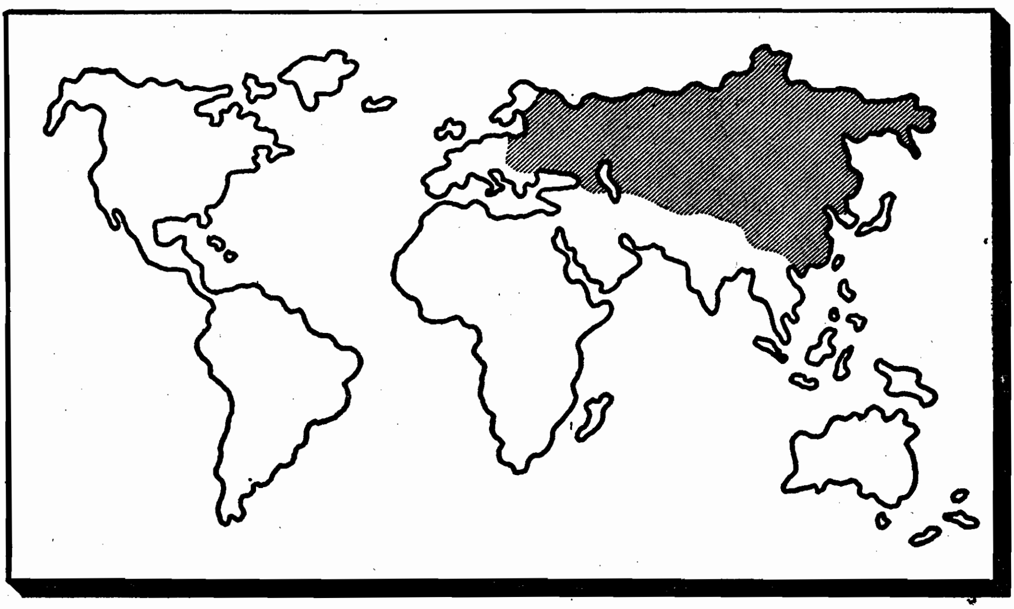
problems of economic defense



MUTUAL DEFENSE ASSISTANCE CONTROL ACT OF 1951

(the Battle Act)

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SECOND REPORT TO CONGRESS

January 1953

ADMINISTRATOR'S LETTER OF TRANSMITTAL

To the Congress of the United States:

I have the honor to submit the second semiannual report on operations under the Mutual Defense Assistance Control Act of 1951 (Public Law 213, 82d Cong.).

This statute was approved on October 26, 1951. Its embargo provisions went into effect on January 24, 1952, and the first semiannual report covered operations during the first 6 months thereafter.

The act requires the Administrator to send a report to the Congress from time to time but at least once every 6 months. The present document covers the period from July 24, 1952, through December 31, 1952, slightly less than 6 months.

The United States is making a broad effort to build collective strength in the free world. That effort goes forward on many fronts. Since strength is a relative concept, we are concerned with such matters as the broadening of our industrial base, with the development of our resources, and with all measures which will assure our continuing ability to stay ahead in the race of industrial capacity.

The Mutual Defense Assistance Control Act should be seen as a part of this broad effort—that part which is most directly concerned with increasing our relative strength by slowing the growth of the war potential of the Soviet bloc. In order to see that part in perspective, it is desirable to range over other portions of the broad field of military and economic defense which are closely related to the objectives of the act.

This I have done. And that is why this report is entitled "Problems of Economic Defense."

A year of administration of the act shows substantial progress. It has also brought certain real and difficult problems more clearly into light. I have attempted, in this report, not only to describe the progress of the last 6 months but also to analyze and discuss the major problems, and wherever possible to suggest ways of handling them.

It is my hope that this report will be of some assistance in the struggle to attain a peaceful and a secure world.

W. A. Harriman

Administrator,
Mutual Defense Assistance Control Act.

JANUARY 16, 1953.

CONTENTS

Chapter		Page
I.	The Picture in Focus: Introduction and Summary	1
II.	Controls Over Strategic Items	7
III.	Coping With Troublesome Loopholes	13
IV.	The Termination-of-Aid Provision	19
V.	Shipments From Countries Not Receiving United States Aid	25
VI.	Controls in the Far East	29
VII.	The Relationship Between Strategic and Non-strategic Trade	33
VIII.	Other Elements of Economic Defense	41
IX.	Organizing to Administer the Battle Act	45

APPENDICES

A.	Text of the Battle Act	51
B.	Export Controls of Other Countries	57
C.	President's Letter to Congress Reporting the Continuance of Aid to the United Kingdom, France, and Italy	75
D.	Statistical Tables	87

CHAPTER I

The Picture in Focus

Introduction and Summary

THE United States and its partners in the Mutual Security Program and the collective security effort are engaged in a cooperative effort to deny to aggression-minded nations the materials that would be of special help to their war-making capacity.

The Mutual Defense Assistance Control Act of 1951 (generally called the Battle Act after Representative Laurie C. Battle of Alabama) deals with means of effecting this denial.

But the act must be viewed in a broader context than that of slowing the pace of the military build-up of nations threatening our security. For the policy of the United States and of the free world must be directed toward achieving and increasing a position of strength on *this* side of the Iron Curtain, relative to that of the potential or actual aggressors.

This concept of relative strength is of vital importance. It imposes upon us the necessity of weighing the advantages and the disadvantages of each proposed action. It demands that we increase the stability and strength of the free world at the same time that we strive to keep strategic goods from hostile nations. It demands that we increase the base of our industrial and economic capabilities and that we make firmer the ties which bind together the free nations and the peace-loving peoples of the world.

To this end, an over-all program is a necessity. The Battle Act must be a part of such a larger program—a program which can perhaps best be described as a program of economic defense.

Economic defense includes affirmative measures, designed both to assist in controlling strategic exports and in increasing the strength, the stability, and the cohesion of the free world.

It is in this larger context of the programs and aims of United States economic foreign policy that the problems and the procedures of the Battle Act must be viewed.

The Conduct of the Program

The cooperative effort to deny strategic materials to aggression-minded nations was imposed upon the free nations by the hostility of the Soviet Union and its satellites. That hostility has shown itself in a host of acts, economic as well as political. Clearly the Soviet design was to use trade to build up the Soviet war potential and to divide the free world.

Free nations early recognized the Soviet design for what it was. That is why they began a program to withhold strategic items from the Soviet bloc.

This complex and difficult program has been going on for years without much publicity. It was the dramatic and exceptional case, the strategic shipment finding its way through the Iron Curtain, that caught the public eye. The things that do not happen, the goods that are not shipped—these do not often make news. And many of the accomplishments, even when dramatic, are not publicly known. They cannot be told because control actions often lose their effectiveness when revealed.

The Executive Branch of the United States Government instituted United States export controls for security purposes early in 1948 and export controls on military matériel before that time. As the world situation grew more menacing, nation after nation set up control systems, and close cooperation among countries, including most of those in the North Atlantic Treaty Organization, developed in 1949 and 1950. The joint program was built on the realization that it did little good for one or two countries to stifle the flow of a strategic item if the potential aggressors could get the item somewhere else.

The same realization caused the Congress of the United States to speak out for effective controls in the free world. By brief amendments to various statutes it began developing the doctrine that United States aid should not go to countries which did not control the export of strategic goods to the Soviet bloc. Then, on October 26, 1951, the last of these amendments was supplanted by the Battle Act, which sets forth in detail the policies of the United States on the control of strategic exports from the free world to the Soviet bloc.

It should be understood clearly, here and abroad, that security trade controls, like some domestic controls, are a temporary emergency measure, forced upon the free world by the militarist expansion of the Soviet bloc. The United States has long stood for the progressive reduction of trade barriers, not the building of new ones. It is unfortunate that we live in a time when nations must prevent the shipment of certain kinds of goods in order to foster their own survival. But we do. And so long as the dangers exist, the free world must not hesitate to do whatever has to be done for the protection of all it holds dear.

Battle Act Principles

The text of the Battle Act will be found in appendix A. Operations under its provisions are discussed at various points in this report. Here we are concerned with its objectives.

The act recognizes at the outset "that in a world threatened by aggression the United States can best preserve and maintain peace by developing maximum national strength and by utilizing all of its resources in cooperation with other free nations."

It declares that the policy of the United States is to embargo the shipment of arms, ammunition, and certain other materials of primary strategic significance to nations threatening United States security, including all Soviet-dominated nations.

It declares further that no United States assistance shall go to any country unless it applies the same embargo (but certain exceptions are provided for when termination of aid would be detrimental to United States security).

And it says that the purposes of the embargo are to: "(1) increase the national strength of the United States and of the cooperating nations; (2) impede the ability of nations threatening the security of the United States to conduct military operations; and (3) to assist the people of the nations under the domination of foreign aggressors to reestablish their freedom."

Thus it is plain that the Battle Act is concerned not only with denying strategic items to the Soviet bloc but also with doing it in a way that will support and increase cooperation with other nations and that will give the greatest possible strength to the free world.

These objectives are reflected in the following fundamental guides to administration of the Battle Act:

1. Controls Should Be Selective. A complete embargo on all East-West trade would not serve the net security interests of the West. There *is* a complete embargo on arms, ammunition, implements of war, and atomic energy materials. There is also an embargo—with certain exceptions as provided for in the Battle Act—on industrial and transportation materials of primary strategic significance. Concerning trade in general, there are serious problems of dependence on eastern European sources of supply and markets, of foreign exchange and others. These problems must be faced, and the decisions to be taken must choose a course that gives a net advantage to the forces of freedom.

2. The Free Nations Must Work Together. Our own security depends on the increasing cooperation of the free world. The President stated in a letter to the Congress on December 30, 1952, which is appendix C of this report, that:

This Government has sought constantly to avoid placing weapons in the hands of the Soviet bloc with which to attack the free world. But weapons take various forms. They may be commodities of strategic importance; they may be hunger or discontent within the borders of friendly countries; or they may be discord between our allies and ourselves. We must guard against giving the Soviet bloc any of these weapons.

It is a firm dogma of Soviet policy that the free nations of the world must inevitably quarrel among themselves and fall apart. Our program must be and is based on our taking of all steps to ensure that this will not happen. Our security export control program is thus necessarily a cooperative program.

Events of the Last 6 Months

The embargo provisions of the Battle Act went into effect on January 24, 1952. During the first 6 months thereafter, which were covered in the Administrator's first semiannual report, the major job of organizing controls under the Battle Act was accomplished.

The period from July 24, 1952, through December 31, 1952, was a time of sharpening the lists, improving the administrative machinery, seeking to find new enforcement methods. A great deal of what was done must be treated as highly classified security information. This is especially true of secret negotiations with other countries. Moreover, the effectiveness of the joint effort can be jeopardized by putting detailed information into the hands of the potential aggressors. Within the limits imposed by these security considerations, however, this report strives to discuss accomplishments and problems fully. The benefits to be gained from a better public understanding of the program are great.

Here is a quick summary of some of the highlights of the 6-month period:

- The United States and its partners continued their day-to-day task of analyzing the strategic importance of commodities, and the Administrator added 16 items to the Battle Act embargo list.

- Japan, whose controls are integrated closely with those of the United States, joined the group of nations participating in the general controls system.

- A new informal committee of nations was established for the specific task of improving the control of shipments to Communist China and North Korea.

- The continuing international exchange of technical advice and assistance on export controls was highlighted by the visit of a British mission to the United States.

- The United Kingdom, France, and Italy made scattered shipments of strategic items totaling $2.5 million to the Soviet bloc in accordance with pre-Battle Act commitments. The President, on the advice of the Administrator, determined that cessation of United States aid to those three countries would be detrimental to the security of the United States; and he ordered the continuance of aid.

● Progress was made in developing techniques for plugging some troublesome loopholes.

● The United States wrestled with the problem of strategic exports from countries not receiving United States aid—especially the problem of Ceylon, which signed an agreement to deliver rubber to Communist China.

● The Soviet bloc made it increasingly clear to the world that it is not interested in peaceful East-West trade and that it is trying to use nonstrategic trade in order to get strategic items.

● The United States stressed measures of economic defense that are supplementary to the direct controls provided in the Battle Act.

● Improvements, on the basis of experience, were made in the administrative machinery—both in Washington and overseas—for carrying out the Battle Act.

* * * * * * *

CONSIDERABLE PROGRESS was made toward a more effective control system during the 6 months under review. It would, of course, be unrealistic to pretend that everything is as rosy as we would desire it to be. As long as the world situation makes economic defense necessary, there will be complex problems. That is why this report is not merely a recital of activities, but a discussion of problems of economic defense.

CHAPTER II

Controls Over Strategic Items

WHAT IS a strategic item? Which items should be embargoed and which should be controlled to a lesser degree?

Title I, section 103 (a) of the act requires the Administrator to determine "notwithstanding the provisions of any other law, which items are, for the purpose of this Act, arms, ammunition, and implements of war, atomic energy materials, petroleum, transportation materials of strategic value, and those items of primary strategic significance used in the production of arms, ammunition, and implements of war which should be embargoed to effectuate the purposes of this Act."

Under this provision the Administrator set up two embargo lists.

The "Title I, category A" list is composed of "arms, ammunition, and implements of war, atomic energy materials." It includes guns of all sorts, bullets, bombs, tanks, warplanes, radar, vessels of war, uranium, and so on.

The "Title I, category B" list covers the other materials named in section 103 (a), as quoted above. It originally had 263 items—actually "item listings," many of which included scores of related articles. Here is an idea of the composition of the list: petroleum products and equipment for producing them; important chemicals and chemical equipment; nonferrous metals and metalworking machinery; tankers, locomotives, rails; important types of synthetic rubber and strategic types of tires; electronic and precision instruments; the most strategic types of electrical and power-generating equipment; and general industrial equipment of many kinds.

If a country receiving United States aid knowingly permits the shipment of a category A item to the Soviet bloc, aid must be terminated. If it knowingly permits the shipment of a category B item, aid must be cut off unless the President determines in unusual circumstances that this would be detrimental to the security of the United States. A report on the operation of this termination-of-aid provision is given in chapter IV. Here we are concerned with the formation of the lists.

Enlargement of Category B

The embargo lists were originally established on November 25, 1951, and went into effect 60 days later, as provided in the act.

During the period covered by the present report the lists have been under intensive review. As a result the Administrator revised them on December 31, 1952.

There was no change in category A.

Sixteen new item listings were added to the category B list. The specific item listings in category B are classified as security information. But it can be said that the 16 additional item listings fall in these commodity areas:

5 in metalworking machinery;
2 in chemicals;
1 in chemical equipment;
5 in electronics and precision instruments;
3 in general industrial equipment.

One item listing was removed from category B because it was considered to be already covered by category A. Thus, there was a net addition of 15, bringing category B to a total of 278 item listings.

In addition, 15 of the original category B item listings were amended, broadening the coverage.

The revisions are being sent to all countries receiving United States aid and, pursuant to the act, will become operative on March 1, 1953.

"Secondary" Controls

Items on the embargo lists are considered to be of "primary strategic significance," meaning generally that exports in any quantity would contribute significantly to Soviet military potential.

There are other items that are considered to be of "secondary strategic significance," meaning that exports in substantial quantities would contribute significantly to that potential.

Title II of the act requires this Government to negotiate arrangements by which countries that receive United States aid will undertake a program for controlling items which are not on the embargo lists but which in the judgment of the Administrator should be controlled.

This provision led to an intensification of a program of quantitative controls over "secondary strategic" items that had been going on since 1950 among the United States and the cooperating countries. The program was developed on the premise that limited quantities of exports of this type would not constitute a security risk if permitted to go to the Soviet bloc, or that any risk involved would be offset or more than offset by the importance of the goods received in exchange.

During the second half of 1952 this Government made a comprehensive review of the items of secondary strategic significance. "Task groups," staffed by experts from all appropriate Government agencies and advised by technicians borrowed from private industries, did a careful job of analysis. The specific results of this review cannot be disclosed without weakening the effectiveness of the international control program. It can be said that the project led to tighter regulation of certain secondary items.

Other Lists

Besides the Battle Act lists, which relate to exports from other countries, this Government has various lists which guide it in controlling strategic exports from the United States itself. The Commerce Department has the responsibility for issuing or denying export licenses for all goods except munitions and atomic energy materials, which are controlled by the State Department and the Atomic Energy Commission. The Commerce Department also has developed procedures to prevent the frustration of our own export controls which would result from shipping a strategic item to a country which (1) ships identical or closely similar items to the Soviet bloc, or (2) would use the American item directly in the manufacture of strategic items for the Soviet bloc.

Then there is still another set of lists that have been agreed upon by the nations engaged in the cooperative control program.

The three kinds of lists—Battle Act lists, United States export-control lists, and the lists used by the cooperating countries—though they have somewhat different purposes, are closely comparable with one another in the rating of commodities as to strategic significance.

The United States consults freely with its partners and exchanges information with them; and this consultation extends to technical questions as to the strategic nature of materials. The ultimate decision as to the composition of the Battle Act lists, however, rests solely with the Administrator.

International Arrangements

This report contains many references to the vital importance of international cooperation for the control of exports.

Some of the countries that cooperate for this purpose have formed an informal committee. The members include the United States, Canada, the Federal Republic of Germany, Japan, and most of the NATO countries of western Europe.

The committee meets in Europe. It provides a forum for exchange of views and information, and for working out arrangements that will make the controls of all the countries more effective.

Japan was the only newcomer to join this committee during the 6 months under review.

Another event of the period was the establishment of an informal committee for the specific task of improving the control of shipments to Communist China and North Korea.

The United States not only takes part in these group activities but also negotiates directly with one country or another whenever occasions arise. United States diplomatic missions in major countries have economic defense officers who devote much time to Battle Act affairs. In order to achieve better coordination and to exchange views and ideas on Battle Act problems, the economic defense officers in European countries held a 4-day conference with the Deputy Administrator in November.

Export Controls of Other Countries

Title III, section 302 (b) of the act requires the Administrator to make a continuing study of the administration of export-control measures undertaken by foreign governments and to report to the Congress at least every 6 months.

This kind of study goes on all the time. And in recent months a special, systematic review was made of the export controls of other countries. New information about these control systems will be found in appendix B.

Section 302 (c) says the Administrator shall "make available technical advice and assistance on export control procedures to any nation desiring such cooperation."

As to that, the main event of the period under review was the visit of a British technical mission which studied nearly every aspect of United States export controls. As this is written, the Administrator is preparing for the visit of an Italian mission. The visit of a mission from West Germany, which was completed in July 1952, near the beginning of the period under review, has proved of distinct usefulness. Besides formal exchanges of missions, individual experts from this Government visit other countries from time to time in connection with control problems.

The Effects of Controls

The Administrator's first semiannual report pointed out that, although it is impossible to measure statistically the precise effect of the control program on the Soviet bloc, evidence exists that the rate of Soviet military build-up had been slowed by the operation of these controls.

It would be dangerously unrealistic to suppose that even a perfect system of export controls could prevent the Soviet Union and its satellites from building a powerful military machine. For example, imports count for less than 1 percent of the Soviet bloc's gross national product.

Nevertheless, the Soviet bloc is dependent on selected items and controls on these items can have an effect on Soviet war potential. The job of strategic trade controls is to impede the military build-up by the selective denial of items that the Communists especially need, and to do it in such a way as to increase the relative strength of the free world.

Aside from whatever specific information is available from beyond the Iron Curtain—and the possibilities for public discussion of that subject are limited—certain facts are clear enough:

First, the United States and the cooperating countries know from their own actions that important amounts of strategic goods have been withheld from the Soviet bloc. And we know what *we* could do with some of those materials in our own defense programs. Of course, the needs and vulnerabilities of Western and Eastern countries are not the same; and those differences are taken into account in classifying commodities for selective controls. But in general it is obvious that some of the materials that did *not* reach the Soviet bloc would have helped materially in increasing its arms production.

Second, we know that capital goods—machine tools, for example—have a "multiplier" effect. Thus, to deny to a country industrial equipment of a type that can be used in war production is also to deny it the strategic goods that would have been produced by that equipment. Besides, machine tools can produce other machine tools, which, in turn, produce end items.

Third, the Communists themselves have given indications which, when put with other information, testify to the effects of the denial of strategic materials. The Slansky trials in Czechoslovakia emphasized "failure to attain production norms." Export controls have contributed to those failures. The report of Mikoyan at the recent Congress of the Communist Party in Moscow complained bitterly of the "boycott" of Soviet trade by the West. Countries of the Soviet bloc have continued to offer high prices for strategic items; and there have been increasing attempts to obtain items through illegal channels.

CHAPTER III

Coping With Troublesome Loopholes

THE period covered by this report has been a period of special attention to the techniques of enforcing security export controls—that is, of plugging loopholes.

Devices used in evading the international control program are as varied as the ingenuity of mankind. It is not easy to classify these evasions, but for convenience they can be discussed under two headings:

(1) "Legal" devices—that is, the abuse of accepted commercial practices and the taking advantage of gaps in regulations.

(2) "Illegal" devices—that is, smuggling or other outright violations of a country's regulations.

Dealing with "Legal" Devices

Most of the countries of western Europe have well-developed systems of export licensing, designed to control shipments that *originate* in those countries.

But there are other shipments that merely *pass through* a country in transit between two other countries. Nearly every country has procedures by which goods can pass through its territory without being subjected to detailed customs inspections or other delays. The goods remain under the control of their owner. In normal circumstances, freedom of transit trade is beneficial to all concerned.

But present circumstances are not normal. And uncontrolled transit trade offers opportunities for steering goods into the waiting hands of Communist governments.

To illustrate: Someone in country A buys copper in country B and orders it shipped to him. En route, the copper must pass in transit through country C. Let us suppose that all three of these countries are in the free world. But while the copper is still in country C—perhaps being loaded from one form of transportation to another—the owner sends an order changing the destination to country D, a nation of the Soviet bloc. This is, in fact, one of the methods by which strategic items have filtered through the Iron Curtain.

Many diversions of that kind take place in "free ports." These are port areas to which world traders traditionally have been allowed

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to bring their goods, store them, reload and reship them—all of this being done without the goods having officially "entered" the nation in which the free port is located.

New York, New Orleans, and San Francisco, for example, have such free port facilities, which for some time have been restricted as to the movement of strategic goods. But more significant in East-West trade—and more troublesome in the control of strategic shipments—are certain major harbors on the European continent, some of which have free zones and some of which do not.

The United States Government believes that a country through which strategic goods pass in transit should prevent their diversion to the Soviet bloc.

There are admitted difficulties in bringing this about. Normally the customs authorities of the transit country would only make sure that the goods were truly in transit and not remaining there; once satisfied of this, they would not inspect documents further, or confirm the nature of the cargo, or do other things that might cause delay. And countries that have a large amount of normal and legitimate transit trade are reluctant to start procedures that might slow up this legitimate commerce. This is especially true when similar restrictions are not applied by other nations.

Some of the countries that have important transit trade have taken the position that the real problem of control lies with the country of origin, and with the country whose resident owns the goods—rather than with the transit country.

Nevertheless the United States, because of the gravity of the problem, has carried on intensive discussions with other governments on the subject of transit controls. Progress was made during the period covered by this report. Additional measures are being developed which will prevent the abuse of port facilities for embargoed items, but which, at the same time, will not seriously impede the free flow of normal commerce through those ports.

One such measure has been adopted by the United States, Japan, Canada, and the United Kingdom, and is being urged upon other nations. It works this way: When certain strategic goods are landed in a transit country or free port, a special license is required before they can be reshipped to any destination. The license is granted freely on satisfactory evidence that the goods will not be diverted to the Soviet bloc.

The transit problem is being approached in another manner, too—by controlling those who participate in the financial transactions that underlie the shipments of goods. The person or company which buys or sells the goods is often located in a country other than those countries where the cargo originates, passes in transit, or is financed. Transaction or other controls, applied by the country where the person lives, or whose financial facilities he uses, may be useful in helping to close the loopholes.

Dealing with "Illegal" Devices

Procedures for dealing with persons who are in the United States and who violate control regulations are the responsibility of the Departments of Commerce, Justice, and Treasury. These procedures assure vigorous enforcement together with conscientious regard for the requirement of fairness to a suspected person.

Some other countries, of which Canada and the United Kingdom are leading examples, have similar if not identical enforcement methods. Still other countries use methods which differ widely from ours, but nonetheless are effective.

Both in such countries and in others where the problem of enforcement is more serious, the question of violators of control regulations inevitably arises from time to time.

If the United States learned that a person in country X had illegally shipped strategic materials to the Soviet bloc, that person might be deprived of all access to the United States export license facilities.

Other possibilities are created by the fact that several kinds of action taken by the United States in the course of one or another of its foreign programs may benefit foreign nationals. In appropriate cases, the United States can see to it that these benefits do not accrue to persons who are violators of East-West trade controls. Such persons may be denied the benefits derived from the Mutual Security program, may be denied participation in loans made by United States agencies, may be denied procurement contracts let by the United States, may be denied priority assistance on scarce materials in the United States, and may be denied other facilities of this Government.

In any program designed to effect these denials, the United States is aware, of course, that considerations both of national sovereignty and of effectiveness dictate that each government have the primary responsibility for dealing with its own nationals.

Fairness, moreover, is an essential of American administrative process—especially in matters of proof. And any procedures must be designed with that in mind, even when the program involves only making a violator ineligible for United States benefits which may be freely granted or withheld.

Despite the delicate nature of these matters, the United States is firmly determined that all steps be taken to prevent profiteering at the expense of the security of this country and the free world.

In this effort, as in other phases of the control program, the closest and friendliest cooperation among governments is constantly sought.

Sharing the Responsibility

This discussion of enforcement measures should include at least a mention of one extremely important measure that was taken earlier and described in the Administrator's first semiannual report. This was the "ICDV" system. The initials stand for import certificate-delivery verification. The purpose is to insure that goods reach their intended destination and are not reexported. The method is to share the burden of responsibility between the exporting and importing country.

The country of origin, before granting an export license, may require the importer in the country of destination to have an import certificate, granted by his own government and recorded there. After the goods are shipped, the country of origin may request a certificate from the country of destination, verifying the delivery.

The ICDV system is being operated successfully by the United States, Canada, Japan, and cooperating western European countries.

Enforcement Examples

Following are typical examples of the enforcement activity which has taken place in the cooperative program of controls:

1. Italian authorities seized 600 tons of aluminum which had been scheduled for delivery to the United States but was being diverted to Rumania. They also seized a large shipment of aluminum and copper falsely billed as magnesium and en route to the Soviet bloc.

2. A transaction involving the shipment of about 5,000 tons of aluminum from Austria was stopped after it was determined that the alleged end-users in western Europe had arranged for transshipment to the Soviet bloc. Tungsten and molybdenum shipments of the same nature were also stopped.

3. An important number of shipments of copper and other nonferrous metals from South American countries have been stopped through teamwork among governments when it became clear that diversion to the Soviet bloc was likely. Some of the shipments involved as much as 600 to 800 tons each.

4. In West Germany alone, during the first half of 1952, approximately $10 million of transactions in strategic items destined for the Soviet bloc were disapproved by the German authorities for a variety of reasons, and from July to November approximately $16 million. In addition, the German authorities disapproved many shipments to areas outside the Soviet bloc because investigation showed that the items were likely to find their way to the Soviet bloc. These transactions were largely in the categories of machinery, spare parts, chemicals, and precision instruments.

5. The Turkish Government stopped the export of 2,000 tons of

copper when transshipment arrangements indicated that the consignment was ultimately destined for the Soviet bloc.

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AS FURTHER PROGRESS is made in plugging loopholes, the shipment of strategic items to the Soviet bloc will become more and more difficult.

The attention being given to the measures discussed in this chapter should not obscure the fact that effective enforcement depends most of all on the effectiveness of the controls applied by the country in which the shipment originates. The first requirement is adequate controls at the source. The supplementary need is conscientious follow-ups to see that exports arrive at their stated destinations and are used for the stated purposes.

CHAPTER IV

The Termination-of-Aid Provision

AS WE have seen earlier in this report, important quantities of primary strategic goods have been withheld from the Soviet bloc by the nations that are cooperating with one another for their mutual security. We have also seen that some primary strategic goods have slipped under the Iron Curtain without the will or permission of those countries—and that efforts are being made to reduce this movement. But still other goods of primary strategic significance—chiefly small shipments—have moved eastward with the knowing permission of western European governments that are receiving United States aid. When that happens, the United States must take formal action of one kind or another.

Battle Act Requirements

Section 103 (b) of the act provides for the termination of all military, economic, and financial assistance to a country that "knowingly permits" the shipment of certain materials to "any nation or combination of nations threatening the security of the United States, including the Union of Soviet Socialist Republics and all countries under its domination."

If those goods come in the category of "arms, ammunition, implements of war, and atomic energy materials," the termination of aid is mandatory in every case.

To the Administrator's knowledge no country receiving assistance from the United States has permitted any shipments of that kind whatever.

If the goods come in the category of "petroleum, transportation materials of strategic value, and items of primary strategic significance used in the production of arms, ammunition, and implements of war," termination of aid is provided for, but it is not mandatory in every case. The President may direct the continuance of aid to the country permitting the shipment "when unusual circumstances indicate that the cessation of aid would clearly be detrimental to the security of the United States."

As already explained, the Administrator has drawn up two embargo lists. The list for which termination of aid is mandatory is styled "Title I, category A." The list for which exceptions may be made is styled "Title I, category B."

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The law provides that the Administrator shall advise the President on matters of whether or not to terminate aid. It also provides that the President, before directing the continuance of aid to a country, shall take into account the following considerations:

> "the contribution of such country to the mutual security of the free world, the importance of such assistance to the security of the United States, the strategic importance of imports received from countries of the Soviet bloc, the adequacy of such country's controls over the export to the Soviet bloc of items of strategic importance."

The Action of December 30

In the spring and summer of 1952, President Truman made three determinations to continue aid. Those actions were reported to Congress and also described in the first semiannual report of the Administrator.

On December 30, 1952, the President, upon the advice of the Administrator, made his fourth determination under the Battle Act. France, Italy, and the United Kingdom had permitted scattered shipments of items on the "Title I, category B" list, amounting to $2.5 million all told. The President, after reviewing the facts about these shipments, determined that it would clearly be detrimental to the security of the United States to cut off aid to the three countries. He therefore ordered the continuance of aid.

These shipments were results of commitments that had been made by the three governments before January 24, 1952, the effective date of the "Title I, category B" list. But the deliveries took place after that date. Many of the shipments were extremely small, but that did not alter the need for a Presidential determination, since they consisted of materials that the Administrator had labeled as items that should be embargoed. The items shipped were as follows:

> From France, $959,245 worth of boring machines, valves, chemical equipment, compressors, electronic equipment, aluminum, and ball bearings.
>
> From Italy, $940,000 worth of rolling-mill equipment, ball and roller bearings.
>
> From the United Kingdom, $583,818 worth of forging machines, special metalworking machines, pumps, valves, rolling-mill equipment, balances, locomotives and parts, specialized testing devices, ball and roller bearings, greases and oils, nickel, and one blower.

Poland got approximately half the $2.5 million total, with Czechoslovakia second, Hungary third, and the Soviet Union fourth. All of the shipments went to those four countries with the exception of

50 gallons of lubricating oils and greases for medical apparatus. This shipment, valued at $66, went to China.

In a letter to Congress, the President set forth in some detail the reasons why cessation of aid to the United Kingdom, France, and Italy would be detrimental to the security of the United States.

Our security, he stated in substance, is based on the unity and strength of the western community of nations, and United States aid is an investment directly in the interests of our security. The United Kingdom, France, and Italy are the largest European members of the North Atlantic Treaty Organization, and the vital importance of their participation can scarcely be exaggerated. The United States has made a $25,000,000,000 investment in western defense since World War II. Aid from the United States is indispensable to the United Kingdom, France, and Italy if they are to carry their NATO military burdens. The collapse of their defense efforts would mean the collapse of the whole NATO system.

The President's letter also contained a discussion of the importance of imports which the three countries receive from the Soviet bloc (this is one of the considerations which the Battle Act requires him to take into account). He pointed out that the western European countries have traditionally obtained raw materials from eastern Europe in exchange for products of their own. He emphasized the need for such eastern European materials as coal, grain, and timber. He said that United States aid has helped western Europe to reduce its dependence on these eastern supplies and hence withstand to a marked degree the Soviet bloc pressures for strategic items in exchange. Cutting off aid, therefore, would increase the flow of strategic goods to the bloc, and this would defeat the purpose of the Battle Act.

Appendix C of this report gives the full text of the President's letter with a table showing the values and destinations of the items shipped by the United Kingdom, France, and Italy.

The "Prior Commitment" Problem

Not only in the case just described but also in the three earlier cases in which the President ordered the continuance of aid, the shipments took place as a result of commitments entered into before the Battle Act embargo lists went into effect. This was not the reason why aid was continued—it was continued because cutting off aid would have been detrimental to the security of the United States. Nevertheless, the existence of these "prior commitments" has raised serious problems for the European governments concerned. And the question of how to deal with these commitments has been one of the most difficult and complex issues that has come up in the administration of the Battle

Act. Furthermore, the issue has not been entirely disposed of. As this is written, several European countries, including the United Kingdom, France, Italy, Denmark, and the Federal Republic of Germany, still have pre-Battle Act commitments on their books.

A large proportion of the prior commitments of western European nations were made within the framework of trade agreements signed in 1948 and 1949. Other trade agreements were concluded in 1950 and 1951. Still other commitments were made in private contracts which the western European governments knew about and for which they either issued or promised to issue export licenses.

Since East-West trade is basically the exchanging of eastern raw materials for western manufactures, there is usually a time differential in deliveries. Thus it came about that manufactured products involved in these agreements were scheduled for delivery in 1952, 1953, and 1954. In many cases the Soviet bloc countries had carried out their part of the exchanges by delivering timber, grains, coal, and other essential commodities, and were awaiting shipment of goods which, in effect, had already been paid for.

Because the trade agreements, export licenses, and other understandings existed before the "Title I, category B" list went into effect on January 24, 1952, there is a real question whether the Battle Act is applicable to these exports. The provision relating to termination of aid comes into operation if a country "knowingly permits the shipment" of embargoed items. It can be argued that these nations *knowingly permitted* the shipments at the time the permission was given. If so, the shipment itself would not be relevant, though it took place after the embargo list came into force. This argument has special weight with respect to certain European countries where export licenses, once issued, cannot legally be revoked.

Despite the legal ambiguity on this question, however, the Administrator construed the act as being applicable to the date of the *shipment* rather than to the date of the *permission*. This is the interpretation that seems to accord most closely with the objectives of the act—that is, to increase the strength of the United States and the cooperating nations and to impede the military ability of the Soviet bloc.

Therefore, after the enactment of the Battle Act, the United States requested the western European countries to freeze their exports of prior commitment items, so that a joint review of the problem could be undertaken. This request led to an intensive review. As a result, some of the projected shipments were eliminated. The eliminated shipments were approximately one-fourth of the total amount of prior commitments originally outstanding.

As already noted, some items now have been shipped, and others are still scheduled to be shipped. If further shipments of this kind take place, the United States must then examine such cases on their merits and determine the appropriate action in the light of all the circumstances.

One more word on prior commitments: Whenever a new item is added to the "Title I, category B" list, a new prior commitment problem may be created. The items added at the end of 1952 will become effective 60 days later, so far as the termination-of-aid provision is concerned. The exact extent to which other countries may have previously committed themselves to ship those items is being ascertained.

CHAPTER V

Shipments From Countries Not Receiving U. S. Aid

PERHAPS the thorniest of all problems encountered in the administration of the Battle Act is the problem of shipments from countries that are not members of NATO, are not participating in the international control program, and are not receiving aid from the United States. For, controls maintained by cooperating nations are undermined and may crumble if important shipments take place from noncooperating nations.

The Battle Act provides (sec. 301) that all countries not receiving United States aid shall be invited to cooperate in controlling the export of strategic commodities to the Soviet bloc.

Section 101 requires that the act be administered in such a way as to bring about the fullest support for any resolution of the General Assembly of the United Nations, supported by the United States, to prevent the shipment of certain goods to governments engaged in hostilities in defiance of the United Nations.

These two sections provide the basis on which the Administrator has dealt with the question of trade controls by non-aid-recipient countries.

When the Battle Act became law, several non-aid-recipient countries were already cooperating fully. Canada, for example, was and is taking part in the international control program and its export controls are very like those of the United States. Others, Yemen, for example, had no trade of a strategic nature with the Soviet bloc.

Except for countries in the latter group, all of the nonrecipients of aid have received copies of the lists of commodities established under titles I and II of the act. Discussions with certain countries—possible suppliers of strategic items—have been held at frequent intervals, especially when proposed trade arrangements involving strategic items were under consideration.

During the 6 months under review, the United States Government in dealing with nonrecipient countries gave major attention to these two problems:

(1) The problem of neutrality;
(2) The problem of Ceylon rubber.

The Problem of Neutrality

Certain countries, of which Switzerland and Sweden are outstanding examples, have long pursued a policy of neutrality. This is not to be confused with a lack of awareness of world issues, or with unwillingness to fight under certain circumstances. Neither Switzerland nor Sweden is likely to be pulled by anything but force into the Soviet orbit.

Despite their neutrality during World War II, both Switzerland and Sweden had strong standing armies and defense policies. Each nation couples its policy of neutrality with a readiness to defend its borders. They believe that a neutral state occupies an honorable, important, and useful place in the tense world in which we live.

The United States is not compelled to concur in the premises upon which the Swiss, Swedes, or other neutrals base their policies. But it must reckon with them, as it must also reckon with neutralist sentiment in other countries. And our policy should be and is directed against the receipt of strategic items by the Soviet bloc, from whatever source those items may come. This policy is based on a recognition that our controls will be of less practical value if items controlled in one place are shipped from another source. We cannot look with equanimity upon the possibility that items embargoed by the British and the Italians and the rest of us will be freely shipped from a neutral source.

This fact has led to discussions with governments like those of Sweden and Switzerland, which are not only nonrecipients of aid but are also important in the manufacture of certain strategic items. The discussions have concerned measures which we believe can be taken by neutral countries to ensure that supplies which originate in the United States or cooperating countries do not find their way through to the Soviet bloc. They have concerned measures which may be useful in preventing evasion of our controls by residents of neutral countries or through use of their commercial or financial facilities. In some cases, action which had already been taken by a country such as Switzerland for supply reasons adequately prevented the risk of transshipment.

The Problem of Ceylon Rubber

The complex question of rubber—how best to classify and control it—is not confined to nonrecipient countries. But the only country which is shipping rubber to Communist China is a country which receives no aid from the United States. This is Ceylon.

Ceylon is not a member of the United Nations, having been blackballed by the Soviet Union. The U. N. General Assembly on May 18, 1951, adopted an embargo resolution directed against the Chinese Communist aggressors. The other major rubber-producing countries embargoed rubber under that resolution. But Ceylon, despite the fact that it has an anti-Communist government, has not seen fit to observe the terms of the U. N. appeal.

Ceylon has just concluded a broad 5-year agreement with Communist China. Under this agreement, Communist China promised to deliver 270,000 tons of rice per year. Ceylon has promised to make available 50,000 tons of rubber per year. Neither the representations of the United States nor the warnings of certain Ceylonese themselves, who characterized the then pending negotiations with the Communist Chinese as "tempting but fatal," have prevented the conclusion of the agreement.

Ceylon imports about 350,000 to 400,000 tons of rice per year, about half of its annual consumption. In order to pay for this rice, Ceylon must depend on exports of rubber, tea, graphite and a few other commodities. The Chinese offer to supply rice and to take rubber from Ceylon was, therefore, a very tempting one to Ceylon, particularly when the price offered by the Chinese for the rubber is about 40 percent greater than the world market price for natural rubber.

Although China normally has no rice surplus and, therefore, what it exports will be extracted from the already low living standards of the Chinese people, it is believed that the Peiping government will make every effort to fulfill its part of the agreement as long as it finds it politically expedient to do so. Communist China has apparently entered into this agreement not only in order to obtain the rubber which it needs but also for the sake of the political and propaganda value which the trade agreement bears in southeast Asia.

The propaganda appeal of the trade agreement is obvious. The free world countries do not now consume as much natural rubber as south and southeast Asia produces. The Communist orbit, therefore, appears to the producers of natural rubber to be a potential market. Yet, all free countries other than Ceylon embargo shipments to Communist China.

The United States has proceeded through a long series of steps in an attempt to prevent such a trade agreement.

Following explorations of the Ceylonese trade problem, the United States invited Ceylon's cooperation on trade controls in December 1951, pursuant to the Battle Act. The Government of Ceylon replied that it was willing to negotiate. Negotiations took place early in 1952 but were broken off by the death of the Prime Minister. They were renewed in July when the Government of Ceylon decided to send a mission to Washington to discuss the questions of buying rice from the United States, exporting rubber to the United States, and the availability of United States economic and financial aid to Ceylon.

During the negotiations in Washington, the United States offered arrangements under which some rice would be made available; but the then existing price was not satisfactory to the Ceylon representatives. The United States also offered to purchase rubber from Ceylon at world market prices and suggested a "Point Four" agreement along the lines reached with other countries. In the absence of an assurance by the United States of a $50 million economic aid program during the next 5 years, the Ceylon representatives found the United States proposals unacceptable.

During the discussions, the representatives of the United States emphasized the action of the other major rubber producers under the U. N. resolution and the responsibility of the Battle Act Administrator in supporting that resolution. They also expressed the view of the United States that the proposed trade agreement, evaluated in the light of historical experience, may lead Ceylon into an undesirable position of heavy dependency upon trade with an arbitrary totalitarian power which will not hesitate to exploit the situation against Ceylon and other free nations.

The solution of Ceylon's new relationship with Communist China must remain a matter of critical concern to the United States. Controls over shipping and over the fueling of vessels calling at free-world ports may provide one salutary course of action. The seriousness of the situation may, of course, be lessened in the event of Communist China's future inability to perform its part of the contract with Ceylon.

The Ceylon situation is important in itself. In addition it illustrates the complexities of a control program which has to be general in order to be effective and the effectiveness of which can be threatened by failure of a single important supplier to cooperate.

* * * * * * *

The resources of the United States must be put to the task of achieving full cooperation within the free world—ally or neutral, aid recipient or not. Only in that way can the program be fully successful.

CHAPTER VI

Controls in the Far East

CONTROLS must be administered not only in view of the cold war but also in view of the outright military action in Korea.

The cold-blooded aggression there, and the continued refusal of the Communists to agree to a fair truce, have given additional urgency to the world-wide control program. And as for trade with the aggressors themselves—the Chinese Communists and the North Koreans—the free nations applied special restrictions in 1951, before adoption of the Battle Act.

The United States has cut off all trade and financial transactions with Communist China and does not allow United States ships to touch at Chinese ports.

The Far Eastern countries that formerly were China's principal suppliers, especially Japan, made drastic reductions in exports to the mainland.

Members of the United Nations, except for Soviet bloc countries, joined in support of the May 18, 1951, resolution of the U. N. General Assembly, which recommended the embargo of strategic items to Communist China and North Korea.

As told in the last chapter, Communist China has arranged to obtain rubber from Ceylon. There are other points in the Far East where controls are not yet as effective as they should be, and those problems have received urgent attention during the period under review.

Nevertheless, the control program clearly has had adverse effects on the aggressors.

The fact that shortages have had a serious impact on the Chinese economy was revealed in public announcements after the Moscow Economic Conference of April 1952. Radio Peiping, the mouthpiece of the Communist government, has repeatedly announced revisions of trading regulations; each change was designed to make terms more attractive and induce former suppliers to restore trade.

There are many reports of shortages which could be alleviated if trade were unrestricted. For example, people who have returned to this country from China have reported seeing large numbers of trucks and other vehicles that were captured from the Chinese Nationalists, now immobilized for lack of spare parts and petroleum products.

237263—53——3

Recently the Chinese Communists set up a trade mission in eastern Germany, which is in the Soviet orbit. The mission, though lacking attractive wares for barter purposes, has been trying to obtain badly-needed goods such as machinery and heavy equipment. Since these items, for the most part, are embargoed by western European countries, and since they are also the goods that eastern Europe needs, the Chinese mission is not likely to obtain significant deliveries from eastern European countries.

The free nations are determined to make it even more difficult for the Chinese Communists to obtain strategic materials.

One of the significant events of the last 6 months was the establishment of an informal international committee. This group, in which participate the free nations which were the chief traders with the Chinese mainland, is concerned, on a day-by-day basis, with improving the control of strategic items to Communist China and North Korea.

Japanese Export Controls

Japan, the most heavily industrialized country in the Far East, is capable of manufacturing large quantities of industrial goods needed by the Communists. In Japan exists the greatest potential in the Far East for strategic trade.

Before the war, Japan's trade with the China mainland was substantial. Japan got raw materials from the Chinese, including iron ore, coal and coke, and soybeans. In return, Japan supplied consumers' goods, transportation equipment, light machinery, and other products.

During the postwar years, when Japan's trade was controlled by the Supreme Commander for the Allied Powers (SCAP), certain transactions with China were permitted, but the trade fell far short of prewar levels. When Red China attacked the United Nations forces in South Korea, SCAP established tight controls. Trade then virtually ceased. Since the end of the occupation in April 1952, the Japanese Government has continued this kind of control.

Pressure groups within Japan have tried to persuade the Government to relax controls and let them trade more with China. These groups included businesses which had large prewar investments in China and which hoped somehow to salvage part of them. They also included persons who felt that large markets were being denied Japan unnecessarily.

Nevertheless, the Japanese Government has publicly announced its policy to deny all strategic and critical commodities to Communist China. And Japan has joined the informal groups which deal with this problem and the problem of strategic shipments to the Soviet bloc in Europe.

Hong Kong

As a colonial government of the United Kingdom, Hong Kong's trade regulations have been linked closely with United Kingdom controls, and they were tightened in 1951 along with those of the United Kingdom.

Hong Kong has always been an important avenue through which the world's goods moved to the Chinese mainland. In December 1950, shortly after the United States stopped all movements of its goods to Communist China, this Government consulted with the United Kingdom and Hong Kong on measures to see that our embargo would not be evaded by reshipment to Communist China of American exports to Hong Kong.

As a result, Hong Kong government officials are cooperating in the enforcement of United States regulations which apply to trade with Communist China. Trade between Hong Kong and Communist China diminished noticeably during the latter part of 1951 and continued to diminish in overall totals in 1952.

Macao

The Portuguese colony of Macao, a tiny port connected with the Chinese mainland, has never been an important trading point, but Macao and neighboring non-Portuguese islands have traditionally afforded opportunities for the smuggling of goods into China. This kind of commerce, though it is no longer smuggling from the Chinese Communist point of view, has become a more serious problem because the outbreak of hostilities in Korea has increased the need for strategic goods on the Chinese mainland.

Some controls are exercised by the Macao authorities but nevertheless some strategic cargoes, including petroleum, have moved from Macao to Communist China.

Because of the increasing effectiveness of Hong Kong controls, it appears that the Communists would like to make greater use of the Macao area as a channel for strategic goods.

It is the view of the Administrator that increasingly effective control over Macao's limited trade in strategic goods can best be achieved at this time by limiting exports of strategic goods to Macao to those minimum quantities essential for Macao's use.

CHAPTER VII

The Relationship Between Strategic and Nonstrategic Trade

THE UNITED STATES is vitally concerned with trade between the free world and the Soviet bloc in *strategic* items. We seek to prevent the military build-up of nations which have demonstrated their aggressive intentions in Korea and which have given the world every reason to believe that aggression would be expanded when such expansion was thought safe. Other free nations have cooperated in this enterprise.

The question arises as to the attitude of the United States concerning trade between the free world and the Soviet bloc in *nonstrategic* items.

Although the United States has on several occasions declared that it neither desires nor recommends a cessation of peaceable trade between the free world and the Soviet bloc and although the United States has participated fully in such possible bridges between West and East as the Economic Commission for Europe, trade in nonstrategic items has markedly decreased during the last year. This decrease, plus the growing tendency on the part of the Soviet bloc to maintain trade in nonstrategic items largely as a means of obtaining strategic items, raises the question of the relation of nonstrategic trade to our security trade controls.

United States Policy

United States policy in this field may be summarized as follows:

1. The United States does not object to nonstrategic trade between the free world and the Soviet bloc. The United States hopes that existing world tensions may diminish and that trade between West and East may be resumed in such manner as to contribute to raising the living standards of free peoples the world over. (The present Soviet policy, unfortunately, would appear to prevent this hope from being realized.)

2. Nonstrategic trade must not become a means by which the Soviet bloc can undermine controls over trade in strategic items. Tie-in arrangements, under which a bloc nation agrees to buy certain goods on condition that it also gets a strategic item, should not take place. Excessive credits lead to pressure on free nations to export strategic materials to debtor nations of the Soviet bloc in the hope of being

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compensated for previous shipments; and such excessive credits should not accumulate. Still other means by which the Soviet bloc might attempt to turn trade in nonstrategic items to military advantage—such as excessive market dependence—should be avoided.

Soviet Trade Policy

Both the actions and the words of the Soviet bloc demonstrate that it is not interested in nonstrategic—or indeed any other—trade over a long period of time. The Soviet Union relies now, as it has done for 30 years, upon the build-up of an independent trading area under its own control. It does not want dependence upon imports from the free world. This historic Bolshevik policy is now being imposed by the Soviet Union on all of the new Soviet satellites.

The Soviet bloc is not interested in importation of consumer goods from the free world. It attempts to limit its imports to goods essential for industrialization and rearmament. The Soviet bloc will undoubtedly continue to attempt to get these strategic commodities. But its efforts will be directed toward obtaining such commodities solely in order to achieve, as soon as possible, independence of the need to import free-world supplies.

It would therefore be unrealistic for the free nations of the world to rely upon the continued availability of Soviet bloc markets or of Soviet bloc sources. It is unrealistic to harbor the expectation that an important potential market and source of supply can be realized in the bloc. Soviet economic policies, together with the political hostility of the Soviet bloc for the free nations, make imperative the development of alternate sources and markets within the free world. This is a necessity for the free world's security and economic stability.

The "Parallel World Markets"

Though the United States and the nations associated with it have sought to control the export of strategic items to potential aggressors—items which might contribute to a military build-up—the marked decrease in total volume of East-West trade that has taken place since the prewar period has not been attributable entirely to these efforts. That drop has, rather, been mainly attributable to the Soviet policy of attempting to achieve economic independence from the free world and of using Soviet-bloc trade to create or increase economic tensions and difficulties in the free world.

The Soviet bloc calculates trade advantage not in terms of the welfare of its subject peoples but in terms of its military potential or political advantage. It hopes to terminate such trade as quickly as possible and to do so in such manner and at such times as will be most disruptive of the economic well-being of the free nations. Thus it hopes not only to strengthen itself but to weaken the free world, to subject the economies of the free nations to the maximum possible strain, and to cause an eventual falling out between the nations which are now allied in the defense of freedom.

These statements are not speculative. The Soviet leaders have made their intentions amply clear.

In February 1952, Stalin wrote an article which was published in the Soviet magazine Bolshevik just prior to the October 1952 congress of the Communist Party of the Soviet Union. The article was the keynote for the congress. The principal foreign-policy statements in this article deal with Stalin's belief in (*a*) the "disintegration of a single world market," and (*b*) the "inevitability of wars between capitalist countries."

In reality there has been no single world market since the coming into power of the Bolsheviks. During the period immediately after World War II, however, those interested in raising the standards of living throughout the world and in achieving a peaceable community of nations hoped that East-West trade, long interrupted by Soviet trade practices and by the war, could be resumed to the mutual benefit of all.

Precisely the opposite occurred. As country after country came under Soviet power, it became increasingly clear that, for political reasons as well as the desire to build up an economically independent bloc, the Soviet Union was not interested in, and, in fact, was actively hostile to, trade with the free world.

The Soviet Union did not participate in work on the General Agreement on Tariffs and Trade, on the Charter for an International Trade Organization, or any other mutually beneficial projects. It prevented its satellites, as well as countries like Czechoslovakia which at the time were not yet quite in the satellite category, from participating in the initial Marshall-plan discussions. The Soviet Union denounced the Marshall plan and attempted to disrupt its progress.

The Stalin article refers to the "disintegration of the single world market" and the emergence of "parallel world markets" as the most important economic consequence of the Second World War. Stalin mentions rather contemptuously what he describes as the Western nations' "economic blockade," but insists that the fundamental cause of the formation of a new parallel world market is that "since the war these countries [the Soviet bloc] have joined together economically and established economic cooperation and mutual assistance." He refers to the pace of industrialization in eastern Europe and says that soon the Soviet bloc will not need imports at all.

These statements must have come as a shock to some of those who had participated in the Moscow Economic Conference of April 1952.

It probably explained to them, at any rate, why the tangible results of that conference have been so small in proportion to the propaganda speeches about increased trade which were made there.

In this connection it is interesting that, in the recent trials of high Communist officials in Czechoslovakia, one of the charges against Rudolf Slansky was that he tried to increase trade with the West.

Even before the publication of the Stalin article, Soviet lack of interest in trade became evident when the Economic Commission for Europe, a regional commission of the United Nations, issued invitations to a September conference on East-West trade. The United States, although maintaining its skepticism as to the usefulness of such a conference in view of demonstrated Soviet hostility to peaceful trade, nevertheless, indicated its willingness to participate constructively in the proposed conference. The Soviet Union and its satellites did not dignify the invitation with a reply. The conference was not held.

Soviet Bloc Exports

Besides the Soviet hostility toward trade except for strategic advantage, there is ample evidence that the bloc is having difficulties providing commodities in exchange for western exports, and that this inability has contributed heavily to the lessening of East-West trade.

A report issued by the Economic Commission for Europe in November 1952 makes this point clear. The Soviet bloc's traditional raw-material exports—coal, grain, and timber—are declining.

This results partially from increased use behind the Curtain. The rapid industrialization and collectivization programs of the new "people's democracies," together with the reorientation of their foreign trade which has resulted in a tenfold increase in trade among eastern European countries as compared with prewar, have sharply reduced their ability to supply the agricultural staples needed by western Europe. The basic fact is that the "forced draft" industrialization and land-reform programs of the Soviet bloc involve a shift of supplementary labor resources from agriculture to industry—that is, from the production of goods of the kind wanted in western Europe to goods of the kind wanted in the Soviet bloc.

Also, there are difficulties in delivering coal. Coal production has fallen off both in Czechoslovakia and Poland. The recent trials in Czechoslovakia, with their emphasis on "failure to fulfill norms" and on "sabotage," give evidence of dissatisfaction with working conditions, dissatisfaction which must result in lower production. A shortage of manpower in the Polish mines has apparently also had an effect on the exportation of Polish coal.

The Economic Commission for Europe Report says:

The absence in postwar years of any substantial exportable surpluses of grain from the Danubian countries is one of the most important single facts making for a low level of postwar East-West trade.

Timber exports also show a sharp decline.

The following table from the ECE Report shows the situation with respect to eastern European exports of coal, grain, and timber:

	Hard coal [1] (million tons)	Grain (million tons)	Sawn softwood [2] (million cubic meters
Prewar average	11.6 (1937-38)	3.9 (1934-38)	7.0 (1935-38).
Postwar maximum	12.4 (1948)	2.2 (1949-50)	1.9 (1948-50).
July 1951-June 1952	7.0	2.1	0.8.[3]

[1] Exports of hard coal from Poland, prewar figures adjusted so as to include net exports to western European countries from the Silesian coal mines now belonging to Poland.
[2] Exports to western Europe from U. S. S. R., Czechoslovakia, Poland, Rumania, and Eastern Germany.
[3] Calendar year 1951.

The Case of Sweden

In dispelling erroneous impressions about the causes of decrease in East-West trade, the example of a neutral country like Sweden is highly instructive. Clearly, barriers are being erected by the Soviet bloc which have nothing to do with the strategic controls of the West.

The Swedish Minister of Commerce, during a parliamentary debate on November 18, 1952, pointed out a number of reasons for decreased trade between Sweden and the Soviet bloc. These included the extortionate Polish coal prices of 1951. Czechoslovakian goods, too, had risen excessively in price, and the interest of Swedish buyers had been declining. Generally, trade relations with Czechoslovakia had deteriorated as a result of the Czech import-license policy which, in certain cases, had resulted in complete exclusion of traditionally Swedish shipments to that market. Czechoslovakia had a substantial outstanding debt to Sweden which apparently could not be repaid in commodities. But Swedish proposals that the debt be liquidated in foreign exchange had not produced any result.

The general comments of the Swedish Minister of Commerce are of great interest to those who would rely on Soviet bloc sources of markets. He pointed out that trade with eastern Europe is—

obviously becoming more and more restricted to the exchange of raw materials on the one part against capital goods on the other. Our eastern Europe trade partners display, as a rule, very little interest in other Swedish products. On the Swedish side, active efforts have been made to bring about a more diversified exchange of commodities, but the results have been discouraging. I wish particularly to point out that endeavors to arouse Soviet interest in new Swedish products have merited little attention * * *. Even if quotas had been agreed upon for commodity exports of interest to Sweden, it has often happened that such Swedish export quotas were utilized only to an insignificant extent or else were not utilized at all. Many Swedish exporters who had become established and qualified to sell to the eastern European countries were, consequently, forced to seek markets elsewhere.

It should be emphasized that this is the experience of a neutral country.

The free world must obviously put no undue reliance either on Soviet-bloc sources of raw materials or on Soviet-bloc markets for western goods. The Soviet bloc, to the extent that it maintains trade relations with the West at all, will press for deliveries for strategic commodities. When it is willing to take nonstrategic commodities, it will attempt to use agreed quotas of such commodities as a means of pressing for deliveries of strategic goods. It may or may not deliver what it has promised to deliver, or buy what it has promised to buy.

Sources and Markets

Soviet trade policies, combined with other factors, have inevitably forced certain adjustments in the East-West trade pattern. These policies, and the dislocations caused by World War II, have compelled western Europe to look elsewhere than the East for a substantial part of its needs. In certain items, coal, for example, increased western European productivity has enabled the West to withstand the effects of this dislocation. Partially for this reason, and partially because of the knowledge that the United States and other areas can supply coal if necessary, the Polish bargaining position on coal has somewhat weakened. On the agricultural side, western European reliance on eastern grains has been somewhat eased by recent good harvests.

Although the situation is far from completely satisfactory, there is considerable reason to believe that the Soviet bloc cannot so easily squeeze the West by threatening to withhold raw-material supplies.

It should be noted, however, that decreased dependence on the East has been accompanied by a substantial increase of imports from the dollar area. The financing of these imports, or the finding of sources of supply in nondollar areas of the free world, poses a basic problem.

On the side of markets, there is beginning to be apparent a trend which is cause for concern. In many western European countries, export markets are essential for a healthy economy. We may expect to find growing anxiety about eastern markets, especially in situations where these markets have been traditional outlets for western products. Efforts to recover such markets will be made within the framework of agreed controls over exports of strategic commodities; this was true in the case of the recently formed West German committee to activate trade with the Soviet bloc.

This desire to regain once-valuable markets is understandable. The desire becomes even stronger if quantitative restrictions and other trade barriers in the United States and other free nations lead to the fear that those markets may be closed to western European exports.

Insofar as exports to eastern Europe consist of peaceful items, the United States attitude was expressed in the following statement by the United States representative to the United Nations Economic and Social Council in June 1952:

> Still, and even in the face of Soviet unwillingness to act like a good neighbor in the world community, it is the policy of the United States to promote and increase trade in peaceful goods. Let us hope that such a flow of goods will help keep open the lines of communications between the peoples of the free world and peoples of the Soviet bloc, and, let us hope, contribute to the rusting away of the Iron Curtain.

This statement does not mean that the United States has shut its eyes to the realities of the present situation—realities pointed up by the gospel laid down by Stalin and the actions of the Soviet bloc countries. These realities include—

(*a*) The fact that the "traditional" eastern markets are now under Soviet control. They may have been customary markets when they were not ruled by the Kremlin. They now slavishly follow the Soviet dogma of Soviet bloc self-sufficiency, of "parallel markets," and do so even at the cost of their own standards of living. The moral seems to be: You can't do business with Stalin.

(*b*) The fact that the Soviet bloc's interest in trade is directed primarily to its effort to industrialize and arm as quickly as possible. The trade that is carried on is for the purpose of ending the need to trade. As already stated, the United States is opposed to the use of peaceful trade as a cover for attempts to obtain strategic materials.

Forming policies on nonstrategic exports calls for a balancing of dangers. The dangers in the illusion of steady, reliable, profitable trade with the Soviet bloc are plain in the record. The dangers that would grow out of unemployment and economic instability in western countries are equally plain. It is necessary to understand the legitimate concern of western European businessmen, trade-unions, and others interested in their own welfare and the economic health of their countries. It must be understood, too, that Communists everywhere will seek to falsify the record, exaggerate any dislocations, and break down the system of security controls which has been designed for the protection of the free world.

*   *   *   *   *   *   *

RECOGNIZING THE DANGERS and talking about them are not enough. The free world must take steps directed toward these objectives:

The Soviet bloc must not be permitted to use carrots or clubs to obtain strategic materials from the West.

The Soviet bloc must not be given the tactical advantage of a trade position in which it has large debts to the West, which compel further deliveries out of hope of eventual repayment.

The free world must put itself in such a posture that it is prepared for the declared Soviet objectives of a stronger Iron Curtain on trade between East and West.

And the free world must be sure to regulate its affairs so that the Kremlin will not be able to manipulate trade for the ultimate Soviet goal of causing such crises in free world economies that the unity forged over the years will be broken.

CHAPTER VIII

Other Elements of Economic Defense

THE direct controls and the enforcement procedures necessary to attain the purposes of the Battle Act have been described in earlier chapters. But direct controls alone do not make up an economic defense program.

Economic defense must be based on broader concepts, and must be effected by measures other than the termination of aid, if its objectives are to be achieved. Some such measures have been used on a limited scale and might well be extended. Others may be necessary. This chapter will be a general discussion of important aspects of economic defense not discussed earlier, and of measures to carry out the program other than strategic items export control.

The economic defense program of the United States, of which the Battle Act is a part, is intended to achieve two principal objectives. These are:

(*a*) the limitation of the development of increased military strength and potential in the Soviet bloc;

(*b*) the increase of economic strength and stability in the free world, particularly in relation to that of the Soviet bloc.

The first of these is accomplished through the denial of strategic goods to the bloc. The second is an inherent aspect of our foreign economic policies as a whole, and, more particularly, of the Mutual Security Program. The control of strategic exports, while useful in the first objective, is not an effective means of attaining the second objective. The economic-defense program must therefore rely heavily on the resources of the Mutual Security Program, and on other foreign policy programs, if real progress is to be achieved.

While there may, in particular instances, seem to be some conflict between these two objectives, they are entirely consistent. In fact they tend to overlap, and positive measures designed to achieve one will help in achieving the other. For purposes of convenience, these measures may be divided into two groups—short-range, i. e., those which will have immediate effect; and long-range, i. e., those involving longer term programs having relatively little immediate effect.

1. Short-Range Measures

Here the problem is essentially one of assisting foreign firms adversely affected by the application of security export controls, and needing to find new markets; or assisting a nation to find immediate alternate sources of supply for goods imported from the bloc which are in jeopardy because of trade controls.

Friendly nations sometimes do run up against real difficulties in avoiding the shipment of a strategic commodity to the Soviet bloc. Consider, for example, the case of a western European industry which depends upon export markets, which traditionally has had markets in eastern Europe, which is receiving eastern orders for strategic goods now, and which, in rejecting those orders, faces the prospect of curtailing or shutting down operations and throwing people out of work.

The termination-of-aid provision, as the act itself recognizes, is effective only within certain limits. Termination of aid may be detrimental to United States security, as in the cases where the President has ordered the continuance of aid. Besides, some countries receive aid in decreasing amounts, and others receive none at all.

It is vastly better if the possibility of invoking the termination-of-aid provision can be eliminated by easing the trade difficulties of the western European country. And in easing the difficulties a helping hand can be useful.

Thus it has been possible for the United States to take helpful supplementary steps in certain specific cases.

For example, a Soviet bloc government threatened to withhold a certain commodity from a free nation unless certain strategic items were delivered. The United States helped the free nation resist this economic blackmail by offering special assistance under the Mutual Security Program, and the strategic items were not delivered to the Soviet bloc.

Other short-term measures of assistance which can be helpful in denying strategic items to the bloc are being used.

Efforts have been made to find markets within the free world for items of strategic importance. This has been chiefly a short-range step, applied in emergencies; a long-range program also seems to be required. A continuing mechanism for exploring immediate problems of this sort has been set up under the guidance of the Special Representative in Europe, Ambassador Draper. In this way, it is possible not only to avert deliveries to the Soviet bloc but also to direct available supplies of such items in such a manner that they make their maximum contribution to the NATO build-up.

It is believed that still other measures of a short-term character should be considered. For example, the United States Government expects to place a billion dollars' worth of contracts with European manufacturers in the fiscal year ending June 30, 1953. It may be possible, by taking considerations of East-West trade into account when placing those contracts, to relieve pressures for the shipment of strategic items to the Soviet bloc.

The same considerations should be taken into account in programming United States purchases for our own strategic stockpiles.

It would also be appropriate to lend technical and other assistance to firms normally marketing strategic goods in the bloc, and needing to convert to some other form of production or to improve their ability to sell in western markets.

All of these devices involve some policy and operating difficulties. But they are important in relieving the pressures for deliveries of strategic items to the Soviet bloc, and they are important supplementary adjuncts to the method more directly set forth in the Battle Act. Hence they are important matters of concern to the Administrator.

2. Long-Range Measures

The problem here is basically one of removing the economic necessity of the free world to export strategic goods to the bloc. This involves essentially the development of a long-range plan for the development of new sources of supply for the goods imported from the bloc, and new markets in the free world so as to provide foreign exchange with which to pay for such imports. Adequate attention does not appear to have been given to the development of such programs by the United States Government, although their importance has been recognized by the Government and responsible private organizations as well.

The United States Council of the International Chamber of Commerce, in a brochure titled "The East-West Trade Controversy," stated at the outset:

> The Soviets and their satellites can offer outlets for certain industries which are at present experiencing severe difficulties. However, it would be foolish and indeed suicidal to depend for the prosperity of such industries on the good will of totalitarian governments which can just as easily turn off trade as they can turn it on.

The United States Council emphasized the need for the development of alternative trade channels and urged, as one measure contributing to that end, "the reduction of American trade barriers." It recommended "an effort to divert some of the exports of western European countries to areas outside of Europe," though it recognized that "new trade channels cannot be created overnight."

The National Foreign Trade Council, at its November 1952 convention, declared:

> To the extent that existing tensions result in the denial of mutual access to historic markets and sources of supply, and so long as these tensions continue, the nations of the free world must intensify their efforts to find and develop new sources of supply for needed imports and alternative markets for their exportable materials and goods.

If success is to be gained in the program of economic defense, it is clear that strategic trade considerations must unceasingly be brought to bear on the formulation of broad programs of United States economic foreign policy.

A bare outline of programs which may be helpful in achieving economic-defense objectives would include—

(*a*) Reduction of trade barriers, not only in the United States but in other free-world countries. The Organization for European Economic Cooperation, the European Coal and Steel Community, and other projects looking toward European unification, all can make great contributions. The United States reciprocal trade-agreements program is of obvious importance in reducing trade barriers. So is the General Agreement on Tariffs and Trade (GATT). Admission of Japan to GATT, for example, will be helpful to Japan in withstanding pressures for trade with Communist China.

(*b*) The aid and productivity programs sponsored by the United States Government abroad have already played a major role in reducing western European dependence on Polish coal and Soviet grains. It would be difficult to exaggerate the long-range significance of increasing the productivity of western European farms and mines, and of improving the competitive position of European industry in world markets. If there were a single answer to the problem of how to decrease the reliance of western Europe on eastern European commodities, the improvement of western European productivity would perhaps come closest to being it.

(*c*) Economic development programs in Asia, Africa, and Latin America, carried out chiefly by the State Department's Technical Cooperation Administration, should be directed toward development of new sources of supply for goods imported from the bloc and new markets for manufactures.

(*d*) Closer liaison should be maintained with international financial institutions and also with the appropriate agencies of the United Nations having to do with economic development, technical assistance, fiscal and tax policies, and the like.

We have been discussing things that the United States Government can do. But the economic defense of the free world is a cooperative enterprise among nations. So, it is essential in all these things that the United States continue to work as closely as possible with its partners.

There is no pat solution to a long-range problem of the magnitude of this one. Neither these nor other measures are likely to achieve immediate and dramatic results. But such measures will be helpful in achieving the aims of the program of economic defense. And they are essential if we are to achieve a free world economy which can withstand the vicissitudes which the Soviet bloc will try to visit upon it.

CHAPTER IX

Organizing to Administer the Battle Act

THE Battle Act posed for the executive branch a complex problem of organization. The ultimate objective—the greatest security of the United States—was clear, but building the most effective administrative machinery required a balancing of many considerations.

The act itself made clear that the Administrator was to rely on the expert knowledge of a number of agencies.

One provision (sec. 102) had the effect of ensuring that the Administrator would be the same person who held the position of Director for Mutual Security (and thus was responsible for coordinating the mutual-security activities of the Government).

Section 103 (a) requires the Administrator, in determining what commodities should be embargoed, to consider the views of "the Departments of State, Defense, and Commerce; the Economic Cooperation Administration; and any other appropriate agencies." And section 302 says that he shall "coordinate those activities of the various United States departments and agencies which are concerned with security controls over exports from other countries."

Those provisions were a recognition not only of the expert knowledge of various agencies but also of their legitimate interest in Battle Act decisions and policies. For example, the Export Control Act and Executive orders under it had given the Commerce Department the authority to draw up United States security-control lists and issue export licenses. The State Department has the primary responsibility for conducting our foreign relations. The Defense Department, Mutual Security Agency, and several other agencies have functions which, like the Battle Act administration, are concerned with strengthening the free world relative to the Soviet bloc. The National Security Council sets the broad policy lines in economic defense, which, as we have seen, includes the control of strategic exports.

The Battle Act thus entered a crowded field. Some of the responsibilities it gave to the Administrator were clear: For example, to determine strategic commodities and to advise the President on questions of terminating aid. How the act affected other responsibilities—those already assigned under the Export Control Act and those falling along the periphery of the economic defense field—was not so clearly stated.

Thus the setting up of machinery to administer the Battle Act was undertaken with the recognition that—

(1) The Administrator must exercise directly the clear responsibilities given him by the act.

(2) In so doing, he must, partly as a statutory requirement and partly as a matter of common sense, obtain in some regular manner the views and the assistance of other agencies.

(3) There were areas of governmental activity that bore a relation to Battle Act functions but which were the responsibility of other agencies.

Those things being true, the conclusion was reached that it would be a mistake to start the program by creating a large new agency with enough experts in technical, economic, military, and political matters to enable it to operate independently. Only waste could result from an attempt—by personnel raiding or otherwise—to duplicate the facilities already possessed by agencies whose advice the Administrator was required by law to obtain, and whose own responsibilities required them to concern themselves in Battle Act matters.

On the other hand, it was believed that the Administrator could not properly discharge his responsibilities by dumping them in the lap of an interdepartmental committee. A permanent interdepartmental committee, as a member of the Hoover Commission has pointed out, is generally not even a satisfactory coordinating device. It is even less effective if used to carry out an action program.

A Middle Course

The Administator chose a course between those two extremes. He appointed a Deputy Administrator with a small staff. This staff acts in a coordinating capacity within the executive branch. The Administrator and his staff did make use of an interdepartmental committee to obtain information and advice, but the Administrator retained the authority and responsibilities conferred upon him and the act.

At the same time, for the sake of efficiency and the greatest degree of coordination, the Administrator and the Secretary of State agreed that both of them would use the same interdepartmental committee to advise them in the whole sphere of economic defense.

This committee is known as the Economic Defense Advisory Committee (EDAC). The chairman is the Deputy Administrator of the Battle Act. The membership includes the Departments of State, Commerce, Defense, Treasury, Interior, and Agriculture, the Mutual Security Agency, Office of Defense Mobilization, Central Intelligence Agency, Export-Import Bank, Atomic Energy Commission, and the Office of the Director for Mutual Security.

There is a smaller group which acts as a sort of executive committee. On it are a member of the Administrator's staff and representatives of the agencies that have the most vital and direct interest in the program, the Departments of State, Defense, and Commerce, and the Mutual Security Agency.

To complete the interdepartmental structure, there is also a series of "working groups," each studying a single kind of problem and recommending actions on it.

The whole interdepartmental structure is efficiently serviced by the central secretariat of the State Department.

After approximately 1 year of administering the Battle Act, there is no reason to doubt the general validity of these arrangements as means of obtaining advice and coordination. Experience, however, has led to the following recent changes:

(1) The Administrator's staff has been somewhat increased, and a further moderate increase may well be desirable.

(2) The committee structure has been tightened. The number of subcommittees and working groups has been reduced.

The aim of those improvements was to enable the staff to perform an increased amount of the planning and coordination that were necessary; also to place renewed emphasis on the Administrator's responsibility for his statutory functions and the advisory nature of EDAC.

Development of Embargo Lists

Organizational problems also exist in determining the strategic significance of commodities.

In establishing the Battle Act lists of embargo items, the Administrator sought the advice of other agencies, as required by the act. These of course included the three principal agencies engaged in export-control activities—the Department of State, the Atomic Energy Commission, and the Department of Commerce.

The State Department's Munitions Division and the Atomic Energy Commission had already established lists of items which required their permission for export from the United States. Similarly, the Commerce Department had established lists of strategic items. All these lists were used to guide the Government in passing upon applications for licenses to export strategic goods from the United States.

The Administrator, on the other hand, had to establish lists which would declare which items the United States believed should not be exported from *other* countries to the Soviet bloc. The purposes of the Battle Act lists were therefore somewhat different from the already-established lists. Furthermore it had to be recognized that this Government can quickly grant a license to export an item on our own embargo list whenever the interests of the United States so require; but the Battle Act requires extensive study and a determination by the President when an export of a primary strategic item is knowingly permitted by an aid-recipient country.

The Administrator thus took from the lists of the Munitions Division and Atomic Energy Commission those items which were properly defined as munitions or as atomic-energy materials. He placed these items on the "Title I, category A" list. The rest of the items on those other lists and most of the items on the embargo lists of the Department of Commerce were placed on the "Title I, category B" list. These actions were taken with the advice, again, of the competent United States agencies.

With respect to a small number of items, the Administrator found that evidence available at the time did not indicate them to be of primary strategic significance to the Soviet bloc. These items, together with certain others which were still under consideration, he placed on his "Title II" list. He sought from other countries strict control over the export of these items to the Soviet bloc. Over half of these items now have been added to the "Title I, category B" embargo list. The remaining items are undergoing further technical review, and the Office of the Administrator is working closely with other interested agencies, including intelligence agencies, to obtain the fullest and most accurate guidance on the strategic value of such items to the Soviet bloc.

Present procedures require both the Secretary of Commerce and the Battle Act Administrator to make judgments as to strategic significance of items. Although some duplication of effort thus occurs, care has been exercised to avoid duplication of effort and of staff to the greatest degree possible. The joint use of common analyses and reports bearing on strategic significance and judgments and the merging together in large measure of the machinery required by the Battle Act and the Export Control Act for interagency consultation have minimized the difficulties which might otherwise occur.

Negotiations With Foreign Governments

Although the Battle Act program is a program of the United States, its contribution to the relative strength of the free world and to United States security depends upon cooperation between this and other countries.

It is, of course, the prerogative of the United States to terminate aid to any foreign nation for reasons that appear to the United States to be sufficient. But the aid program serves broad United States interests; and in this context it is hard to look upon termination of aid as anything better than the lesser of two evils.

So, it is vital that the international arrangements which are continually being developed in the economic-defense field should be as consistent as possible with the aims of the Battle Act. For this reason the Administrator regards it as one of his major responsibilities to follow these intergovernmental activities with that objective in view.

Thus a serious question arises: To what extent should the Administrator, rather than the State Department, control or conduct negotiations with foreign governments?

On the one hand, the Administrator should feel satisfied, before advising the President that aid to a nation be cut off or continued, that there has been every possible exploration of means to avoid the necessity for such a Presidential decision. The Administrator must make other decisions based on his appraisal of a foreign situation. There are times when he may feel that persons responsible to him should take part in, or actively conduct, negotiations with foreign governments.

On the other hand, grave doubts would attend the establishment by the Administrator of a battery of emissaries abroad. Too often in the past, United States foreign policy has been divided. In general, not only politics but also split responsibility should stop at the water's edge. Security export controls are a part of an over-all United States foreign policy. When negotiations are carried on with other governments, it is important that the head of the negotiating team have full knowledge of the whole range of current and planned negotiations and also command over all the United States resources available. That person, it would appear, can only be the United States Ambassador.

When the Battle Act became law, the problem then was to establish procedures under which the negotiating responsibility would rest with the State Department and the United States missions abroad, but under which the Administrator would have sufficient control to enable him to make independent judgments. This was done by means of a system which—

Puts the negotiating responsibility in the State Department; makes the Deputy Administrator the chairman of EDAC; provides for daily liaison between the State Department and the Administrator's staff; ensures that the Administrator will be represented directly whenever groups of nations discuss important matters in the control of strategic trade; and seeks to utilize the status of Ambassador Draper, the Special Representative in Europe, as a coordinating factor. (Mr. Draper is responsible to the President as well as to the Secretaries of State and Defense and the Director for Mutual Security.)

This arrangement has worked well, in the opinion of most of those concerned with its daily functioning. Again, experience has resulted in several adjustments during the last few months. The principal ones are:

(1) The overseas staff that represents the United States in the in-

formal international committee has been strengthened and has been made responsible to Ambassador Draper.

(2) An Associate Deputy Administrator for Europe has been named. He works under the direction of Ambassador Draper and is responsible for liaison between Ambassador Draper and the various United States embassies and missions in Europe.

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ORGANIZATIONAL PROBLEMS are perhaps inevitable in carrying on the foreign economic activities of the Government. And they will continue to challenge the ingenuity of Government officials.

As stated at the outset of this report, the Battle Act is a part of the broad program of economic defense carried on by the United States—a program that cannot be accomplished by any one agency.

Recognizing that easy answers do not abound in this field, it is still possible to report to the Congress that workable machinery to administer the Battle Act has been established, that it has been improved on the basis of experience, and that it is doing the job.

APPENDIX A

Text of Public Law 213

APPENDIX A

TEXT OF THE BATTLE ACT

Mutual Defense Assistance Control Act of 1951 [H. R. 4550], Public Law 213, Eighty-second Congress, 65 Stat. 644, approved October 26, 1951

An ACT To provide for the control by the United States and cooperating foreign nations of exports to any nation or combination of nations threatening the security of the United States, including the Union of Soviet Socialist Republics and all countries under its domination, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Mutual Defense Assistance Control Act of 1951."

TITLE I—WAR MATERIALS

SEC. 101. The Congress of the United States, recognizing that in a world threatened by aggression the United States can best preserve and maintain peace by developing maximum national strength and by utilizing all of its resources in cooperation with other free nations, hereby declares it to be the policy of the United States to apply an embargo on the shipment of arms, ammunition, and implements of war, atomic energy materials, petroleum, transportation materials of strategic value, and items of primary strategic significance used in the production of arms, ammunition, and implements of war to any nation or combination of nations threatening the security of the United States, including the Union of Soviet Socialist Republics and all countries under its domination, in order to (1) increase the national strength of the United States and of the cooperating nations; (2) impede the ability of nations threatening the security of the United States to conduct military operations; and (3) to assist the people of the nations under the domination of foreign aggressors to reestablish their freedom.

It is further declared to be the policy of the United States that no military, economic, or financial assistance shall be supplied to any nation unless it applies an embargo on such shipments to any nation or combination of nations threatening the security of the United States, including the Union of Soviet Socialist Republics and all countries under its domination.

This Act shall be administered in such a way as to bring about the fullest support for any resolution of the General Assembly of the

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United Nations, supported by the United States, to prevent the shipment of certain commodities to areas under the control of governments engaged in hostilities in defiance of the United Nations.

SEC. 102. Responsibility for giving effect to the purposes of this Act shall be vested in the person occupying the senior position authorized by subsection (e) of section 406 of the Mutual Defense Assistance Act of 1949, as amended, or in any person who may hereafter be charged with principal responsibility for the administration of the provisions of the Mutual Defense Assistance Act of 1949. Such person is hereinafter referred to as the "Administrator."

SEC. 103. (a) The Administrator is hereby authorized and directed to determine within thirty days after enactment of this Act after full and complete consideration of the views of the Departments of State, Defense, and Commerce; the Economic Cooperation Administration; and any other appropriate agencies, and notwithstanding the provisions of any other law, which items are, for the purpose of this Act, arms, ammunition, and implements of war, atomic energy materials, petroleum, transportation materials of strategic value, and those items of primary strategic significance used in the production of arms, ammunition, and implements of war which should be embargoed to effectuate the purposes of this Act: *Provided*, That such determinations shall be continuously adjusted to current conditions on the basis of investigation and consultation, and that all nations receiving United States military, economic, or financial assistance shall be kept informed of such determinations.

(b) All military, economic, or financial assistance to any nation shall, upon the recommendation of the Administrator, be terminated forthwith if such nation after sixty days from the date of a determination under section 103 (a) knowingly permits the shipment to any nation or combination of nations threatening the security of the United States, including the Union of Soviet Socialist Republics and all countries under its domination, of any item which he has determined under section 103 (a) after a full and complete investigation to be included in any of the following categories: Arms, ammunition, and implements of war, atomic energy materials, petroleum, transportation material of strategic value, and items of primary strategic significance used in the production of arms, ammunition, and implements of war: *Provided*, That the President after receiving the advice of the Administrator and after taking into account the contribution of such country to the mutual security of the free world, the importance of such assistance to the security of the United States, the strategic importance of imports received from countries of the Soviet bloc, and the adequacy of such country's controls over the export to the Soviet bloc of items of strategic importance, may direct the continuance of such assistance to a country which permits shipments of items other than arms, ammunition, implements of war, and atomic energy materials when unusual circumstances indicate that the cessation of aid would clearly be detrimental to the security of the United States: *Provided further*, That the President shall immedialely report any determination made pursuant to the first proviso of this section with reasons therefor to the Appropriations and Armed Services Committees of the Senate and of the House of Representatives, the Committee on Foreign Relations of the Senate, and the Committee on Foreign Affairs of the House of Representatives, and the President shall at least once each quarter review all determinations made previously and shall report his conclusions to the foregoing committees of the House and Senate, which reports shall contain an analysis of the trade with the Soviet bloc of countries for which determinations have been made.

SEC. 104. Whenever military, economic, or financial assistance has been terminated as provided in this Act, such assistance can be resumed only upon determination by the President that adequate measures have been taken by the nation concerned to assure full compliance with the provisions of this Act.

SEC. 105. For the purpose of this Act the term "assistance" does not include activities carried on for the purpose of facilitating the procurement of materials in which the United States is deficient.

TITLE II—OTHER MATERIALS

SEC. 201. The Congress of the United States further declares it to be the policy of the United States to regulate the export of commodities other than those specified in title I of this Act to any nation or combination of nations threatening the security of the United States, including the Union of Soviet Socialist Republics and all countries under its domination, in order to strengthen the United States and other cooperating nations of the free world and to oppose and offset by nonmilitary action acts which threaten the security of the United States and the peace of the world.

SEC. 202. The United States shall negotiate with any country receiving military, economic, or financial assistance arrangements for the recipient country to undertake a program for controlling exports of items not subject to embargo under title I of this Act, but which in the judgment of the Administrator should be controlled to any nation or combination of nations threatening the security of the United States, including the Union of Soviet Socialist Republics and all countries under its domination.

SEC. 203. All military, economic, and financial assistance shall be terminated when the President determines that the recipient country

(1) is not effectively cooperating with the United States pursuant to this title, or (2) is failing to furnish to the United States information sufficient for the President to determine that the recipient country is effectively cooperating with the United States.

TITLE III—GENERAL PROVISIONS

SEC. 301. All other nations (those not receiving United States military, economic, or financial assistance) shall be invited by the President to cooperate jointly in a group or groups or on an individual basis in controlling the export of the commodities referred to in title I and title II of this Act to any nation or combination of nations threatening the security of the United States, including the Union of Soviet Socialist Republics and all countries under its domination.

SEC. 302. The Administrator with regard to all titles of this Act shall—

(a) coordinate those activities of the various United States departments and agencies which are concerned with security controls over exports from other countries;

(b) make a continuing study of the administration of export control measures undertaken by foreign governments in accordance with the provisions of this Act, and shall report to the Congress from time to time but not less than once every six months recommending action where appropriate; and

(c) make available technical advice and assistance on export control procedures to any nation desiring such cooperation.

SEC. 303. The provisions of subsection (a) of section 403, of section 404, and of subsections (c) and (d) of section 406 of the Mutual Defense Assistance Act of 1949 (Public Law 329, Eighty-first Congress) as amended, insofar as they are consistent with this Act, shall be applicable to this Act. Funds made available for the Mutual Defense Assistance Act of 1949, as amended, shall be available for carrying out this Act in such amounts as the President shall direct.

SEC. 304. In every recipient country where local currency is made available for local currency expenses of the United States in connection with assistance furnished by the United States, the local currency administrative and operating expenses incurred in the administration of this Act shall be charged to such local currency funds to the extent available.

SEC. 305. Subsection (d) of section 117 of the Foreign Assistance Act of 1948 (Public Law 472, Eightieth Congress), as amended, and subsection (a) of section 1302 of the Third Supplemental Appropriation Act, 1951 (Public Law 45, Eighty-second Congress), are repealed.

APPENDIX B

Export Controls of Other Countries

Preliminary Statement

This appendix summarizes, in accordance with section 302 (b) of the Mutual Defense Assistance Control Act of 1951, the export control measures of countries receiving United States aid. These descriptions supplement the main text of this report. A brief explanation of the scope and purpose of this appendix will be useful.

1. This appendix is supplementary to the similar document (appendix E) contained in the first semiannual report of the Administrator. In many countries, the main features of the export control systems have remained about the same as when last reported upon. In other countries, no formal change in the regulations has taken place, but some changes in procedure have occurred which must be classified for security reasons. To avoid unnecessary duplications, this appendix does not repeat the description of the control systems of countries for which there is no substantial new or additional information which can be reported publicly.

2. Security reasons prevent an evaluation of the control systems which have been described, since such evaluation would involve disclosure of operational details. This appendix, therefore, attempts merely to describe the basic elements of the control systems of the various countries.

3. It should be recognized that the effectiveness of a security trade control system cannot always be correlated with the elaborateness of the export-control regulations as herein described. Particularly is this so because of the fact that many of the systems now being used for the control of strategic trade were originally established as measures of foreign exchange control, price control or conservation of short-supply items. The strictly financial controls described in this appendix play a significant role in the control of exports for security purposes only in a few countries at the present time.

BELGIUM-LUXEMBOURG

License Requirements

The basic legislation from which the present import-export control system in Belgium has developed was a law of June 30, 1931, modified by the law of July 30, 1934, which authorized in broad general terms the regulation of Belgium's foreign commerce to promote the general economic well-being of the country. The Convention with the Grand Duchy of Luxembourg on the 23d of May 1935, amending the economic union convention of 1922, established also a combined Belgo-Luxembourg Administrative Commission (the Commission Administrative Mixte Belgo-Luxembourgeoise) and in this way provided a central agency for coordinating the import and export licensing procedures of Belgium and Luxembourg. Pursuant to the 1935 convention, when the appropriate agency of either Government desires to modify or expand regulations pertaining to import and export controls, the recommendation is discussed with the appropriate agencies of the other Government; their agreement having been reached, the new policies are communicated to the Mixed Commission which then transmits identical instructions to the Belgian Central Office of Licenses and Quotas and the Luxembourg Office of Licenses. This procedure insures close coordination of the import and export licensing operations of the two Governments in order that the general economic welfare of both may best be served.

The control over exports effected by the requirement of export licenses is reinforced by special controls applied at the time of the actual export of the licensed merchandise. Submission to these special controls is required as a previous condition to the obtaining of certain licenses, these special additional controls being applied by reason of the special nature of the merchandise to be exported or to assure the direct delivery of the merchandise to its foreign destination.

Applicants for export licenses must make a declaration that they are familiar with the conditions upon which licenses are issued and the regulations relative to exchange controls, and that they accept these conditions and regulations without reserve. The applicant also acknowledges that the licenses are not transferable and that any irregularity in his application or utilization of the license subjects him to possible refusals of any new export license applications and may expose him to prosecution for a criminal offense. Exporters of products whose final destination is controlled must sign an undertaking that their exports are not to be reexported. In such cases, the exporter renounces his right to obtain any subsequent export licenses in all cases for which nonreexport declarations are required, if the present undertaking is evaded.

At the present time, licenses are not required for goods passing in transit through Belgium, with the exception of arms and implements of war, as well as petroleum and its subproducts.

DENMARK

License Requirements

Licenses are required for most exports but the details or criteria in administrative practices followed in the issuance or denial of licenses are not made public on a commodity-by-commodity and country-by-country basis.

List A of the Danish Export Regulations consists of items of strategic significance. For most of these items the licensing authority is the Board of Supply, but the Ministry of Justice controls exports of arms, munitions, and military equipment and machinery for the production thereof. For the exportation of ships, the Board of Supply must obtain prior approval from the Ministry of Commerce, Industry, and Navigation.

Exports of a number of nonstrategic goods (enumerated in list B of the control regulations) are also subject to export licenses. These are issued by the Board of Supply, the Ministry of Agriculture, the Ministry of Fisheries, the Board of Health, the Ministry of Public Works or the National Bank of Denmark according to the nature of the commodity concerned.

Denmark has instituted import certificate-delivery verification procedures.

Exchange Controls

The National Bank of Denmark exercises strict controls over all transactions in foreign exchange. Assets and earnings in foreign currencies must be repatriated and sold to the bank unless special exceptions are made.

Transit Controls

The export controls apply to merchandise exported from the Copenhagen free port, including exports from transit or bonded warehouses and goods from free port or private warehouses. They also apply to goods in transit through Denmark, unless these are transiting on a through bill of lading and there is no change in the ultimate destination. They thus effectively prevent unauthorized diversion of goods in transit through Denmark.

All transit transactions financed by Denmark are subject to control by the national bank, regardless of whether the goods in question actually pass through Denmark or are forwarded directly between the countries of origin and destination. In its administration of these provisions the bank observes the same rules as the export control authorities, with which the bank cooperates closely in this field.

FRANCE

License Requirements

Export licenses are required for over one-half the commodities identified in the French tariff nomenclature. Governmental authority for this control is contained in four separate decrees, the latest dated November 30, 1944. These decrees also permit addition to or removal from the list of controlled commodities merely by publication of a notice in the Journal Officiel. The tendency during the past year has been to increase the number of commodities controlled. The most recent extension occurred October 25, 1952.

Applications for license to export, as submitted by French exporter, are examined by the Ministry of Industry and Commerce, Office des Changes (where monetary and financial factors are given consideration), and on occasion, by appropriate technical committees and personnel in other agencies. At the time the application for export license is submitted, the exporter may be instructed by Ministry of Industry and Commerce to submit a sample of the commodity in question. This sample forms the basis for the last step in French export-control system—customs sampling. This operation usually takes place shortly before the shipment leaves the country, and consists of physical inspection of portions of shipments chosen at random.

In the event fraudulent action on part of the exporter is found and can be legally established, during the course of administering the controls described above, the exporter is subject to fines ranging upward to four times the value of the shipment plus penal servitude. The control system in operation in France makes it possible to block or encourage exports to any destination of commodities requiring export licenses.

Financial Controls

An "exchange commitment" (guaranteeing the return of the exchange proceeds of the transaction to the Government) is required for all exports. Where the products concerned are subject to export license, the export license suffices for the exchange commitment.

Exports to Argentina are subject, independently of the exchange commitment or export license, to a special payments authorization issued by the local Office des Changes.

Transshipment and Transit Trade

Control over reexports and transshipments of certain listed commodities was tightened April 5 and again September 25, 1952. These actions introduced import-certificate procedures into France and prohibited reexport without prior authorization of specified commodities which may have entered France under suspension of customs duties.

The reexport of commodities imported into France under suspended duty and not on a specified list of goods which may under no condition be reexported without prior authorization, also requires prior authorization if imported under

French import license or if foreign-exchange payment is requested for import. International import certificates covering goods for reexport are available for foreign suppliers and give assurances of conformity with the above requirements.

FEDERAL REPUBLIC OF GERMANY AND WESTERN BERLIN

License Requirements

No commodity can be exported from the Federal Republic of Germany or Western Berlin unless it is covered by an export-control document, which is issued by the interior customs authorities. However, certain types of exports require a special export-control document which is granted by the interior customs authorities only after a certificate of approval has been obtained, as appropriate, from the Central Export Control Office of the Federal Government or the Central Licensing Agency of the Berlin Senate. A certificate of approval is required for *all* exports (regardless of commodity) to the Soviet bloc and for the export of *all* commodities on the "restricted list" (regardless of destination) published by the Federal Government. This list, which corresponds to the United States "positive list," comprises commodities under control for security and short-supply reasons and includes all items covered by title I and title II of the Battle Act.

Exports to numerous western countries, including peripheral countries, are subject to one form or another of end-use checks. The import certificate-delivery verification procedures have been in operation since July 1951.

In conjunction with the issuance of either the export-control document or the special export-control document, the interior customs authorities observe a definite procedure for physical inspection of commodities being exported. Additional control over commodities being exported from the Federal Republic is exercised by the border customs authorities.

Transit Controls

Certain items are prohibited for intransit shipments on grounds of health and sanitation, but the number of items so prohibited is very small and the prohibited list has not been changed since 1939. German customs officials may inspect transit shipments at the border and remove any items prohibited under German law. They then seal the containers of all other goods and such goods are permitted to proceed, in accordance with international agreement on transit traffic, without further inspection or restriction, except to insure at the exit border that the original customs seals remained unbroken.

Financial Control

All financial transactions between residents of Western Germany and Western Berlin and residents of other areas are subject to either general or specific authorizations of exchange-control authorities. Such authorizations are regulated in the case of certain countries by the terms of bilateral-payments agreements between Western Germany and Western Berlin and those nations. Foreign-exchange aspects of normal commercial exports are under the control of foreign-trade banks.

ITALY

License Requirements

All commodities listed in the new Export Tables of April 8, 1952 (amended June 26, 1952), to all destinations except Somaliland require an export license, which is issued by the Ministry of Foreign Trade. Goods not listed in the Export Tables are exempt from license, but must be exported in conformity with exchange regulations, which vary according to the country of destination and clearing or other financial agreements.

All items of war material as well as a great many other commodities require an export license for shipment to the Soviet bloc, including China. In every case exports to the Soviet bloc require bank validations, as virtually all trade with the bloc is conducted under bilateral agreements which specify the commodities that may be traded and the methods by which payment is to be made. Normally, shipments to the East comprise only those commodities specified in a trade agreement with an eastern country. In order to facilitate checking of east-bound shipments, trade with the Soviet bloc is funneled through selected frontier customs points.

The formulation of export-control policy and the administration of the export licensing system are the primary responsibility of the Ministry of Foreign Trade. This Ministry is advised by a special interministerial committee.

Italy is employing import-certificate/delivery-verification procedures and carries out end-use checks for shipments to destinations outside the Soviet bloc, particularly for questionable transactions involving goods of a strategic nature. The country of origin is notified if an attempt is made to divert a shipment.

Financial Controls

Financial control over all export transactions is maintained through the licensing system and through implementation of existing exchange-control regulations.

Strict bilateral trade agreements with almost all members of the Soviet bloc have constituted, in effect, a financial ceiling on export to eastern Europe. Italian exports to Communist China, with whom there is no trade agreement, must be paid for in hard currency or must be exchanged for goods acceptable to the Italian Government, an arrangement that has severely restricted Italo-Chinese trade. Italian exchange control regulations would not normally permit payment for imports from the Soviet bloc in hard currencies, although sterling is occasionally used in payment for the few items not included in the trade agreements. In certain instances ship charters are completed for sterling when circumstances warrant or it is considered convenient.

Transit Controls

Direct and indirect transit shipments are subject to customs check, which includes a screening of documents, physical inspection of goods in case of doubt and control of the routing of shipments to prevent the use of unnatural and unusual methods of transportation. In the case of indirect transit shipments, a check is also made on the regularity of the transaction from the foreign-currency standpoint. In doubtful or suspect cases, customs, while not empowered to stop transit shipments, is able to delay the transaction until the Ministry of Finance, in conjunction with the Ministry of Foreign Affairs and other agencies, obtains detailed information concerning the final destination. When an investigation discloses that a transaction is not in order, the central administration orders that confiscation of the goods and prefers charges against those responsible, if they are Italian nationals.

Penalties

Penalties that may be imposed under Italian law for violations of export-control regulations include (1) imprisonment up to 3 months, (2) fines up to 40,000 lire, and (3) confiscation of the merchandise involved. Persons and firms under investigation for illegal export transactions are denied foreign-trading privileges.

THE NETHERLANDS

License Requirements

All exports from the Netherlands are subject to export license. Export licenses for industrial commodities are issued by the Central Bureau of Imports and Exports (CDIU) at The Hague, which has delegated this authority to a number of so-called trade-control boards. For agricultural products, licenses are granted by the Ministry for Agriculture, which for a large number of commodities has delegated this function to the "agricultural-monopoly holders." The latter are state-supervised and semiofficial organizations, similar to the trade-control boards.

In certain instances, the exporter may make out his own export license which must be dated and initialed by an officer of the CDIU.

Transit Controls

Goods passing in transit through the Netherlands, including strategic commodities, are not subject to any controls except for a customs check to insure that goods in transit leave in the same form in which they have entered.

The Netherlands has adopted import-certificate/delivery-verification procedures.

Financial Controls

All transactions of a Netherlands resident involving payment of moneys to or from a party abroad are subject to a foreign-exchange license, issued by the Netherlands Bank. The export license generally includes the authorization of the banks for the proposed transaction.

NORWAY

License Requirements

All commodities to be exported to any destination require export licenses. The licensing authorities using existing powers can prevent the export of any item for security reasons.

Transit Controls

Goods which are to pass through the territory of Norway may be reexported without license only if it is clearly stated by their conveying documents that the goods are going straight to foreign destination. If the reexport does not take place within 90 days, a Norwegian export license must be secured. The destination listed on the original documents must remain the same, and the goods may not be transformed in any way during their stay in the country. The customs authority applies a control to that effect. There are no free-port areas in Norway.

Norway has adopted import certificate-delivery verification procedures.

Financial Controls

Strict exchange controls are maintained by the Government through the Bank of Norway. The granting of an export license carries with it the obligation on the part of the exporter to relinquish the foreign exchange to the Bank of Norway as soon as received from the foreign buyer; a maximum of 60 days is allowed between export and remittance, although under certain circumstances the Government may grant the exporter an extension of time. Transfers of capital from Norway require the prior approval of the Bank of Norway.

PORTUGAL

License Requirements

All exports are subject to licensing under regulations issued in 1948 except that export licenses are not generally required for shipments to Portuguese oversea provinces. Portugal's trade with the Soviet bloc is not important and consists almost entirely of cork, which is not on any strategic or restricted list. The Portuguese colonies exert varying degrees of export control. On January 23, 1952, the government of Macao adopted a trade-control system which requires a license for the import and the export of strategic materials. Strategic materials are shipped from Portugal to Macao only against import certificates issued by that province.

Transit Controls

Portuguese controls over goods in transit are not wholly effective in that no export license is required if goods in transshipment are reexported within 60 days after being placed in bond.

Financial control is exercised over all exports as a part of the license control system.

YUGOSLAVIA

License Requirements

Individual export and import licenses have been abolished, but control over the export of strategic materials is maintained by (1) permitting only licensed firms to engage in export-import trade, (2) credit controls and accounts auditing by the National Bank, (3) directing orders to enterprises to export in fulfillment of commitments. In addition, any person making a sale destined for shipment behind the Iron Curtain is subject to fines and punishments.

Transit Controls

There is believed to be virtually no transshipment of strategic commodities through Yugoslavia destined to Soviet or satellite countries, and there is little transit traffic of any sort. Regarding controls to prevent the diversion of strategic goods to Soviet-bloc countries via free ports in other countries, it has recently been reported that the order of the Economic Council of the Federal Government concerning the export of some products has been put into force. According to these new regulations, the licensed firms must, provided that they suspect that their products are reexported by their foreign buyers, demand from the economic bodies of the countries with which they carry on trade a statement in writing confirming that goods will not be resold.

The licensed firms are not at all allowed to sell goods to those foreign buyers which, as definitely established from the former practice, reexported Yugoslav goods.

These regulations cover the export of steel, iron, scrap iron, aluminum, wastes and alloys of aluminum, blister copper and electrolytes, ores, waste, and alloys of copper, copper sulfates, lead, ores and concentrates of waste alloys, ferromolybdenum and alloy, bismuth, silver and alloys, chrome ore and concentrates, pyrite ores, concentrates and pyrite crystals, zinc metals, concentrates and powdered mercury, calcium of the metal antimony, brass, copper, and bronze processed goods, naphtha and naphtha derivatives, aluminum chloride, calcium carbide, sulfuric acid, glycerin, and sorghum straw.

LATIN AMERICA

SUMMARY

Descriptions of the export-control procedures of Bolivia, Colombia, Ecuador, Panama, and Peru are contained in this section. There have been no substantial changes in the trade-control system of Argentina, Brazil, Chile, Mexico, and Venezuela described in the first semiannual report.

The export trade of Latin-American countries with the Soviet bloc has been very small and has included no known direct shipments of strategic commodities to the Soviet bloc. Some strategic shipments have moved to the bloc by indirect means.

BOLIVIA

License Requirements

All exports from Bolivia must be licensed by the Central Bank.

Intransit Controls

A free port has been established in Bolivia at Puerto Suarez in the upper Paraguay River for the furtherance of transit trade from Brazil, Paraguay, and Uruguay. Cobija and Yacuiba are also entrepots.

Goods may be shipped in transit through Bolivia only under a special declaration of transit in the manifest issued by a Bolivian consulate in the place of shipment. Goods in transit usually are not subject to customs inspection, but a bond must be deposited for double the estimated amount of duty payable on the goods as ascertained from the shipping documents. The bond will be canceled upon receipt of satisfactory proof that the goods have arrived in customs custody in the country of destination. Cargoes shipped in transit may not be divided nor broken when they are declared, on a single transportation permit.

Financial Controls

All foreign-exchange transactions must be handled through the Central Bank with the exception of that portion of the earnings of the small unnationalized mines which the latter are permitted by law to keep and over the disposition of which there are no legal restrictions.

COLOMBIA

License Requirements

All exports are subject to registration (in effect, licensing) by the Exchange Registration Office, a dependency of the Bank of the Republic.

Exports and reexports of strategic materials to Communist areas are forbidden. "Strategic materials" have not yet been defined by the Colombian Ministry of Foreign Affairs (as provided for in Decree No. 1802 of August 28, 1951), nor by the Ministries of Finance and Industry, respectively (as provided for by Decree No. 1385 of June 22, 1951). In accordance with Circular No. 122 of May 30, 1952, of the Office of Exchange Registration, no export or reexport registrations, except for coffee and bananas, may be authorized to any Communist-area countries.

Decree No. 1802 prohibited exports or reexports of strategic materials to all Communist areas, excepting North Korea and Communist China, covered in earlier Decree No. 1385 of June 22, 1951.

Under date of May 30, 1952, there was issued Circular No. 122 by the Office of Exchange Registration, the latter part of which stated that, as a prerequisite to the registration (official authorization) by that Office of exports or reexports of copper, wolfram, nickel, bismuth, molybdenum, vanadium, and mica to the United States, Canada, and various countries of Western Europe, the exporter henceforth would be required to present to that Office an import certificate issued to the foreign importer by the Government of the country of destination. A subsequent Circular No. 127 of June 14, 1952, added lead to the list of abovecited items. Along with the exporter's usual guaranty of delivery to the Colombian Government of the exchange proceeds arising from such transaction, the exporter is now also required to undertake the obligation of delivery—within the same time limit provided for delivery of exchange proceeds—of a delivery verification issued to the importer by the Government authorities of the country of destination.

Intransit Controls

Merchandise may be transshipped at the Colombian ports, provided a written request for permission is presented to the Administrator of Customs and his approval is obtained. Merchandise imported for consumption in Colombia also may be transshipped, subject to the prior approval of the Administrator, at any time before the presentation of the customs-clearance declaration, or before the expiration of the legal period. Bond must be furnished equivalent to twice the amount of the import duties; this bond will be canceled upon presentation to the Administrator of Customs, within the specified time limit, of a landing certificate showing that the merchandise has been delivered to the foreign port of destination. As noted above under "License requirements," reexports of strategic materials are prohibited to Communist China, North Korea, and the Soviet bloc. However, Circular No. 4302 of June 16, 1952, of the General Customs Office was issued in response to a request by the Ministry of Foreign Affairs, requiring prior approval by that Office of any reshipment or transshipment of lead, copper, wolfram, nickel, bismuth, molybdenum, vanadium, and mica. Previously any transshipment, excepting transfers between war vessels of friendly nations, required only the approval of the local collector of customs, as provided in article 174 of the Customs Code. At the present time, only the Office of the Director General of Customs may authorize reshipments or transshipments of the commodities mentioned.

Financial Controls

All exchange obtained from exports must be sold to the Bank of the Republic. Under the exchange-control system instituted March 20, 1951, a new basic exchange rate of 2.50 pesos per United States dollar buying and 2.51 selling is established. All foreign-exchange proceeds receive the basic buying rate, except for exchange from coffee exports, which on March 20, 1951, received 2.0875 pesos per dollar, and was increased to 2.17 pesos per dollar effective October 29, 1951. This rate will be gradually increased so that 40 months thereafter it will have reached the 2.50 rate.

ECUADOR

License Requirements

All exports and reexports from Ecuador are subject to licensing by the Exchange Department of the Central Bank. Export licensing is used to insure that exports are sold for convertible currencies and that exchange earnings are returned to the country rather than kept abroad.

PANAMA

License Requirements

Decree No. 631 of August 18, 1951, forbids the export or reexport of war materials to (1) ports under the authority of control of the Government of North Korea or of the Popular China Republic; (2) to waters adjacent thereto; (3) to the ports of Hong Kong and Macao; (4) to ports adjacent to Hong Kong and Macao; (5) to any port or shipping coast of Asia under the jurisdiction or control of the U. S. S. R.; (6) to the shipping zones adjacent to the above ports or coasts; and (7) to any ports or areas suspected of being used as points for the transshipment of war materials destined for the above-mentioned prohibited areas. Exports or reexports to other areas than to those mentioned are subject to permits issued by the Ministry of Finance upon receipt of a certification or license of importation issued by the authorities of the port of destination, authenticated by the Panamanian consular authority. This certification or license must contain the guaranty that the materials will not be reexported to ports of the prohibited zones, and that they will not be used for the manufacture of war materials destined to such ports or zones.

PERU

License Requirements

All exports from Peru are subject to licensing by the Export-Import Department of the Ministry of Finance and Commerce.

Exports and reexports of strategic materials to Soviet-bloc countries are expressly forbidden by Supreme Decrees of June 5, 1951, and October 5, 1951. Strategic materials are defined in the decrees as arms, munitions, and implements of war, atomic-energy materials, petroleum, transportation materials of strategic value, and articles useful in the production of arms, munitions, and implements of war. In addition, all financial and commercial transactions with North Korea are prohibited by a Supreme Decree of July 17, 1950.

Exports of scrap iron are prohibited by a Supreme Decree of November 29, 1950, which was effected for the purpose of conserving these materials for use by the embryonic domestic steel industry. The exportation of a few other commodities, such as coffee and tea, is prohibited from time to time in order to insure sufficient supplies for the satisfaction of domestic demand.

Intransit Controls

Goods may be imported into Peru free of duty provided a previous declaration is made to customs authorities to the effect that such goods are not intended for consumption within Peru. A bond for the amount of import duties is required, however, which bond is refunded upon reexportation of the goods. If goods are declared for consumption within Peru and are later reexported, import duties paid will not be refunded.

The principal exception to these general policies covering intransit shipments is the prohibition against exportation and reexportation of strategic materials to Soviet-bloc countries and all materials to North Korea mentioned above.

THE FAR EAST

INDOCHINA

The Associated States of Cambodia, Laos, and Vietnam, members of the French Union, have supported international efforts to prevent the movement of strategic materials to the Soviet bloc. Trade with any Soviet-bloc nation is subject to individual export license and has, in fact, been so curtailed as to be practically nonexistent.

Vietnam, engaged in civil war against Communist rebels, and the largest and most important of the Associated States, has also taken measures to prevent any movement of goods between areas controlled by government and areas under rebel domination. In addition, the government has taken steps to control and restrict the movement of goods having "military interest" within zones under its control in order to make more effective efforts to prevent the smuggling of supplies to rebel forces.

JAPAN

License Requirements

All commodities included in the Japanese Government export list require export licenses issued by the Japanese Ministry of International Trade and Industry, regardless of destination. This covers substantially all items on United States export-control lists with the addition of certain commodities which are of particular importance to Japan, including short-supply items and some placed under control to prevent export at low prices.

Beginning December 6, 1950, under the occupation, all applications to export controlled items to Communist China, North Korea, Hong Kong, and Macao were submitted to the Supreme Commander for the Allied Powers (SCAP) for validation. In addition, SCAP validation was required for the export of strategic items to all destinations in order to prevent their diversion to unauthorized destinations. All applications to export to Hong Kong had to be accompanied by essential supply certificates issued by the Hong Kong government. This same general procedure was followed by exports to certain other countries. As a result of these restrictions, Japan's exports to Communist destinations during the past 2 years have been limited to a relatively small number of nonstrategic items; e. g., textiles, processed foodstuffs, paper products, sewing machines, and bicycles.

As of February 4, 1952, SCAP validation was discontinued for less important items and as of March 17 it was discontinued for all commodities, although SCAP retained a postreview over strategic items. With the coming into force of the peace treaty on April 28, 1952, the Japanese Government assumed full control of its export-control program and, in general, has continued the same control procedures as were in effect during the latter months of the occupation. Essential supply certificates are no longer required on exports to Hong Kong of items which Hong Kong importers can obtain freely from other countries without such certificates or on which Japanese Government makes end-use checks. Limited quantities of nonstrategic controlled items may be licensed for export direct to Communist China in the near future on the condition that goods in exchange essential to the Japanese economy are imported from that area.

In all doubtful cases end-use checks are made before licenses are granted for the export of strategic items to any destination, and import-certificate/delivery-verification procedures may soon be instituted.

Transit Controls

In-transit cargo is off-loaded under customs supervision and is normally kept in a bonded warehouse or other area under the complete control of customs officials. Delivery is made by the shipper to the appropriate customs officer under a forwarding bill containing an exact description of the cargo and full information as to consignee and ultimate destination, neither of which can be changed while the cargo is in bonded storage except by control authorities.

All off-loaded in-transit cargo is subject to the same export regulations as indigenous exports.

Financial Controls

For balance-of-payments reasons, Japan closely controls its receipts and expenditures of foreign exchange. These controls are not related to security measures except indirectly in connection with trade with Communist China and the Soviet Union. Trade between Japan and these two areas involving items on the export list must be settled on the basis of back-to-back or escrow letters of credit approved by foreign-exchange banks.

THE PHILIPPINES

License Requirements

Export controls of the Philippine Government prohibit the exportation and reexportation of arms (except certain specified small arms), ammunition, aircraft (except commercial aircraft), vessels, and other war equipment, as well as scrap metals, most imported machinery, and certain imported and locally produced items essential to the nation's welfare. The prohibitions may be lifted in "exceptionally meritorious cases" and such shipments must be licensed. Certain other specified commodities (including small arms, commercial aircraft, alcohol, domestic glycerin, cement, hides, and electrical products) may be exported or reexported under license if shipments are not deemed prejudicial to national security or economic welfare. Other commodities may be exported without license or restriction, except that prior notice of intended shipment is required in some instances, mainly in the shipment of domestic produce.

Applications for licenses are screened by an Export Control Committee, which makes recommendations to the President, who himself issued the licenses. Unanimous agreement is necessary for a favorable recommendation, notice of which must appear in the press before final action is taken. Considered in screening among other factors are the proximity of the country of destination to Communist or Communist-held areas and/or the possibility of the goods being diverted to such areas. Applications for export to most countries of southeast Asia must be supported by written certifications from respective diplomatic or consular missions in the Philippines that the commodities licensed will be used for local consumption only and will not be reexported. All exports to Hong Kong and Macao require prior clearance from the Export Control Committee. Only one shipment, consigned to the International Red Cross, was allowed to Macao during 1952. In questionable cases applications for Hong Kong must be cleared by Military Intelligence Service and/or Philippine consular establishment in Hong Kong. Furthermore, all shipments destined for Hong Kong may be subjected to inspection by National Intelligence Coordinating Agency.

After the shipment is effected under the export license the exporter is required to produce within 90 days a landing certificate duly authenticated by customs authorities at the port of entry. This requirement is waived only for shipments to the United States. On Hong Kong shipments, landing certificates must also be authenticated by the Philippine consulate in Hong Kong.

Transit Controls

The transshipment of cargoes passing through the Philippines is allowed by the Bureau of Customs only upon issuance of a clearance by the Export Control Committee. The purpose of this procedure is to "prevent reexportation in the guise of transshipment and in the interests of cooperation with other members of the United Nations to prevent diversion of strategic materials to Communist, Communist-held, and/or troubled areas * * *."

Financial Controls

Under foreign-exchange-control regulations of the Central Bank of the Philippines, all exports and reexports (except personal and household effects) must be covered by export declarations endorsed by the bank or its agents. This is to insure that all foreign-exchange proceeds due on exports are received in the Philippines and surrendered to the banks.

All exports to Hong Kong require the specific approval of the Exchange Control Department of the Central Bank, and exports to Communist areas and their satellites are not allowed.

EGYPT

License Requirements

Foreign trade and foreign exchange in Egypt are under official control. These controls were primarily designed to conserve foreign exchange but since the spring of 1951 they have been expanded to prevent the export of short supply items.

Since October 6, 1952, import licenses have been required for all imports. Prior to that date licenses were required for goods originating in hard-currency countries, while imports from other sources were in the most part exempt from restrictions.

Application for imports are submitted to the Controller General of Imports, Ministry of Finance. Exports are subject to export regulations which are divided into four main categories. The Higher Supply Council and the Import and Export Committee are the main authorities entrusted with the formulation of decisions governing exports. This Committee is under the Secretaries for Finance, Commerce and Industry, Supplies, Agriculture, the Director General of Exchange Operations, the Director General of Cotton Affairs of the Ministry of Finance, the Controller General of Exports and Imports, and the Director of Customs.

Transit Controls

There are no special licensing requirements or controls on goods in transit other than the ordinary customs supervision.

Financial Controls

Foreign exchange is under official control. The basic regulation requires all foreign-exchange earnings to be repatriated to Egypt within 6 months after the shipping date of the goods. The law requires that all dollar holdings or payments received by Egyptian nationals or foreigners residing in Egypt be reported to the Egyptian Government and converted into Egyptian currency at the official rate.

GREECE

License Requirements

Licenses are required for all exports to all destinations. Licenses are issued by the Bank of Greece in accordance with directives of the Greek Foreign Trade Administration, Ministry of Commerce. Except for purely nonstrategic shipments, all applications for licenses to export to Soviet-bloc countries must be referred to the Foreign Trade Administration for special consideration.

With regard to shipments to Soviet-bloc countries, these licensing controls restrict shipments to nonstrategic materials.

With regard to all other countries, controls are instituted for balance-of-payments purposes.

Transit Controls

All reexported goods require a license from the Foreign Trade Administration.

Financial Controls

Foreign-exchange proceeds must be turned over to the Bank of Greece.

IRAN

License Requirements

Export trade is controlled primarily through the exercise of financial controls. (See below.) The right to conduct foreign trade is vested in the

Government by the Foreign Trade Monopoly Law of 1931; right to private individuals and firms with respect to certain commodities specified from time to time by decree.

As regards exports, the law is supposed to be administered so that, in the main, commodities that are in short supply, or which would otherwise have to be replaced by imports, may not be exported. Thus, there is a standing prohibition against the export of gold and silver in bars, sheets, or coins; cattle, sheep, raw hides, charcoal, matches, butter, sugar, and tea. Also prohibited are exports of arms and ammunition, precious stones other than turquoise and pearls, and archeological articles. On rare occasions—e. g., charcoal to Pakistan—has the Government authorized the export of any of these commodities.

Decrees currently in effect permit the export of all other commodities (except those under Government monopoly, such as opium, oil, and tobacco) without benefit of license except wheat, flour, barley, legumes, rice, lumber, and cotton. Depending on the availability of these last-named commodities, export quotas are established for them each year, and export licenses are issued by the Ministry of National Economy to private individuals or firms to the extent of the quota established for each commodity. The issuance of export licenses for lumber and cotton is subject to the approval of the Ministry of Agriculture and the Iran Cotton Company (an agency of the plan organization), respectively.

The export of opium and tobacco, which are under Government monopoly, is subject to license of the Ministry of Finance.

Some Iranian exports are effected under "barter or clearing agreements" which Iran has concluded with a number of countries since 1949 and with the U. S. S. R. in 1939. Since these agreements specify the commodities involved, exports made thereunder are in effect licensed by the agreements themselves.

Transit Controls

Goods moving in transit through Iran may enter and leave the country only at places where customhouses have been established for that purpose. Detailed documentation is required by Iranian customs authorities for goods in transit. In practice, there are very few in-transit shipments through Iran. The reexport of goods once cleared through Iranian customs is prohibited under a decree of November 25, 1952, which reestablishes the prohibition lifted on April 22, 1950.

Financial Controls

Exporters of Iranian goods must sign an undertaking that the exchange derived from the export will be sold to a bank authorized by the Government to deal in foreign exchange.

Iran has instituted a system designed to improve trade and maintain the country's balance of trade and payments. Iranian products intended for export are divided into two distinct categories according to their degree of importance and the extent to which their export is to be encouraged. Imports are also divided into two categories. The first category of imports consists of essential commodities. The second category includes imports considered less essential to the Iranian economy. The foreign exchange from the sale of the faster-moving category of exports may be used only to import essential goods. Exchange from the sale of slower-moving exports may be used to import less-essential goods.

ISRAEL

License Requirements

All goods exported from Israel, with the exception of shipments valued at less than I£3, must be accompanied by an export license. This rule applies to reexports as well as to goods produced domestically. The export regulations were devised originally to conserve scarce commodities needed for Israel's own economy.

Each ministry within the Israel Government is basically responsible for the control of products which logically fall within its orbit. Licenses for the export of most industrial items are issued by the Export Division of the Ministry of Trade and Industry. The Ministry of Agriculture issues licenses for the export of agricultural products, including manufactures (primarily citrus concentrates) derived from domestic agricultural products, and the Ministry of Health has the responsibility of controlling Israel's exports of pharmaceutical products.

Israel voted to support the United Nations resolution of May 18, 1951, placing an embargo on shipments of arms and related matériel to China and North Korea.

Transit Controls

The value of in-transit trade is small, inasmuch as Israel is bounded on three sides by Arab states with which no legal trade is conducted, but commodities may be entered in bond without becoming subject to export licensing controls. Before reshipment may take place, however, a permit must be obtained from the Office of the Collector of Customs.

Financial Controls

The Israel Government exercises far-reaching control over the use of foreign exchange, and it regularly uses this control to restrict the movement of commodities in international trade. Israel importers are required to submit comprehensive justifications as to Israel's need for a commodity before they are granted an allocation of foreign exchange. Once the licenses have been granted, it has been to the interest of the Government of Israel to make certain that the commodities are in fact imported and used in the Israel economy; this identity of interest is a strong safeguard that materials consigned to Israel are not reexported.

LEBANON

License Requirements

All commodities listed below, exported or reexported to all destinations, require an export license, which is issued by the Ministry of National Economy. This rule applies without exception to all exports or reexports destined to Palestine, North Korea, or China. Lebanon voted to support the United Nations resolution of May 18, 1951, placing an embargo on shipments of arms and related material to the latter two countries.

Products Requiring Export Licenses

Newsprint
Petroleum products
Olive-oil cake
Livestock
Animal oils
Wheat and wheat byproducts
Barley
Dairy products
Poultry
Copper and copper manufactures
Agricultural insecticides and fertilizers
Metal scrap
Jute imported from India
Industrial equipment
Sailing vessels and other craft
All exports to Palestine
All exports to North Korea and China

Financial Controls

Lebanon has a free foreign-exchange market.

Transit Controls

There are free zones at Beirut and Tripoli. In addition, a relatively large amount of transit goods pass through Lebanon without being subject to Lebanese customs laws, except such merchandise as is prohibited by law. Control over the Iraqi and Saudi Arabian oil shipped from the pipeline terminals at the Lebanese ports of Zahrani (Sidon) and Tripoli is governed by agreements between the oil companies and the Government. None of it goes to Soviet-bloc countries.

TURKEY

License Requirements

Turkish exports are grouped under three lists: its list I contains all exportable commodities for which no export license is required, unless the items also appear on list II. A customs-exit declaration, based on the exporter's application, is, however, necessary. Commodities included may be exported to (1) countries with which Turkey has a trade agreement, (2) against payment in free currency or in sterling transferable to Turkish accounts, or (3) against payment in currencies of countries selected and designated by the Turkish Central Bank.

List II designates commodities for which export licenses are required. Under existing regulations and arrangements, these licenses may be obtained from the Ministry of Economy and Commerce or agencies designated by them. The major products involved are opium, chrome, copper, manganese, lead, fats, olive oil, pistachios, wool, tobacco leaf, pig iron and scrap, straw, pistols and ammunition, and raw sulfur ore.

List III items are free of export license requirements and are hard-to-move Turkish commodities.

Transit Controls

There is no large amount of in-transit trade in Turkey. All in-transit goods arriving in Turkey, however, must carry on all shipping documents (including bill of lading and ship manifest) and outer containers the name of the Turkish port, the phrase "in transit to" and the name of the city and country of destination.

Generally, goods moving in transit through Turkey may be imported only through customs warehouses.

Extensive documentation, including a reexport license, is required for clearance by the Turkish Customs Administration.

Financial Controls

Export-control measures are designed for two purposes: (1) to keep a check on outgoing strategic or short-supply materials, and (2) they are instituted also for foreign-exchange reasons. For price-checking purposes in order that foreign-exchange losses can be prevented, exporters must register with agencies designated by the Ministry of Finance. Customs authorities do not permit exportation without a certificate of registration and destination. With some exceptions, foreign currency receipts are turned over to the Central Bank of Turkey.

AFRICA

SUMMARY

In general, the export of most commodities from African colonial areas and from independent Africa requires export licenses issued by the export-controlling agencies. Trade with the Soviet bloc is very limited. In addition to security considerations, these controls have the objective of safeguarding a sufficient supply of goods used in local industries and channeling exports to particular currency areas.

These areas generally have no special restrictions on shipments of goods originating in a foreign country and moving in transit to other foreign countries. Most of these areas have strict financial controls. No substantial changes have been noted with regard to export controls described in the first semiannual report.

APPENDIX C

Letter of December 30, 1952, from the President to the six committees of Congress

APPENDIX C

President's Letter to Congress

On December 30, 1952, President Truman sent the following letter to six committees of Congress pursuant to section 103 (b) of the act, reporting the continuance of aid to the United Kingdom, France, and Italy:

December 30, 1952.

Dear Mr. Chairman: I have been informed that certain goods of primary strategic significance have been shipped from the United Kingdom, France, and Italy to various countries of the Soviet bloc in fulfillment of long-standing obligations. The total value of the shipments is $2.5 million.

The commitments to deliver these goods were made before the effective date of the embargo provisions of the Mutual Defense Assistance Control Act of 1951 (the Battle Act), Public Law 213, Eighty-second Congress. But the actual shipments took place after that date. And they consisted of items which have been listed by the Administrator of the act as items that should be embargoed to the Soviet bloc in order to effectuate the purposes of the act.

Thus I have been faced with a grave decision. Under section 103 (b) of the statute I am required either to terminate all military, economic, and financial assistance to the United Kingdom, France, and Italy, or to direct that assistance be continued in spite of the shipments.

The provisions of the Battle Act with respect to termination of aid are as follows:

First, the act requires—with no possibility of exception—the termination of all military, economic, or financial assistance to any nation which, after the effective date of the embargo provisions of the act, knowingly permits the shipment of arms, ammunition, implements of war, or atomic-energy materials to any nation or combination of nations threatening the security of the United States, including the Union of Soviet Socialist Republics and all countries under its domination.

The shipments made by the United Kingdom, France, and Italy were not arms, ammunition, implements of war, or atomic-energy material, and indeed the Administrator informs me that to his knowledge no country receiving assistance from the United States has made any shipments of that kind whatever.

In addition, the act provides for the termination of aid to any country that knowingly permits the shipment to the same nations of petroleum, transportation materials of strategic value, or items of primary strategic significance used in the production of arms, ammunition, and implements of war. However, in cases involving items of those types (known as "Title I, category B" items), the President may direct the continuance of aid to the country permitting the shipment "when unusual circumstances indicate that the cessation of aid would clearly be detrimental to the security of the United States." The President may make such a determination after receiving the advice of the Administrator and after taking into account these four considerations: "the contribution of such country to the mutual security of the free world, the importance of such assistance to the security of the United States, the strategic importance of imports received from countries of the Soviet bloc, and the adequacy of such country's controls over the export to the Soviet bloc of items of strategic importance."

The Administrator, Mr. W. Averell Harriman, who is also the Director for Mutual Security, has advised me that aid to the United Kingdom, France, and Italy should be continued. He made this recommendation after consulting with the Departments of State, Treasury, Defense, Interior, Agriculture, and Commerce; the Office of Defense Mobilization, Mutual Security Agency, Atomic Energy Commission, and Central Intelligence Agency.

Upon his advice, and after taking into account the four statutory considerations listed above, I have directed the continuance of assistance to the United Kingdom, France, and Italy. The rest of this letter will explain my reasons for so doing.

The "Prior Commitments" Problem

Up until the present case, there have been three decisions to continue aid to countries which had knowingly permitted shipments prescribed under the Battle Act. In those three cases the United States continued its aid to the Netherlands, which had permitted certain oil-drilling equipment to be shipped to Poland; Italy, which had permitted a grinding machine to be shipped to Rumania; Denmark, which had permitted a tanker to be shipped to the U. S. S. R.

Those cases all involved "prior commitments"; that is, commitments made before the Battle Act embargo lists went into effect on January 24, 1952. The shipments of $2.5 million which now have been made by the British, French, and Italians also were in fulfillment of prior commitments. Still more of these commitments remain on the books of western European countries. The problem of how to handle these obligations has been one of the most difficult issues that has arisen in the administration of the Battle Act.

The first question to be faced was whether the act applies to such commitments at all. The act prohibits further assistance (unless a Presidential exception is made) when a country "knowingly permits" the shipment of items included in the "Title I, category B" embargo list. In many cases, the countries in question had entered into trade agreements guaranteeing that they would permit the shipment of these items, and in other cases had issued, or promised to issue, export licenses covering such shipments. Thus there is a real question, especially in those countries where an export license cannot legally be revoked, whether the knowing permission had not been given at the time the foreign government signed the trade agreement or issued the export license. If it had been given at that time, the subsequent shipment would not be relevant, since the knowing permission had taken place before January 24, 1952, the effective date of the embargo list. If the act were so construed, aid could be continued to such a country without a Presidential determination that continuance of aid was necessary.

Despite the legal ambiguity surrounding this question, however, the Administrator has construed the act as being applicable to all *shipments* of embargoed items after the effective date, even though the *permission* was given beforehand. I concur in this interpretation. It is the interpretation that seems to be most closely in accord with the objectives of the act, which are to increase the strength of the United States and the cooperating nations and to impede the military ability of the Soviet bloc. The contrary interpretation also raises certain questions as to inequality of treatment, based perhaps on nothing more substantial than the fortuitous timing of the issuance of an export license.

For the western European countries, however, the prospect of breaking firm contracts, made in good faith, raised serious problems. The governments of these countries pointed out that East-West trade is basically the exchanging of eastern raw materials for western finished metal products, and that this involves a considerable time differential in deliveries. The Soviet bloc had placed contracts months, and even years, before many of the items now requiring embargo under the Battle Act were agreed to be strategic by most countries, and also before the invasion of Korea in 1950. In many cases the Soviet bloc had carried out its portion of the exchange by making deliveries of timber, grains, coal, and other essential commodities, and was awaiting shipment of goods which, in effect, had already been paid for. The manufactured products, because of the time differential, were scheduled for delivery to the East in 1952, 1953, and 1954.

The western European countries attach importance to the fulfillment of their formal trade obligations to the Soviet bloc. They point out that the Communists constantly seek to picture the Western World as morally bankrupt and bent on the destruction of peaceful relations with the Soviet bloc. They feel, therefore, that the moral position of the Western World in this battle of ideas would be weakened by outright violation of clear commitments.

Despite the force of these contentions, the United States requested the western European countries concerned to freeze their shipments of prior commitment items, so that a joint review of the problem could be undertaken. This request led to an intensive review. As a result, the western European countries decided that some of the projected shipments could be eliminated without prejudice to the foregoing considerations. The eliminated shipments involved about one-quarter of the outstanding prior commitments.

The three Battle Act exceptions already granted for the Netherlands, Italy, and Denmark total $3.3 million.

Additional items valued at about $2.5 million now have been shipped. These are the British, French, and Italian shipments with respect to which I now have made a determination that aid should be continued. The shipments originated as follows: United Kingdom, $583,818; France, $959,245; and Italy, $940,000.

The items shipped from the United Kingdom were forging machines, special metalworking machines, pumps, valves, rolling-mill equipment, balances, locomotives and parts, specialized testing devices, ball and roller bearings, industrial greases and oils, a small quantity of nickel, and one blower. The items shipped from France were boring machines, valves, chemical equipment, compressors, electronic equipment, aluminum, and ball bearings. The items shipped from Italy were rolling-mill equipment and ball and roller bearings. (See appendix for a list of the items, their values, and their destinations.)

There remain a number of other prior commitments on the books not only of the United Kingdom, France, and Italy but also of Denmark and the Federal Republic of Germany. If further shipments of this kind take place, the United States Government will examine such cases on their merits and determine the appropriate action in the light of all the circumstances.

Why the Cessation of Aid Would Be Detrimental to the Security of the United States

Following are the considerations, specified in the Battle Act, which have led to the conclusion that unusual circumstances indicate that the cessation of aid to the United Kingdom, France, and Italy would clearly be detrimental to the security of the United States.

A. Contribution of Those Countries to the Mutual Security of the Free World

All the countries associated in the North Atlantic Treaty Organization are important to the success of the common undertaking. But the

United Kingdom, France, and Italy are the three largest European members of NATO and the vital importance of their participation can scarcely be exaggerated. In their foreign policies they support, as a basic principle, action directed toward the military and economic integration of western Europe. By reason of their geographical locations, their industrial capacity, their armed forces and their other resources, they are in a position to make, and they are making, contributions of the greatest value to the security of the Free World.

In two world wars the United Kingdom has shown its determination to fight for its democratic way of life, and has, in those wars, borne the shock of combat in the early stages. In this sense it has in effect been a first bastion of defense for the Free World. Its example during the dark days of 1940 and 1941 when it stood, with the Commonwealth, practically alone was one that cheered free men everywhere. France, the traditional ally of the United States from the time of the American Revolution, has likewise stood in the forefront of those willing to fight for a way of life that respected the dignity of the free individual. And Italy, despite a dark period in its history, has in recent years aligned itself firmly with the free nations of the world, and in the face of formidable obstacles has made a contribution of great value.

Together, the United Kingdom and France account for about four-fifths of the defense expenditures of the European NATO countries. Their share of the total production of military equipment is even higher. They rank highest among those countries in the percentage of gross national product devoted to defense spending.

The United Kingdom makes almost half of the defense expenditures of the European NATO countries. The United Kingdom and the United States have cooperated with each other in a manner unique in the history of nations. Common-defense policies have been developed, and the practice of consultation that was undertaken during the last war has made possible a coordinated defense which is a cornerstone of United States security. The air bases in the British Isles are a key element in the Free World's system of defense. The British fleet, together with that of the United States, stands in defense of our shores as well as theirs. The British merchant marine furnishes the United States, as well as the United Kingdom, with lines of supply. On the continent of Europe the British have the largest armored force of any NATO country, including the United States.

France, a country which has been the battlefield of both world wars, which has seen the best of its youth depleted by those wars, which has undergone the anguish of enemy occupation, and which has been forced to struggle bitterly for its economic health, is second only to the United Kingdom among European NATO countries in defense expenditures and in output of military equipment. The vast communications network upon which the common effort depends is centered in France. While making its defense contribution in Europe, France is carrying the burden of a war against Communists in Indo-China. Into that war it has poured a vast sum of money and the pick of its trained officers.

Italy's contribution to the common security is in a sense one of the most noteworthy on the continent. For out of the wreckage of fascism has arisen a resolute government determined to play a major part in the struggle for freedom. Having experienced the evil of totalitarianism, Italy has resolved to stand on the side of freedom and to defend that freedom. Its natural resources are few. The social pressures which are the outcome of the poverty and distress of the masses have been intensified by years of totalitarian rule. Nevertheless, and despite the presence of a Communist party that feeds on the poverty of the country, the Italian Government has taken firm steps to preserve its internal security. It has modernized its military installations. In its harbors are based the NATO Mediterranean command, and its communications and supply facilities are of incalculable value.

The factories of these three countries produce goods and services needed by the NATO forces, and this production is given priority over civilian needs. By June 30, 1952, the United States had placed contracts with European manufacturers for $684 million of equipment to be used by NATO and the United States military forces. About half this amount is coming from France, with Italy and the United Kingdom having the next largest shares. In the year ending June 30, 1953, additional contracts of $1 billion are expected to be let in Europe.

B. Importance to the Security of the United States of Assistance to Those Countries

The security of the United States is squarely based on the unity of the western nations and the continued strengthening of their free institutions.

In like manner the effectiveness of the contribution that the United Kingdom, France, and Italy can make toward that unity and strength is dependent at the present time on assistance from the United States.

Since the end of World War II the United States has given net grants and credits to western Europe that amount to $23.1 billion in economic aid and $2.7 billion in military aid—a total of about $25.8 billion. Of the economic aid, $6.4 billion went to the United Kingdom, $4.5 billion to France, and $2.4 billion to Italy. Those three countries also received large shares of United States military assistance.

All this aid represents an investment directly in the interests of

United States security. To terminate aid to the United Kingdom, France, and Italy would seriously impair that security because it would jeopardize the effectiveness of the free nations' first line of defense in Europe. Our assistance is indispensable to the three countries; without it they would be unable to carry the military burdens they have assumed in NATO. Moreover, since the plans developed in NATO are integrated plans which depend for their success on the continued performance of these countries, the collapse of their defense efforts would mean the collapse of the whole NATO system. We would be imperiling a $25 billion investment in western defense for a consideration of $2.5 million worth of shipments which already have gone to the Soviet bloc. Regrettable as these shipments may be, and important as these commodities may be to the Soviet bloc, their strategic advantage to the Communists is far outweighed by the damage to our own security that would result from the termination of assistance.

C. Strategic Importance of Imports Received by Those Countries From the Soviet Bloc

Each of the three, the United Kingdom, France, and Italy, has historical trade relationships with one or more of the countries now included in the Soviet bloc. A certain degree of dependence upon eastern Europe has been developed, both as a market and a source of supply. The three nations have exchanged their own products for essential coal, grain, foodstuffs, and other commodities. If these countries were forced to shift to other sources of supply, the shift would require the expenditure of more dollars, which these countries do not have.

The United Kingdom can produce only 40 percent of its own food supply. It is thus dependent on imports to feed its population. Since the end of World War II the United Kingdom has obtained very important quantities of coarse grains and timber products from the Soviet bloc. The coarse grains, through the increase in domestically produced meats and poultry products, have made a vital contribution to the diet of the British people. The timber products have helped to provide adequate housing for a significant number of British families; and such items as pit props have assisted directly in the increase of coal production.

If the British did not obtain these important items from the Soviet bloc, they would either have to procure them largely in dollar areas or go without. If they decided to procure these items in dollar areas, they would almost inevitably have to reduce their defense expenditures in order to obtain the needed dollars. If they decided to go without, they would have to worsen an already austere standard of living. Either alternative would weaken the British contribution to the common defense.

A somewhat similar pattern exists in both France and Italy—made more difficult in both these countries, however, by the presence of large and vocal Communist groups. The Communist propaganda line has long been that refusal to trade with eastern Europe has placed severe hardships on western Europeans by cutting them off from important supplies traditionally purchased in eastern Europe.

Italy still depends on the Soviet bloc for supplies of such vital imports as coal, manganese, iron and steel, wheat, and foodstuffs. Italy normally imports about nine-tenths of its coal requirements, and in 1951 the bloc supplied 12½ percent of Italy's coal imports and 11 percent of coke imports. Also in 1951 the bloc supplied 6.5 percent of Italy's manganese imports, 7 percent of its pig iron imports, over 12 percent of wheat imports, and almost 20 percent of other grains including rye, barley, and oats.

France, too, gets important quantities of certain essential imports from the Soviet bloc, such as certain types of coal, although France's total trade with the bloc is not as large as Italy's or Britain's. In 1951 France received from the bloc almost 10 percent of its coal and coke imports, 8½ percent of its total glycerin imports, and 10 percent of its asbestos imports.

Part of the reason why western Europe has been able to reduce its dependence on eastern supplies to these levels, and hence withstand to a marked degree the Soviet-bloc pressures for strategic items, has been the existence of United States aid. If we were suddenly to withdraw this aid, the flow of strategic goods and services to the Iron Curtain areas would be bound to increase. This would defeat the purpose of the Battle Act, not contribute to it.

D. Adequacy of British, French, and Italian Controls Over the Export of Strategic Items to the Soviet Bloc

Failure to abrogate all their prior commitments should not be allowed to obscure the fact that these three countries have long operated effective controls over strategic items and have prevented the shipment of large quantities of these items to the Soviet bloc. The British, in fact, enacted controls before the United States did so. Many improvements can undoubtedly be made in some controls systems, and work along these lines is in progress. These countries have been important participants in international discussions of controls—a cooperative program that is unprecedented.

In deciding whether to terminate aid in these cases, I have been guided by the basic objectives of the act—to strengthen the security of the United States and of the Free World. This Government has sought constantly to avoid placing weapons in the hands of the Soviet bloc with which to attack the Free World. But weapons take various forms. They may be commodities of strategic importance; they may be hunger or discontent within the borders of friendly countries; or they may be discord between our allies and ourselves. We must guard against giving the Soviet bloc any of these weapons. It is my firm conviction that the decision to continue aid in these cases best serves the security interests of the United States.

Sincerely yours,

HARRY S. TRUMAN.

Shipments of "Title I, category B" items to the Soviet bloc after Jan. 24, 1952

United Kingdom	$583, 818
France	959, 245
Italy	940, 000
Total	$2, 483, 063

UNITED KINGDOM

Shipments of Title I, category B items to the Soviet bloc after Jan. 24, 1952

Item	Quantity	Destination	Value
Forging machines	9	5 U. S. S. R.; 4 Poland	$188, 892
Specialized metal working machines	2	Poland	6, 418
Pumps	4	do	760
Valves	40	do	12, 192
Rolling mill equipment		do	25, 144
		Hungary	87, 682
Blower	1	Poland	63, 913
Balances	7	U. S. S. R.	2, 752
Specialized testing devices	7	1 Hungary; 3 Poland; 3 U. S. S. R.	26, 501
Ball and roller bearings	1,008	17 Poland; 10 Hungary; 981 Czechoslovakia.	19, 003
Nickel	86 kilograms	Poland	654
Lubricating oils and greases	50 gallons	China	66
Mineral oil	17.9 tons	Poland	1, 809
Lubricating oils	196 gallons, 7 hundredweights.	do	190
Transformer oils	18,000 gallons	do	14, 000
Insulating oils	100 gallons	do	126
Greases and oils	6 gallons, 12 ounces	do	20
Locomotives and parts		$100,511 Poland; $32,230 Hungary; $955 Czechoslovakia.	133, 696
Total			$583, 818

FRANCE

Shipments of Title I, category B items to the Soviet bloc after Jan. 24, 1952

Item	Quantity	Destination	Value
Boring machines	3	1 Poland; 2 Czechoslovakia.	$768, 240
Specialized chemical equipment	3 units	Poland	35, 868
Chemical processing equipment	2 shipments	do	14, 360
Compressors		do	38, 001
Valves		do	29, 167
Electronic equipment		do	4, 789
Bearings		do	37, 320
Aluminum	50 tons	do	31, 500
Total			$959, 245

Italy

Shipments of Title I, category B items to the Soviet bloc after Jan. 24, 1952

Item	Quantity	Destination	Value
Centreless grinding machine (exception previously granted).	1	Rumania	$11,000
Rolling mill parts		Poland	440,000
Ball and roller bearings		Czechoslovakia	500,000
Total			951,000
Exeption previously granted			11,000
Net			$940,000

APPENDIX D

STATISTICAL TABLES

Table 1. Exports of Members of the Organization for European Economic Cooperation to the Soviet Bloc.
Table 2. Imports of Members of the Organization for European Economic Cooperation from the Soviet Bloc.
Table 3. Exports of Selected Far Eastern Countries to the Soviet Bloc.
Table 4. Imports of Selected Far Eastern Countries from the Soviet Bloc.
Table 5. Principal Exports of Hong Kong and Malaya to China.

NOTE.—The source of the trade statistics, presented in the appended tables, is the United States Department of Commerce. The Soviet bloc comprises Albania, Bulgaria, Czechoslovakia, the Soviet Zone of Germany, Hungary, Poland, Rumania, the U. S. S. R. and Communist China. Certain statistical inconsistencies occur in the statistics on trade with the Soviet Zone of Germany and Communist China, since the official trade statistics of several countries do not report Western and Eastern Germany separately or, with respect to China, Taiwan and the China mainland separately.

TABLE 1.—*Exports of members of the Organization for European Economic Cooperation to the Soviet bloc*

[Millions of dollars and percent of totals]

Country	January–June 1951	January–June 1952
Austria	25	31
Belgium-Luxembourg	38	32
Denmark	17	18
Federal Republic of Germany	61	29
France	20	22
Greece	(1)	(1)
Iceland	1	1
Ireland	(1)	(1)
Italy	30	28
Netherlands	19	22
Norway	16	12
Portugal	2	3
Sweden	49	62
Switzerland	43	28
Trieste	(1)	(1)
Turkey	14	11
United Kingdom	49	95
Total to Soviet bloc	384	394
Total exports to entire world	12,902	13,919
Percent of total	3.0	2.8

1 Less than $500,000.

Table 2.—*Imports of members of the Organization for European Economic Cooperation from the Soviet bloc*

[Millions of dollars and percent of totals]

Country	January–June 1951	January–June 1952
Austria	35	41
Belgium-Luxembourg	32	15
Denmark	37	19
Federal Republic of Germany	57	36
France	35	40
Greece	1	(1)
Iceland	2	2
Ireland	6	2
Italy	49	43
Netherlands	37	29
Norway	15	15
Portugal	1	(1)
Sweden	66	56
Switzerland	36	23
Trieste	1	(1)
Turkey	10	8
United Kingdom	134	149
Total from Soviet bloc	553	478
Total imports from entire world	16, 532	17, 134
Percent of total	3. 3	2. 8

[1] Less than $500,000.

Table 3.—*Exports of selected far eastern countries to the Soviet bloc*

[Millions of Dollars aud percent of totals]

Country	January–June 1951	January–June 1952
Australia	37	3
Burma	1	N. A.
Ceylon	(1) 1	(1) 14
Hong Kong	201	29
India	12	10
Indochina	(2) 1	(2) (3) (4)
Indonesia	1	1
Japan	5	1
Malaya	72	22
Pakistan	41	77
Total exports of above countries to Soviet bloc	372	157
Total exports of above countries to entire world	5, 947	(5) 3, 971
Percent of total	6. 3	4. 0

[1] May be incomplete. Official source does not show total value; therefore value shown is sum of commodity values reported.
[2] Exports to China only.
[3] Figures are for January–March 1952 only.
[4] Less than $500,000.
[5] Burma not available for January–June 1952.

TABLE 4.—*Imports of selected far eastern countries from the Soviet bloc*

[Millions of dollars]

Country	January–June 1951	January–June 1952
Australia	11	10
Burma	(2)	(1) (2)
Ceylon	1	(3)
Hong Kong	82	61
India	6	15
Indochina	(4) 3	(5)
Indonesia	2	3
Japan	16	8
Malaya	24	22
Pakistan	16	5
Total imports of above countries from Soviet bloc	161	126
Total imports of above countries from entire world	4,978	5,134
Percent of total	3.2	2.5

[1] Incomplete, January only.
[2] Less than $500,000.
[3] May be incomplete. Official source does not report total value; therefore value shown is sum of commodity values reported, except from China.
[4] Imports from Czechoslovakia and China only.
[5] Incomplete, January and February only. Imports from China only.

TABLE 5.—*Principal exports of Hong Kong and Malaya to China, January–June 1951, July–December 1951, and January–June 1952*

Commodity and country	Value (thousands of dollars		
	January–June 1951	July–December 1951	January–June 1952
Rubber and manufactures:			
Hong Kong	59,353	12	(1)
Malaya	32,463	---	---
Exports of Hong Kong:			
Food products, beverages, and tobacco	3,092	1,504	141
Pulp, paper and cardboard, and manufactures	5,340	9,828	4,048
Dyeing, tanning, and coloring substances	17,339	7,560	1,239
Textile materials, raw or simply prepared	1,542	1,962	1,114
Textile fabrics and small wares	4,028	11,775	165
Made-up articles of textile materials, other than clothing	2,585	1,979	271
Nonferrous base metals	2,242	1	---
Iron and steel	30,927	605	1
Manufactures of base metals	4,857	2,441	236
Machinery, apparatus, and appliances, other than electrical	6,792	5,845	1,727
Electrical machinery, apparatus, and appliances	5,299	1,232	789
Vehicles and transportation equipment	7,099	313	3
Products for heating, lighting, and power, lubricants, and related products	1,131	128	(2) 1
Fertilizers	4,387	4,488	505
Chemical elements and compounds; pharmaceutical products	26,693	19,342	15,443

[1] Less than $500.
[2] Figure represents candles, tapers, etc.

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