 163 Prepared by the Ad Hoc Group on Economic Policies Toward Eastern Europe¹

Washington, February 1, 1973.

[Omitted here is the table of contents.]

¹ Source: National Archives, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H-194, National Security Study Memoranda, NSSM 163. Confidential. This response was submitted to Kissinger and Flanigan under a covering memorandum from Stoessel, the Acting Chairman of the Ad Hoc Group on Economic Policies Toward Eastern Europe. NSSM 163 is Document 25.

I. SUMMARY AND CONCLUSIONS

A. Introduction

In National Security Study Memorandum 163 and Council on International Economic Policy Study Memorandum 24, the President requested from the Secretary of State, Treasury, Defense, Agriculture and Commerce, the Special Representative for Trade Negotiations, and the Director of Central Intelligence “a comprehensive review of the issues involved in further normalizing our economic relations with the countries of Eastern Europe,” defined as including all Eastern European Warsaw Pact members plus Yugoslavia and Albania. The German Democratic Republic (GDR) is included in the terms of this study.

As requested, an Ad Hoc Group of representatives of these organizations and of the Assistant to the President for National Security Affairs and the Assistant to the President for International Economic Affairs, chaired by a representative of the Secretary of State, has prepared the attached study.

The principal recommendations of the study are as follows:

1. Negotiations should begin without delay with Romania and Hungary to reach agreements on commercial practices and facilities so that agreements embodying MFN can be implemented quickly after Congress has granted the President authority to negotiate MFN. Both nations should be informed that reaching satisfactory settlements of defaulted pre-war bonds will be prerequisite to receiving MFN and, in Hungary’s case, ExIm facilities. State and Defense favor telling the Hungarians that successful parallel negotiation of a cultural and scientific exchanges agreement will facilitate action on MFN and telling the Romanians that freer issuance of emigration visas to divided families and a reasonable price for a chancery site will facilitate MFN action.

2. Assuming the initiation of promising consular negotiations with Bulgaria and Czechoslovakia, linked negotiations of commercial and financial issues should begin without delay with these two countries. State and Defense would prefer to have the financial negotiations begin first and reach a promising stage before initiating negotiation of commercial issues. They would also prefer that negotiations of appropriate agreements on cultural and scientific exchanges reach a promising stage before beginning either commercial or financial negotiations.

3. With regard to the GDR, efforts to improve trade should be continued and increased as circumstances permit, but there can be no formal negotiation of claims or comprehensive commercial agreements until diplomatic relations have been established.

4. No major negotiations on economic/commercial issues with Yugoslavia are now needed, while those with Poland have already been programmed by the Polish-American Commercial Commission. With

Albania, no negotiations are recommended until after diplomatic recognition which is not anticipated prior to the achievement of Presidential authority to negotiate MFN.

5. It is recommended that economic negotiations include the following issues: MFN (including where appropriate, market disruption), business facilitation, arbitration, individual property rights and copyrights, industrial cooperation, maritime issues, participation in East European trade fairs, export credits, and double taxation.

6. Recommendations emerging from consideration of NSDM 159² with regard to continuing review and reduction of the COCOM Export Control list and strengthening of the COCOM system should be promptly carried out. Except for Defense,³ it is also recommended that there be continued movement away from the present US export control level and towards the COCOM level.

7. Repeal of the Johnson Debt Default Act should be sought.

B. US Interests

Primary US interests in the area covered by this study include:

—*a political and strategic interest in reducing the Soviet potential for action against US interests in Western Europe and, in some cases, other areas, (a) by sustaining a conviction on the part of the peoples and governments of Eastern Europe that the US, together with its Western European allies, sees them as a part of Europe and has not consigned them to a sphere of influence subject exclusively to Soviet definitions of sovereignty; (b) by favoring the gradual evolution of more independent external policies by states in this area to a degree which does not risk serious instability; (c) by nurturing the strong historical and cultural links the US has with many of the peoples of the area.*

—*an economic interest in developing normal commercial relationships with states in the area both through joint ventures and the expansion of trade in order to (a) contribute trade and financial benefits; (b) support the closer contact of economies of these states with the West; and (c) encourage gradual trends toward less monolithic economic and consequently political systems which are less subject to Soviet control.*

—*a military-strategic interest in maintaining the effectiveness of our deterrent strategy; providing the USSR with a continuing incentive for mutual balanced force reductions, and reducing US defense expenditures by restricting through the export control mechanism the export to close*

² For text of NSDM 159 on integrated circuit technology exports to Poland and Romania, see *Foreign Relations, 1969–1976*, volume IV, Foreign Assistance, International Development, Trade Policies, 1969–1972, Document 380.

³ The DOD reservation is set forth in a footnote to export controls on page 17 in this summary. [Footnote in the original. Reference is to footnote 10 below.]

allies of the USSR in the area of certain types of strategic goods, services and advanced technology unobtainable elsewhere.

—special interests distinct from our interests elsewhere in the area, which affect our posture towards the GDR: e.g. quadripartite rights in Germany, our position in Berlin, and the special FRG–GDR relationship. (These interests are elaborated in Section V, p. 64.) We would not, for example, favor emphasizing GDR sovereignty vis-à-vis Soviet responsibilities as one of the four powers responsible for Germany.

C. Present Situation with Respect to the USSR

The Soviet Government like preceding Russian regimes has, in light of a series of invasions coming from the West, always regarded as particularly sensitive the zone lying between its major population and industrial concentrations in the Western regions of the USSR and the major centers of industrial and military power in Western Europe, Germany in particular. Since World War II it has been a primary Soviet interest to retain close control of this zone, particularly that part of it lying between the German-speaking Western states (FRG and Austria) and the USSR, i.e. Poland, Czechoslovakia, Hungary, and the GDR.

In 1968 in Czechoslovakia, the Soviets reiterated the lesson of Budapest 1956—when the USSR sees its security threatened by developments in Eastern Europe, it is prepared to use military power to restore what it regards as an adequate degree of control. The Soviets, however, continue to struggle with the problem of defining their relations with Eastern European countries. The pressures within the area, the highly negative consequences of the invasion of Czechoslovakia in the international Communist movement, and the acceleration of Moscow's efforts toward détente in Europe has led the Soviets reluctantly to accept the markedly independent foreign policy of Romania (as well as that of Yugoslavia). They have also acquiesced in Hungary's considerable departure from the Soviet economic model and adopted hands-off policy when Poland faced a serious workers' strike in 1970. This range of tolerance apparently is deemed acceptable so long as the central authority of the national party apparatus in the country involved is not threatened.

The recent improvement in US–USSR relations leading to the US–USSR Commercial Agreement of October 18, 1972⁴ has important implications for the countries of Eastern Europe. These countries have the same basic interests in improved economic relations with the US that the USSR has—concern over the technological gap, respect for US technology and capital, fear of reduced markets in Western Europe as a result of the expansion of the European Economic Community, pressure from consumers, and a commitment to maintain high economic

⁴ An agreement allowing the Soviet Union to purchase U.S. equipment for the Kama River truck complex, 25 UST 6.

growth rates. The countries of Eastern Europe are distinct from the Soviet Union in that trade is more important to them, consumer expectations are higher, they have stronger traditional links with Western Europe, and they are concerned about the maintenance of their assured market in the Soviet Union for products which are difficult to market in the West or in developing countries. As illustrated by the forward movement in economic relations with Poland in 1972 and the productive November 1972 meeting of the Joint Polish-American Commercial Commission,⁵ the US has an interest in improved relations with Eastern Europe similar to that which it has in the case of the Soviet Union. The main difference is that the broad, world-wide interests of the US are not affected in the same degree in the case of Eastern Europe and the possibility of securing new sources of energy which exists in the case of the Soviet Union does not exist in the case of Eastern Europe. One result of the improved US-USSR relations is that US economic policies are now more liberal toward the USSR than they are toward Eastern Europe. The countries of Eastern Europe are conscious of this fact and are currently attempting to achieve the same status now accorded to the Soviet Union. Since the Soviet Union has led the way, it is now easier for the countries of Eastern Europe to take a more forthcoming stance toward improved economic relations with the US.

It is likely that the Soviets, having signed their commercial agreement with us in 1972, expect that these Eastern European moves toward normalization of economic relations with the US will progress. It may be assumed that the Soviet Union has even stimulated or approved these overtures given the fact that the three most closely controlled Eastern European regimes, Czechoslovakia, Bulgaria, and the GDR, have all explicitly bid during the last quarter of 1972 for such normalization. By the same token it may be assumed that the Soviets, as illustrated by their negative reaction to the "human contacts" or "freedom of movement" element in the CSCE agenda and their renewed efforts to revive ideological defenses in Eastern Europe, will monitor closely the degree to which economic normalization is accompanied by cultural or even political normalization or a pace of internal reform which might threaten their very authoritarian view of the leading role of the Communist party in each country.

D. Eastern Europe and the US: Background

Although US interests in the area covered by this study have remained constant since World War II in view of the potential Soviet threat to Western Europe, the degree of emphasis on them has altered over time. In a period of essentially military confrontation dating from

⁵ Regarding the meeting of the Joint American-Polish Trade Commission November 4-8, 1972, see Document 175.

the Berlin blockade until Stalin's death, denial of economic or technological potential to the Soviet military was dominant. In the period of essentially political confrontation and maneuver since that time, encouragement to other Eastern European states to follow the example of Yugoslavia's independent posture has been a dominant interest, as illustrated most recently in the development of useful high-level contacts between the US and Romania. In the period ahead, while political confrontation and maneuver will continue, there is an opportunity to increase US influence throughout the area to some degree and to gain some modest trade and financial benefits by responding to what are apparently Soviet-authorized bids from the countries of the area for negotiation of normal economic relations. The normalization process can provide an opportunity to clear up long-standing claims and financial problems. The process can also facilitate negotiation where needed of an appropriate framework for consular and cultural relations which we have already with the USSR, Poland, Romania, and with the exception of certain consular problems, Yugoslavia.

There follows a chart⁶ showing how the countries of the area covered by this study rank with regard to certain key indices relevant to their present and potential significance to the US. The chart also lists the factors affecting bilateral economic relations with each country and the existence or non-existence of non-economic issues. These latter may be subject to resolution if, in the course of economic normalization, use is made of the increased economic leverage stemming from the interest in normalization of economic relations with the US recently expressed by all the countries not having MFN (Bulgaria, Czechoslovakia, Hungary, Romania, GDR) except for Albania.

The following chart also illustrates graphically the state of development of US relations with the countries covered by this study. Further descriptive background explaining the substantial differences among the countries suggested by the chart is present at the end of this summary chapter just after I H—Recommendations on page 27.⁷

E. Trade Patterns and Opportunities

1. Overall Trade

East European trade with the industrial West expanded rapidly from \$4 billion in 1960 to \$12.7 billion in 1971 and should grow to \$17 billion in 1975. This growth has been led by East European purchase of billions of dollars of West European machinery and equipment, much of it on credit.

⁶ Not printed.

⁷ Page 69, below.

The states covered by the study are heavily dependent on trade—with each other and the USSR (60–70% of their total except for Romania, Yugoslavia, Albania) for imports of raw materials and for export outlets for their manufactures. Trade (20–30% except for Romania and Yugoslavia) with the West provides for advanced technology and agricultural supplies, particularly in below par crop years. The vanguard industries such as petro-chemicals, synthetic fibers, electronics, and even automobiles are being fed not only by Western machinery and spare parts, but by intermediate goods as well, such as chemicals and high quality steels.

2. *US Trade*

The United States has not been a major participant in trade with East European countries and currently accounts for only 5% of their trade with the industrialized West or a little more than 1% of their overall trade. Turnover in 1971 was only \$660 million, and will approximate \$800 million in 1972. With exports at approximately \$440 million in 1972 and imports at about \$370 million, the United States is running a trade surplus with the area.

3. *US Trade Projection*

The United States market share and trade volume is low relative to other Western industrial states primarily because the United States has not taken the steps others have to normalize economic relations with the area. If the US Government were to undertake a policy of East-West trade promotion comparative to other countries, thus offering competitive credit facilities while liberalizing US export controls to the COCOM level and opening markets by commercial negotiations including Most-Favored-Nation treatment, in the short run (by 1975) we could anticipate at least a doubling in exports and a trade turnover of \$1.2 to \$1.4 billion. By 1977 US trade turnover with the area could hit the \$2 billion mark with a trade balance in our favor.

4. *Composition of US Trade*

The commodity structure of trade between the US and Eastern Europe deviates from the overall East-West trade pattern, and the US trade pattern with other industrial countries. About half of US sales to Eastern Europe are of agricultural products and raw materials while only 10–15% of sales are machinery and equipment. US sales of chemicals are also small. A balanced approach under conditions of normalization would produce a shift in favor of industrial products. There is good potential, however, to expand the volume of agricultural exports as well.

5. *Creditworthiness*

The major limitation to overall East-West trade expansion is the limited capacity of East European countries to pay for their imports. They lack the Soviet Union's raw material endowments, and are in no

position to sell off energy supplies and raw materials to finance trade. Payment for an increasing excess of imports over exports will instead require increased exports of manufactures, processed goods, and services, foreign borrowings, or large scale foreign investment.

The area already has borrowed heavily from Western Europe to finance the trade deficit. Only Romania, Bulgaria, and Yugoslavia, however, at the moment are facing serious debt repayment pressures. The Romanians and the Yugoslavs have recently rolled over part of their large commercial debt to the West. They will probably be running into another pinch some time in the 1970's and might have to resort to more rescheduling or sharp cutbacks in imports, or both. The Bulgarians, however, are only marginally dependent on the West. At the other end, Poland, having had trade surpluses with the West in 1970–71, and Hungary, with good exports and shrewd financial managers, have a good deal of room to raise imports and indebtedness in the 1970's. Czechoslovakia and East Germany also have good credit prospects and can absorb more debt, particularly if some lengthening of average terms can be achieved.

There is a need to widen and refine the data available, and, subject to the requirement of constant revision, to project ahead expected debt service burdens, demands for credit, and the credit-worthiness of individual countries.

6. *Investment*⁸

The credit constraint, the inefficiencies of domestic capital formation in certain sectors, and the need for Western technology are the primary causes of Eastern European interest in foreign investment in their countries. United States firms can take advantage of this by forming joint ventures in the area.

7. *Trade Promotion Resource Allocation*

Politically, the United States has been closest to Yugoslavia, Romania, and Poland, and bilateral economic relations are most developed with these countries. About 80% of our area wide trade turnover in 1971 was with this group.

When Eastern Europe is viewed from a trade potential rather than a historical basis, a different pattern emerges. The Northern Tier in-

⁸ Defense Comment:

The emphasis in this paragraph and in the annexed Chapter VIII, Financial and Investment is on creditworthiness; an estimate of potential credit needs, either by country, or for the area as a whole, is not included. Without a better discussion of the potential total volume of US credits that may be needed in the next five to ten years, it is difficult to assess the value of this component of the overall bargaining package. Further study is needed before and during negotiations.

State and Commerce believe that the *data available* have been thoroughly presented and analyzed in Chapter VII Trade Issues, and Chapter VIII Finance and Investment annexed to this study. [Footnote in the original.]

dustrial countries (Poland, Czechoslovakia, and the GDR) provide larger markets and are better credit risks than the Southern Tier countries (Albania, Bulgaria, Romania, and Yugoslavia). Hungary is a borderline case, with excellent creditworthiness but a relatively small market for US goods. From a purely commercial standpoint the Northern Tier countries would be more important to the United States than the Southern Tier countries, just as the overall market potential of the USSR makes it more important to us than Eastern Europe.

The trade potential of the North over the South will affect the allocation of trade promotion resources by the United States should a decision be reached to normalize economic relations with the entire area. At present, we are spending far more resources on trade development relative to trade potential in Yugoslavia and Romania, for example, than we are in Czechoslovakia and the GDR.

8. *Economic Issues to be Resolved Bilaterally*

The following are issues which, because of the absence of fully normalized economic relationships with most countries covered in this study, require resolution or negotiation:

a. *MFN*

Under present legislation, MFN treatment cannot be extended to any communist countries except Poland and Yugoslavia. The lack of MFN treatment is generally considered by the individual Eastern European countries to be the outstanding economic/commercial issue. It has considerable political significance as well.

b. *Market Disruption*

Two types of arrangements have been agreed to for safeguarding treatment of imports from communist countries in Europe—the Polish agreement refers to the special consultation obligations Poland assumed upon accession to the GATT, whereas the Soviet agreement authorizes each signatory to deal with actual or threatened market disruption as it sees fit. With Communist countries whose instruments of accession to the GATT include special consultation obligations, we prefer to rely on those provisions for a remedy.

c. *Business Facilitation*

Business facilitation includes the establishment of US private and government facilities in Eastern Europe as well as the terms and conditions under which they would operate. Permission for Eastern European countries' foreign trade organizations to open or expand facilities in the US should be treated as a quid-pro-quo for permission for US firms to establish offices in Eastern Europe.

d. *Arbitration*

Agreements now exist with the USSR and Poland whereby each government would urge on its nationals third-party arbitration. Agreement

by other countries covered by the study to third-country arbitration is important to commercial confidence and to US trade promotion efforts.

e. *Industrial Property Rights and Copyrights*

The US adheres to the Universal Copyright Convention. Efforts should be made to encourage Bulgaria, Poland and Romania which are non-members, to adhere to the UCC.

f. *Industrial Cooperation*

Cooperative or joint equity industrial ventures have an appropriate place in our economic relations with Eastern European countries. Eastern European countries should be encouraged to make sufficiently attractive offers or provisions of law to interest American firms and to negotiate directly with those firms in such ventures.

g. *Maritime Issues*

Recent agreements negotiated with the USSR and Romania and the proposed agreement with Poland reflect an effort over the past three years to amend the port security program to provide equal treatment for all US ports and to facilitate commerce, commensurate with US national security requirements and consistent with reciprocity for US shipping. Similar changes in the program may be negotiated in the near future with other Warsaw Pact countries.

h. *Financial Claims and Debts to USG*

Claims agreements on behalf of US nationals or corporations with approved claims against Eastern European Governments have not been negotiated with Czechoslovakia, Albania or Eastern Germany. All of the countries except Albania have defaulted pre-war dollar bond obligations to the US citizens and only Yugoslavia and Poland have negotiated interim settlements. Aside from World War I debts, the only major delinquent debt to the USG is Czechoslovakia's arrearage.

i. *Export-Import Bank*

The President has authority under the Export Expansion Finance Act of 1971⁹ to extend the facilities of the Export-Import Bank to communist countries if it is in the national interest. National interest determinations have been made under this authority for Romania, the USSR, and Poland.

j. *Double Taxation*

In addition, we should discuss double taxation questions with the Eastern Europeans. This problem will become increasingly important as US firms conclude more sophisticated arrangements with Eastern European enterprises.

⁹ For text of the Export Expansion Finance Act of 1971, P.L.–92–126, see 85 Stat. 345.

9. *Relevant Issues within the US Government*

a. *Export Controls*

The issue of export controls is related to any study of normalization of economic relations. Nevertheless, it is clear that substantial increases in the levels of trade and investment can occur even if some export controls continue. The US commercial presence in the Eastern European countries can be strengthened without the need to abandon the US strategic control system or the cooperative control system of COCOM. With the exception of Defense, it is felt that further efforts to reduce the US export control list towards the COCOM level are desirable.¹⁰ The screening currently under way of the US control list, in line with the Congressional mandate of last August, will assist in the achievement of this objective. The question of possible modification to the COCOM system is being dealt with in detail in response to NSDM-159.

b. *Johnson Act*

The Johnson Act constitutes a disadvantage for American firms and if it were repealed the President would still retain authority necessary to control US-communist country economic and financial relations under existing legislation.

c. *USG-financed Agricultural Sales Programs*

The repeal or relaxation of legislative restrictions, including the Findley-Belcher Amendment, would give the President authority to use PL-480 programs in support of policy objectives in East Europe. Given, however, the availability of CCC sales on commercial terms, USG budgetary stringencies, and the priority of "national security" LDC's in dividing up low commodity availabilities, the question is raised whether, even if the President had the necessary authority, he would use it in East Europe.

d. *Generalized Tariff Preferences*

NSDM 86 of October 14, 1971,¹¹ provides that communist countries except Yugoslavia would be excluded from the generalized preference system. Preliminary draft legislation authorizing generalized preferences gives the President the power to grant generalized preferences to those nations receiving MFN treatment and this flexibility should be sought in the final legislation.

¹⁰ Defense believes that we should bring the US and COCOM control lists into closer alignment but that we do not have enough confidence in where the COCOM level will be in the future to key our policy without qualifications to the COCOM standard. While every effort should be made to bring US and COCOM control lists into closer alignment, the degree to which this should be sought through a reduction of US controls has not yet been established. [Footnote in the original.]

¹¹ For text of NSDM 86 from October 14, 1970, on trade and tariff preferences for developing countries, see *Foreign Relations, 1969-1976*, volume IV, Foreign Assistance, International Development, Trade Policies, 1969-1972, Document 245.

e. *US Government Participation in Eastern European Trade Fairs*

There should be continued US Government participation in these trade fairs as well as in specialized industry fairs and that this participation should be commercially oriented.

10. *Narcotics Controls*

Treasury believes that among the non economic issues which the United States should raise with Eastern European governments where appropriate is the institution of stricter enforcement measures to curtail narcotics smuggling and terrorism. The US should endeavor to assure the continued exchange of intelligence on narcotics and terrorism with the countries of this area.

F. *Conclusions and Alternatives*

In order to advance the US interests defined at the beginning of the summary in the present day context of US-Soviet relations, it is important to maintain communication with both peoples and governments in the area and to treat the states of the area not as an undifferentiated bloc, but to the degree possible as sovereign states having historical roots and present interests distinct from each other and from those of the Soviet Union. Responding to any inclination to reduce their dependency on the Soviet Union and increasing their economic and political ties with the West are at the heart of our East European policy.

The demonstrated need of the Eastern European states for Western technology has increased the West's ability to advance its interests by economic means in an atmosphere of reduced tension provided it remains alert to the Soviet desire to obtain sensitive military-related technology. The US has not moved as far across the policy spectrum from economic confrontation to cooperation and engagement with Eastern Europe as have other Western countries largely because of the US-Soviet global adversary relationship. During the Korean and Vietnam Wars, US economic policy toward Eastern Europe was subordinated to other national priorities. Economic policy was in large part a function of US dissatisfaction with the state of its relations with the USSR as well as with other communist countries and their policies toward North Vietnam, North Korea, or Cuba.

The conditions which called for this policy have substantially altered in the last year (defused Vietnam War, US-Soviet agreements, Inner German treaty, broad public support for Nixon's and Brandt's eastern policies, developments in US-PRC relations, CSCE, etc.). This recent coalescing of events has opened new policy options for the US in Eastern Europe. Consequently the US should plan a more active participation in the steadily growing economic relations between the countries of the area and the West both for political reasons and for the purpose of getting a larger share of the market. In doing so, it should

maintain a modest profile in the area, working towards non-economic objectives of normalized consular and cultural relations and broader links to the West without undue fanfare. This requires seeking from Congress at an early date Presidential authority to negotiate MFN with all the countries covered by the study which do not have it.

There are at least three concepts within which this process can occur, given the fact that we exclude any thought of trying to deal with the area through its rather ineffective, Soviet-dominated, multilateral economic institution—Comecon. These three approaches give varying degrees of emphasis to the pursuit of our political and strategic as opposed to our economic interests.

1. *Selective Economic Normalization as a Political Reward*

The concept of rewarding by means of trade and economic benefits those countries of Eastern Europe which demonstrate independence of Soviet guidance in ways useful to US objectives originated in a context of a restrictive US and Western attitude aimed at denial not only of strategic and military assets to Soviet dominated areas, but of economic potential as well in a period (Berlin blockade, Korean War) of military and political confrontation. This concept which originated in 1951 aid to Yugoslavia three years after the Tito–Stalin break also underlay the granting of MFN and the substantial PL–480 sales to a post-1956 Polish Government which in church and agricultural affairs had taken clear steps away from the Soviet model. It has underlain decisions to extend flood relief aid, ExIm Bank facilities, and OPIC facilities to the Romanians as they developed their independence of numerous Soviet foreign policies. Its impact, however, in this more recent period has been diminished by the change during the 1960s in Western attitudes toward trade with Eastern Europe. Most Western European countries have rapidly increased trade with Eastern Europe while the US has been alone in refraining from normalization, largely because of Congressional action inspired by the Vietnam situation.

In light of the changed East-West trade attitudes in Europe, the question arises whether this concept may no longer be particularly useful in dealing with the more closely controlled Eastern European countries. These states can hope to mitigate Soviet controls only very gradually. It is basically not in our interest nor in the interest of stability in Europe, to stimulate them to any other course. These countries: Czechoslovakia, Hungary, Poland, Bulgaria, and the GDR are the ones which now will benefit most from the improved East-West trade climate, and with which the potential annual percentage trade growth is greatest in conditions of economic normalization. Given the fact that we are continuing our economic normalization with Poland, which at present hews closely to the Soviet foreign policy line, a policy of using economic normalization to reward the others for increased foreign policy independence of the USSR appears anomalous in a period of US–USSR

economic normalization. There are still ways, over and above economic normalization—i.e. emergency relief, etc.—of giving particular encouragement to nations showing independence of the USSR. Furthermore, the President has stated (1970 Report to Congress):¹²

“We are prepared to enter into negotiations with the nations of Eastern Europe, looking to a gradual normalization of relations. We will adjust ourselves to whatever pace and extent of normalization these countries are willing to sustain.”

2. *Economic Normalization Primarily for Economic Interests*

This concept is based on the assumption that the best way to exert U.S. influence in the area is economic and that progress in negotiating economic issues will ease the problems of negotiating non-economic issues. Economic normalization should be broadly construed to include bond settlements and nationalization claims, as well as consular conventions. It should *not* include cultural and scientific exchange agreements, which should ordinarily be negotiated separately and should stand on their own merits. The concept of economic normalization for its own sake suggests that whatever economic leverage we have—and it should not be exaggerated—should be used to obtain reciprocal economic advantages and not normally for bargaining on unrelated issues. It is assumed that the trade of the countries of the area with the West can increase sharply during the 1970s—perhaps to \$17 billion by 1975—and that the US has a chance to get a sufficient share of this trade to warrant emphasis on our economic interests.

The concept is responsive to the expressions of interest in economic normalization recently made by the countries covered by the study (except for Albania) and therefore in line both with the President’s stated policy (see end of F.1 above) and with the general Western pattern of economic normalization with the East. It is consistent with the greater weight now being accorded the economic aspects of our relations with the USSR. The estimated doubling of US exports which could occur by 1975 (\$400 to \$800 million) under a vigorously pursued economic normalization policy would further amplify a continuing surplus in such trade and would reduce our overall trade deficit.

3. *Economic Normalization as a Pursuit of the Full Range of US Interests*

This concept, like Concept 2, also accepts the utility and timeliness of responding to East European bids for economic normalization. It aims to use the leverage provided by these bids to obtain not only the financial settlements, commercial agreements, and consular pacts envisaged in the second approach, but also, where lacking, other non-

¹² For a fuller account of the President’s statement, see Document 7.

economic desiderata such as cultural and scientific exchanges agreements, better Embassy conditions, improved access to the host government, and an overall improvement in the climate of relations and movement of persons. This concept accepts some delay in reaching economic normalization agreements in the cases where non-economic issues are more numerous (i.e. Czechoslovakia, Bulgaria, Albania, and the GDR) and is perhaps closer, in these cases, to the "gradual normalization" cited in the President's 1970 report, as an objective. It is based on the assumption that final normalization can occur only when MFN can be granted, that Presidential authority to negotiate MFN is probably at least seven or eight months away, and that during this seven or eight month period countries sincerely desirous of reaching economic normalization will meet us at least halfway on outstanding non-economic issues. Several of these are issues which, in the case of US-USSR relations, are already governed by agreements.

(Commerce and Treasury are doubtful that our economic leverage is great enough to achieve all these objectives and believe that such an approach might jeopardize the reciprocal economic advantages we hope to achieve. They believe that many of our non-economic objectives can be pursued separately with mutual benefit to both parties.)

G. *Negotiating Options*

Four options for such negotiations with each country under any of the above concepts were examined with a clear awareness that some options were more appropriate to one policy concept or to one or more countries than to others:

1. *Comprehensive Package for Early 1973*

Immediate offer to negotiate a package settlement of all outstanding issues.

Pros

EE eagerness for normalization.

More to show Congress.

Reach agreements roughly in order of political priority.

Non-economic benefits.

Takes maximum advantage of present opportunity.

Cons

Legislative authority for MFN and thus comprehensive package in doubt.

One part can stall whole package.

Loss of political advantages of less obvious approaches than comprehensive package.

Possibly unfavorable EE reaction to linkage of economic and non-economic issues.

2. *Separate Economic Package for Early 1973*

This approach would give tactical priority to commercial negotiations, with negotiations on non-economic issues, such as cultural or scientific exchange agreements, to proceed in parallel or follow. Bond settlements and a consular convention would have to be concluded before Eximbank credits would be authorized or MFN extended.

Pros

Earlier completion & achievement of economic benefits.

Favorable EE reaction to US pursuit of economic relations for their own sake rather than with political strings attached.

Clear signal to American business that USG favors trade with country concerned.

Any economic benefits achieved might help expedite MFN legislation.

Cons

Discarding economic leverage may jeopardize achievement of non-economic benefits.

Congressional scrutiny of economic package may delay MFN legislation.

Less to show Congress.

3. *Two-Phase (Pre-MFN Authority) Strategy*

Arrive at a promising stage in negotiations of agreements on financial claims and non-economic issues, in advance of negotiation of commercial arrangements including MFN.

Pros

Quick start using leverage of heightened EE interest in better commercial relations with US.

Resolution of earlier issues increases bargaining leverage on later commercial negotiations.

Minimize effect of Congressional delay in authorizing MFN.

Non-economic accords will strengthen Congressional support for MFN authority.

Cons

Not taking on whole range of commercial issues at once shows reserve toward new EE trading partners.

Delay in start of economic/commercial negotiations.

With some countries, claims issues may not be subject to resolution except in broader economic package.

Possibly unfavorable EE reaction to linkage of economic and non-economic issues.

4. *Two-Phase Strategy with Second Phase after MFN Authority Granted*

Settle financial issues and non-economic issues as soon as possible, but agree to negotiation of commercial issues, including MFN only after Congress grants MFN authority.

Pros

Quick start on financial claims and non-economic matters.

Illustrate for Congress that these negotiations can be facilitated by MFN authority.

Commercial negotiations will conform to legislation.

Cons

Unnecessary delay of settlement of commercial issues at time when EEs are eager.

Delay of commercial negotiations makes less favorable climate for pursuit of our non-economic objectives.

Makes our relations with EE appear of lower priority than our relations with USSR.

Not taking on whole range of commercial issues at once shows reserve toward new EE trading partners.

Delay in start of economic/commercial negotiations.

H. Recommendations

It is recommended that we begin negotiations at an early date to remove existing financial obstacles (defaulted bonds, claims) and reach agreement on commercial practices and facilities so that understandings embodying MFN could be implemented quickly after Congress has granted the President authority to negotiate MFN. Commerce, Treasury, and Agriculture recommend the application of the Option 2 economic package approach for countries with which we do not have normal economic relations. The negotiation of non-economic issues would proceed in parallel or subsequently.

It is of course recognized that the authority to extend MFN will be a crucial determinant in achieving eventual full scale normalization with Eastern Europe. State and Defense, however, would prefer the initiation of negotiations promising satisfactory cultural and scientific agreements, as well as bond and claim settlements (in the cases where these are lacking), in advance of commercial negotiations (Option 3).

1. *Yugoslavia and Poland.* We have already made considerable progress in our economic relations with these countries. The pattern

for conduct of our economic relations with them is well established and not at issue in this paper.

2. *Romania*. There are few remaining irritants in our relations with Romania. We are already committed to seek authority to negotiate MFN for that country. It is recommended that commercial negotiations involving such matters as arbitration and market disruption procedures and business facilitation as well as MFN be initiated early in 1973, in parallel with negotiations for settlement of defaulted pre-war bonds (\$15.5 million). Reaching a settlement should be a prior condition for extending MFN. It would also be useful to stress to the Romanians who are anxious to be the next country to gain MFN status that freer issuances of emigration permits would enhance the prospects.

3. *Hungary*. The procedure for Hungary should be similar to that for Romania. Settlement of certain outstanding financial issues now under negotiation (bonds, claims) and of the commercial issues Hungary has offered to negotiate in March 1973 should be a condition to the extension of MFN and ExIm Bank credit facilities. USIA favors making a satisfactory cultural and scientific exchanges agreement a prerequisite to granting MFN. The Department of State believes that there could be successful parallel negotiation of exchanges at the time commercial issues are under negotiation without making a specific linkage, and that we could use the pending visit to the US as early as February 1973 of Hungarian Deputy Premier Peter Valyi to initiate parallel negotiations. Commerce, Treasury, and Agriculture favor no linkage to an exchange agreement.

4. *Czechoslovakia*. Overall relations with Czechoslovakia are not as good as those with most other EE countries. Trade, although rising, is at a relatively low level. Economic and other irritants requiring negotiation are many. Czech leaders, however, have recently expressed a desire to improve relations, and Czechoslovakia is potentially the third largest market for US goods in the area.

Treasury, Commerce and Agriculture recommend the separate economic package (Option 2) approach under which linked trade and claims negotiations would begin immediately. State and Defense would prefer the initiation in sequence in early 1973 of negotiations promising a conclusion of a cultural and scientific exchange agreement and a gold/claims and bond settlement, to be followed by commercial negotiations.

5. *Bulgaria*. The Bulgarian leadership is anxious to normalize commercial relations with the US, but reluctant to move in other areas. Commerce, Treasury, and Agriculture note the revival of consular negotiations and recommend the immediate initiation of linked commercial and financial negotiations under Option 2. State and Defense wish to arrive at a promising stage in negotiating a consular conven-

tion, cultural exchanges, and an agreement on defaulted bonds (\$6.5 million), and stimulate or create a more normal atmosphere before opening commercial negotiations along the lines of Option Three. Either approach could be initiated in anticipation of or during Deputy Premier Ivan Popov's tentative visit to Washington in the summer.¹³

6. *The German Democratic Republic.* We are faced with an interesting market of unexplored potential, but there are numerous existing limitations on trade, some of which will require negotiation. Efforts to improve trade should be continued and increased as circumstances permit, but there can be no formal negotiation or claims or comprehensive commercial agreements or cultural and scientific exchanges before establishment of diplomatic relations.

7. *Albania.* Albania's limited market potential gives it the lowest commercial priority of the countries under consideration. In addition Presidential authority to negotiate MFN might well be achieved before diplomatic recognition is accorded. A package approach to the whole range of issues could be undertaken shortly after establishment of diplomatic relations (Option 4).

8. *Multilateral Organizations.* The USG favors participation by these countries in the world monetary and financial community. Nevertheless, the Group concluded that overt encouragement was neither necessary, given the self-evident advantages of membership in the IMF-IBRD group and GATT, nor desirable, given Eastern European problems with Soviet resistance. In the case of GATT, the terms of accession of any Eastern European state are significant as precedents for eventual Soviet accession. Until Congress has granted authority for MFN, GATT provisions preclude the US from participating fully in the negotiation of further East European accessions. The group favored expansion of relevant activities of the Economic Commission for Europe (ECE), including business and trade facilitation and exchange of technology. Moreover, the EC would appear to offer a suitable framework for further work on appropriate economic cooperation projects. Such institutions can play an important role in bringing the Eastern European states into the international trade and payments system. Other organizations—principally UNCTAD and ECOSOC—are less significant.

I. Country-by-Country Background

1. *Yugoslavia.* The original Communist maverick since 1948, Yugoslavia has since 1950 developed good relations with the US while at the same time maintaining a non-aligned foreign policy. Having enjoyed fully normalized economic relations plus substantial PL-480 and other

¹³ See Document 75.

US assistance during the past two decades, Yugoslavia at the present time is not a candidate for “normalization.” Its current problems are of a different order, involving centrifugal tendencies of its ethnically based federalized republics whose growing authority in Yugoslavia’s decentralized economy has tended to revive ethnic rivalries and threaten disunity after Tito’s departure from the scene. US exports to Yugoslavia approximate \$170 million (1972) and consist of agricultural products and some machinery. Imports of about \$150 million in 1972 were primarily furniture, agricultural products and copper. In light of Yugoslav balance of payment problems and efforts to limit imports, the potential for US export is limited to perhaps 5% annually over the next few years.

The US remains interested in a continuation of the current Yugoslav trade orientation (75% West, 25% Comecon) particularly in light of evident Soviet economic courtship through long-term low interest credits to development projects.

Enactment of a system of generalized tariff preferences by the US that would include Yugoslavia among LDC beneficiaries, and efforts with the EC and others to tide the Yugoslavs over their balance-of-payments problems are the important bilateral and economic concerns.

The Yugoslavia drive against émigré-organized terrorism aimed at disruption of the Yugoslav state, is another important issue. To judge by Yugoslav focus on this issue and recent efforts to revive the Communist party’s role, concern for independence, unity, and economic viability in Yugoslavia is rising as the 80 year old Tito phases out.

2. *Romania.* From a tightly-controlled, exploited, and underdeveloped Soviet satellite in the 1950s, Romania emerged in the 1960s as the most independent member of the Warsaw Pact. Although its traditional ties to the US are substantially less than those of Yugoslavia, its vigorous assertion of its sovereignty vis-à-vis the Soviet Union has stimulated its interest in better relations with the US. Anxiety for its sovereignty produced by the Soviet invasion of Czechoslovakia underlay the warm reception given President Nixon by President Ceausescu and the Romanian people in 1969.¹⁴ The same anxiety plus a desire to force the pace of economic development has motivated the 54 year old Ceausescu to maintain an authoritarian Communist regime under his increasingly personalized leadership. The economic problems of an underdeveloped country reorienting its trade away from the Soviet (50% West, 50% Comecon in 1971) have caused the Romanians to seek from the U.S. economic normalization and at various times since 1965, aid or soft credits. At present, however trade consists of US exports of about \$70

¹⁴ See Documents 183 and 184.

million in 1972 primarily of agricultural products and machinery, and imports of \$432 million primarily of petroleum, clothing and furniture. The potential for trade growth, even when MFN is granted, is limited (30 to 35% of hard currency earnings used for debt service) by Romania's debt load and its poor export prospects. With extension of MFN in 1973 US exports could increase about 30% by 1975, although such projections cannot be made with a high degree of reliability.

The major current issue with the Romanians is MFN which they have sought for seven years and for which the Administration has committed itself to seek authority from Congress. Although we have in 1972 extended the facilities of the ExIm Bank, the facilities of OPIC, and supported their successful application to IMF and IBRD, the achievement of MFN status prior to the USSR or other Eastern European countries not now having it remains for the Romanians the symbol of US interest in their independent posture vis-à-vis the USSR. Other issues include settlement of defaulted dollar bonds and business facilitation.

In a broader sense the US remains interested in encouraging Romanian trade and investment ties with the West in order to permit Romania to continue its development and service its hard currency debt.

3. *Poland.* The largest Soviet ally in Eastern Europe and the one with the longest contiguous border with the USSR, Poland is also a country with long-standing ties to the West. These links are reinforced through its strong Catholic Church (about 95% of the 33 million inhabitants), its large and politically active Polish community in the US, and a traditional and spirited popular hostility to Russian domination matched only by painful experiences with German invasions. The blossoming of US-Polish relations in the wake of the 1956 de-Stalinization under Gomulka gave way in the 1960s to the chills of an increasing Gomulka accommodation to the Soviets and the stagnation of Polish reform in the tails of the self-serving Polish Communist Party bureaucracy. Poland, nevertheless, retained the MFN status granted in 1960 in spite of the impact on Congress of Vietnam and of a 1968 spate of official Polish anti-Semitism.¹⁵ In addition \$538 million of gradually convertible zlotys were generated from 1956-64 PL-480 sales and is being utilized to finance US programs in Poland.

With the increasing interest in technological modernization on the part of the new Polish leadership brought to power by the December, 1970 workers' riots in Poland's Baltic seaports,¹⁶ Poland was the first

¹⁵ Regarding the U.S. response to official anti-semitism in Poland in 1968, see *Foreign Relations, 1964-1968*, volume XVII, Eastern Europe, Documents 132, 134, and 135.

¹⁶ See Document 142.

of the five Warsaw Pact invaders of Czechoslovakia to bid for full economic normalization with the US. In the wake of the President's visit to Warsaw in May 31–June 1, 1972,¹⁷ the Poles were the first to achieve it when the extension of ExIm Bank facilities in November, 1972 during a session of the US-Polish Trade Commission supplemented their existing MFN status.¹⁸ US 1972 exports of about \$111 million were primarily in agricultural products, machinery, and technology. Imports from Poland totalled approximately \$140 million, primarily in agricultural products, chemicals and some manufactured goods. The potential for expansion of US exports is at present the best in the area. Factors enhancing this potential include Poland's good credit position, its desire to buy US industrial goods on long-term credit and agricultural goods on three-year credits, and its existing MFN status. The recently concluded trade agreement expresses the expectation that trade will triple during the next five years; most of the increase is likely to accrue to US exports.

The current Polish leadership, which claims to have a good standing with the Soviet leadership and some influence on Soviet European policy, clearly hopes to achieve internal stability and satisfaction of popular pressures by a combination of technological improvement and such elements of administrative reform as its own party bureaucracy and its sensitive Soviet neighbor permit. Active US efforts in this favorable climate can promote exports, facilitate joint ventures, and encourage US-zloty financed scientific and cultural cooperation. These programs marginally enhance Polish independence and simultaneously support the US political interest in better Polish relations with the West as well as gradual reform which further distinguishes the Polish model from the Soviet.

4. *Hungary.* Since the crushing of the Czechs' euphoric rush toward reform in 1968, Hungary's more cautious New Economic Mechanism¹⁹ also initiated in 1968 has become the most interesting, most successful, and most obvious example within the Warsaw Pact countries of internal modification of the basic Soviet politico-economic model. A combination in 1971 of over-investment, over-importing, resentment of a new class of entrepreneurial wealth, and desire to avoid Soviet anxiety have caused the Hungarians to pause in 1972 to readjust their re-

¹⁷ Regarding Nixon's visit to Poland, see Documents 163–166.

¹⁸ See Document 175.

¹⁹ On January 1, 1968, Hungary adopted the New Economic Mechanism, a program of economic reform authored by Finance Minister Rezső Nyers. It limited the power of central planning agencies; granted state enterprises greater power to find their own labor, supplies and markets; and encouraged private enterprise in agriculture and in the service industries.

form, not so much to destroy it as to preserve it in the face of internal and external pressures. The business minded and trade-oriented Hungarians (trade is 35% of GNP) have given a high priority to achieving more market oriented production through greater enterprise latitude and flexibility. In order to defend this policy they have appeared willing to accept a small nation (10 million pop.) role foregoing any pretensions to an independent policy on foreign political issues.

In spite of a limited historic connection with the US, Hungary has since 1967 showed a steadily increasing interest in normalization of relations with the US, particularly in the economic area. At present it is the most active among the states not having MFN status in preparing the way to obtain it. US exports to Hungary have risen sharply in recent years but leveled in 1972 at about \$23 million primarily agricultural products and machinery. Imports, mainly of foodstuffs and clothing, were at the \$13 million level. Although it is not possible to project with much reliability, it is possible that with the extension of MFN and ExIm facilities in 1973, US exports could triple by 1975.

Hungary quickly agreed to a consular convention in time for the Secretary's July 1972 visit,²⁰ initialled a satisfactory claims agreement in October, and began talks with US holders of defaulted pre-war bonds. It is currently considering the draft cultural and scientific exchanges agreements handed over by the US in July, preparing the visit of its economic Deputy Prime Minister to the US in February, and seeking talks in March on the substantive issues relevant to a Commercial Agreement.

The return of the Hungarian Crown, in US custody since 1945, would be seen by the Hungarians as the culmination of the normalization process. US pursuit of improved relations with Hungary in all areas with an emphasis on a greater US presence through joint ventures will serve to give modest encouragement to pluralistic trends in Hungary's increasingly market oriented economy and to its growing links to Western markets with results which could encourage the Poles and Czechs to try a similar path. Outstanding economic issues with Hungary include MFN, the extension of Export-Import Bank facilities, a market disruption agreement, business facilitation as well as the settlement of prewar bonds.

5. *Czechoslovakia*. Next to the East Germans, the most economically and technologically advanced of the Eastern Europeans are the 9 million Czechs who see their post World War I return to statehood as a direct result of Wilsonian ideals carried by the American-oriented

²⁰ See Document 128. For the text of the consular convention, signed on July 7, 1972, see 24 UST 1141.

humanist Thomas Masaryk. The 5 million Slovaks, less committed as the perennial less developed junior partner in the 55-year old union, are linked to the US mainly through a substantial early 20th century wave of economically inspired emigration. The Nazi dismemberment in 1938, the Communist minority takeover in 1948, and the Soviet repression of 1968 are the main mileposts in the past 35 years of severe authoritarian rule of a people with remarkable democratic instincts and traditions.

Brief 1945–1948 and 1968–69 intervals were the only respite permitting meaningful connections with the West in the post World War II era. In spite of uninspired leadership throughout this period, Czech skills have maintained a good living standard by Eastern European standards, but have not been organized to keep pace with Western European markets as they once did. A strong Czech identification with the West has been restricted by an unconvinced and uninspired party bureaucracy, but substantial skills remain present which could quickly respond to stimulus, as 1968 events illustrated.

US exports to Czechoslovakia in 1972 reached \$50 million primarily in corn, fodder, and hides. Imports have not differed much from the 1972 level of about \$27 million featuring shoes, iron and steel bars, and glassware. Although projections can only be considered broadly indicative of possible increases, extension of MFN and ExIm facilities in 1973 and Czechoslovakia's good credit position could produce a doubling of US exports by 1975 if Czechoslovakia gave her enterprises more latitude on foreign markets and permitted joint ventures.

US-Czechoslovak relations stagnated from 1968 until 1972 as the post-invasion Czechoslovak regime devoted its efforts to internal consolidation and felt constrained to establish complete identity with the Soviet Union in foreign policy. In the fall of 1972, however, in the wake of the final phases of the consolidation campaign, the Czechoslovak Foreign Minister took the initiative of expressing to the Secretary of State the desire of his government to improve relations with the US.²¹ Since that conversation the Czechoslovak Government has reiterated this desire in exchanging draft texts with us for a consular agreement, expressing a willingness to reopen claims negotiations, demonstrating great interest in normalization of economic relations, receiving a US Senatorial delegation at the highest level, and in accepting the idea of a cultural and scientific exchanges agreement.

Other economic issues to be negotiated with Czechoslovakia are business facilitation and a bond settlement.

²¹ See Document 90.

6. *The German Democratic Republic*

US interests in the German Democratic Republic are quite distinct from US interests in the countries of Eastern Europe. The domination and overwhelming importance of US interests in and relations with the Federal Republic of Germany, the existence of Quadripartite (US, UK, France, USSR) rights and responsibilities in Germany as a whole and Berlin, and the position of Berlin as an enclave within the GDR underscore this distinction. The role of the US as one of the quadripartite governments in Germany, and the role of the Soviet Union in the GDR have been the determining factors in US policy toward the GDR. These factors will continue to shape our emerging bilateral relationship with the GDR as we proceed to establish formal diplomatic ties. Once US-GDR relations have been established, subject to the above considerations, it will be possible to support more effectively than before such normal objectives as expanded trade, consular protection and a cultural-informational program.

In economic affairs the inter-German relation is important because of the role of inter-German trade, the political importance attached to it by the Federal Republic, and the access it grants the GDR to the Common Market. Direct US interest in the GDR market is on the order of magnitude of US interest in the markets of Czechoslovakia and Hungary. There is perhaps greater long-term potential, but less magnitude in the short-term due to the need to resolve difficult financial issues stemming from World War II including GDR nationalization of private assets before MFN can be extended. US exports to the GDR totalled approximately \$14.9 million in 1972 with the chief products corn, other agricultural products, and coal. In the same year GDR exports to the US were about \$10.0 million, chiefly photograph equipment, glassware, radios and non-electric machinery. Although it is not possible to project with much reliability, it is conceivable that improvement this year in political relations accompanied by relaxation of restrictions on both sides could lead to a three-fold increase in US-GDR direct trade by 1975.

United States interests—always within the context of our relations with the FRG and our role as a quadripartite power—are in establishing the basis of normal diplomatic relations. The US must approach basic problems in the economic relations at the outset of this process—problems such as settlement of claims of US nationals for nationalized property. Once basic problems have been resolved, US policy will increasingly emphasize those issues which characterize economic relations with the countries of Eastern Europe such as Most-Favored Nation Treatment, and Export-Import Bank facilities. It is likely that the resolution of many of these issues will take place within the context of resolution of issues in the political, consular and cultural areas, but the

first issues which must be approached are the administrative ones connected with the establishment of diplomatic relations.

7. *Bulgaria*. Bulgaria, the most loyal ally of the Soviet Union in Eastern Europe, has over the years displayed little interest in improving its relations with the US. This situation is quite natural given the geographical location of the country, its cultural affinity with the Soviet Union, its history of reliance on the Soviet Union for preservation of its separate national identity, and the unifying factor of communist rule. The limited importance to other larger nations which cause these nations to adopt a policy of benign neglect towards their limited interests in Bulgaria is also a consideration. This last factor is particularly strong with regard to the US—geographically removed with minimal political, economic and cultural interests in Bulgaria.

The US has an interest in seeing that consular problems of US nationals are settled as humanely and expeditiously as possible and that the interests of US citizens are served through the conclusion of a consular convention. There is an interest in having Bulgaria perform as a responsible member of the international community on problems which affect all nations, such as suppression of narcotics traffic, where Bulgaria occupies an important strategic geographic location.

The US economic interest in Bulgaria is limited. US exports to Bulgaria in 1972 were about \$3.0 million with the principal items being pesticides, other chemicals, and hides. The US imported \$3.0 from Bulgaria in 1972, chiefly canned meats, and rose oil. Although it is not possible to project with much reliability, with normalization this year of commercial relations, including the granting of Most Favored Nation treatment and Export-Import Bank credits, US exports to Bulgaria could triple by 1975.

Bulgaria has recently expressed an interest in improving its relations with the US and has proposed sending a Deputy Prime Minister to the US to carry out talks on outstanding problems in the economic field. It has also expressed willingness to resume negotiations of a consular convention and to consider taking steps in other fields to accomplish the desired improvement. United States policy toward Bulgaria in the coming year is likely to be focused on how to meet this initiative and on the degree to which improved economic relations can be used to secure offsetting concessions from Bulgaria in non-economic fields, including amelioration of the disadvantageous operating conditions imposed on the US Embassy at Sofia.

8. *Albania*. Albania has assumed increased importance on the international scene because it is a leading example of resistance to Soviet hegemony in Eastern Europe, an important pawn in the Sino-Soviet ideological struggle, and a potential Mediterranean naval base for the Soviet fleet. Although the US interest in Albania is primarily a nega-

tive one of assuring its continued reserve posture toward the USSR, it is larger than the absence of diplomatic relations would imply. This condition is clearly a relic of the past and does not fit into the new, evolving Europe in which increased communication and cooperation among regimes of all types will be one of the dominant features. Although the US should not play the role of an ardent suitor, it should be willing to establish diplomatic relations with Albania at a time acceptable to Albania, and to work toward normalization of relations at a pace which Albania can accept.

The US economic interest in Albania is small, as can be seen from the 1972 export figures: about \$300 thousand, chiefly scientific materials and machinery. Albanian exports to the US were also limited: approximately \$450,000 in 1972, chiefly agricultural products and works of art.

[Omitted here are the remaining five parts of Section I, comprising 86 pages, and Section II, dated February 1, 1973.]

27. National Security Decision Memorandum 212¹

Washington, May 2, 1973.

TO

The Secretary of State

SUBJECT

Economic Policies for the Eastern European Countries

The President has considered the recommendations of the NSSM 163/CIEPSM 24 study² and decided that the following general guidelines be observed in negotiations with the countries of Eastern Europe:

—With regard to the East European countries generally, progress in the economic area should be made contingent on satisfactory political conduct on international issues involving our interests and on

¹ Source: National Archives, Nixon Presidential Materials, NSC Files, Box 365, Subject Files, National Security Decision Memoranda, Nos. 145–264. Confidential. Copies were sent to the Secretaries of the Treasury, Defense, Commerce, and Agriculture; the Director of Central Intelligence; the Special Representative for Trade Negotiations; and the Chairman of the Joint Chiefs of Staff. Also issued as Council on International Economic Policy Decision Memorandum 17.

² Document 26.

a demonstrated willingness to solve outstanding bilateral political problems.

—In economic negotiations with those Eastern European countries not now benefitting from MFN, no commitments on MFN authority should be made until authorized by the President. This should not, however, preclude initiation at an appropriate time of negotiations on commercial and economic problems of interest to us.

—No legislation authorizing PL-480 agricultural sales for additional Eastern European countries will be sought at this time.

Within these guidelines, the following steps should be taken:

1. Expedite conclusion of consular conventions with Czechoslovakia and Bulgaria, aiming to ensure the fullest possible protection for U.S. citizens in those countries.

2. Continue to urge Romania, Hungary, Czechoslovakia, and Bulgaria to initiate promptly or to conclude negotiations on U.S. claims for nationalized property and defaulted bonds. Where appropriate, satisfactory settlement of these issues should be made a prerequisite for authorization of Export-Import Bank facilities.

3. Initiate negotiations on a cultural and scientific exchange agreement with Hungary. After conclusion of an agreement, proceed, if appropriate, to similar negotiations with Czechoslovakia and then at a later date with Bulgaria. In these agreements particular care should be taken to ensure that an equitable balance exists between the United States and its partner in the scientific and technological exchanges planned.

4. Begin negotiation of a commercial agreement with Romania. When they are completed or well advanced, negotiations may begin with Hungary. Equivalent timing in relation to Hungary should be governing for commercial negotiations with Czechoslovakia and in relation to Czechoslovakia for negotiations with Bulgaria. Commercial agreements involving the extension of MFN will not be concluded until there is a satisfactory settlement on U.S. claims for defaulted bonds.

5. Submit recommendations at an early date on the substance and timing of negotiations with Czechoslovakia on a package of financial issues, including claims, blocked accounts, and the return of Czechoslovak gold.

6. Submit separate recommendations on the GDR when negotiations on the establishment of relations have begun.

7. On appropriate occasions, give public indication of our readiness to negotiate resumption of diplomatic relations with Albania.

Henry A. Kissinger
PMF