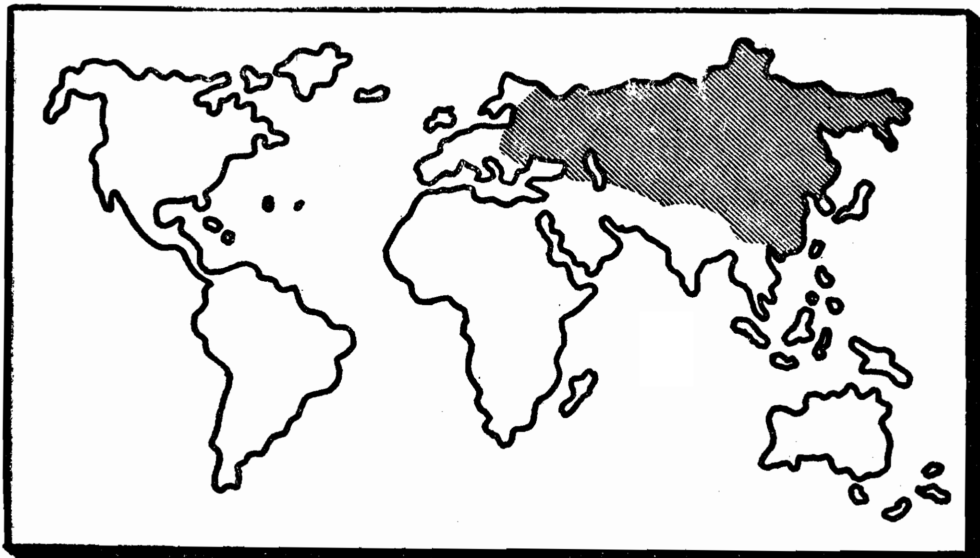
world-wide enforcement of strategic trade controls



MUTUAL DEFENSE ASSISTANCE CONTROL ACT OF 1951

(the Battle Act)

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THIRD REPORT TO CONGRESS

First Half of 1953

WORLD-WIDE ENFORCEMENT OF STRATEGIC TRADE CONTROLS

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LETTER OF TRANSMITTAL

To the Congress of the United States:

The document which I submit herewith is the third semiannual report on operations under the Mutual Defense Assistance Control Act of 1951, the administration of which has been a part of my responsibilities since January 28, 1953.

The period covered is January through June, 1953.

I am glad to report to the Congress that these 6 months have brought considerable improvement in the administration of controls on the shipment of strategic materials from the free world to the Soviet bloc.

I must also report that the program is hampered by lack of public knowledge, both in the United States and abroad, concerning the aims of the program and concerning the activities that go on continually in connection with it.

This lack of knowledge, often leading to false or exaggerated notions, is hardly surprising in view of the secrecy which the free world has often had to employ in its strategic trade control operations.

Much of the secrecy is still necessary. But to fill gaps in knowledge is necessary, too. I hope that this report will go far toward that objective. It contains a detailed account of the world-wide enforcement of strategic trade controls, with examples of successes and failures in the campaign to block illegal shipments. Furthermore it provides the facts necessary to dispel certain illusions that have sprung up in the field of East-West trade.

Harold E. Stassen

HAROLD E. STASSEN
Director of Foreign Operations.

SEPTEMBER 27, 1953.

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INTRODUCTION

Defining the Terms

THIS report has to do with strategic trade controls. That is, it has to do with the controls exercised by the nations of the free world—in the interest of their own security and defense requirements—over the movement of goods in East-West trade.

Let's be sure the terms are understood. "East-West trade" means trade between the free world and the Soviet bloc. The "Soviet bloc" means all the territory dominated by Moscow, from the Eastern Zone of Germany to the coast of China (see map on front cover).

The free nations gain certain advantages from East-West trade, and in the present world situation they do not attempt a general stoppage. Their control program is *selective*. It concentrates on *strategic* items.

Strategic items are those raw materials and manufactures (including munitions) which would increase the military strength of the Soviet bloc.

Commodities vary in strategic importance. Thus there are varying degrees of control over the shipment of commodities. Some strategic goods are flatly embargoed. Others are merely controlled as to quantity. Still others are closely watched, with a view toward control if necessary.

Even the *same* commodity may vary in its strategic importance, depending on where it is shipped, on the changing industrial and supply situation behind the Iron Curtain, and on other considerations.

Governments do not always agree on the strategic significance of commodities. But the area of agreement is remarkably broad.

Most of the major countries of the free world have for years controlled the export of strategic materials.

They coordinate their controls through informal international committees which meet in Paris.

The United States is a member of those committees. The United States has tight strategic controls over its own exports. The position of the United States concerning the exports of *other* free nations is stated in the Mutual Defense Assistance Control Act of 1951, which is usually called the Battle Act after Representative Battle of Alabama.

The Battle Act reinforces the system of international controls that was in effect prior to its enactment. It maintains a close link between United States foreign aid and strategic trade controls. It recognizes the necessity of international cooperation in the common defense. It states the purposes of strategic trade controls as follows: "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."

The Battle Act forbids United States aid to any country that knowingly permits the shipment to the Soviet bloc of certain highly strategic items listed for embargo by the administrator of the act, except that if the items are not arms nor atomic energy materials the President may direct the continuance of aid "when unusual circumstances indicate that the cessation of aid would clearly be detrimental to the security of the United States."

For handy reference to this and other provisions of the law, the full text of the Battle Act is reprinted as appendix D, at the end of this book.

This is the background. Now for the current events.

CHAPTER I

Cases From the Files

ON THE night of May 13, 1953, a revenue officer was standing on the Tai Yip Wharf in Hong Kong. He had been assigned to this wharf for the midnight sailing of the Hong Kong-Macao ferry. Suddenly he saw a man swimming in the dark water by the ferry's hull. The swimmer was towing what appeared to be several inflated rubber balls.

The officer shouted. The swimmer abandoned his bags and dived. As he did so, the officer and a group of bystanders glimpsed the man's feet and noticed that he wore flippers of the kind used by underwater demolition teams to aid in swimming. The man escaped, but the bags were fished out of the water. They contained a popular type of American tool bits, which travelers from Shanghai have reported to be in great demand there. The swimmer had evidently hoped to attach the bags to the hull of the ferryboat. The next day, the Hong Kong headline writers featured the case of the "Frogman Smuggler."

The efforts of the Hong Kong authorities to prevent violations of the colony's strict export controls are not always so successful. Thousands of fishing junks dot the bays and coves among the myriad islands of the territory. Despite the difficulties of detection, 26 seizures took place in May alone. Some of the items confiscated were:

> 110 high-speed cutting tools, 30 auto brake plates, 168 ball bearings, 74 bundles of smoked rubber, 41 sheets of steel plates, 78 tons of tin plate, 15 coils of copper tubing, 87 bundles of black sheet, 2,712 pounds of iron cuttings, 1,750 large glass bottles of acetic acid, 3 trucks, and 1,195 volt meters.

This kind of enforcement activity is illustrated by what occurred on the night of August 24, 1952. A patrol vessel of the British Navy was prowling through the Lamma Channel off Hong Kong when it surprised a rendezvous of two suspicious-looking craft. The larger of the two, an 80-foot vessel with the lines of a PT boat, tried to escape in a southwesterly direction toward the China coast. It ignored challenges and warning shots, and hove to only after several bullets had struck the vessel.

Four armed sailors boarded the smuggler. One of the Chinese crew approached a Navy man, held out two wads of bank notes, the topmost of which was a Hong Kong $500 bill (about $82 in United States money), and said:

"You take. No search."

The search revealed the following cargo: 317 boxes of refined paraffin wax, 670 boxes of tin plate, 256 bundles of hoop steel, and 107 bundles of galvanized iron sheets. All of these are prohibited exports from Hong Kong to Communist China. The authorities in Hong Kong, along with many other free-world governments, do not prohibit the shipment of goods that they consider nonstrategic (fertilizer, cloth, dye, textile machinery, paper, etc.) but their controls over strategic goods are among the most extensive in the world.

The smugglers were tried and convicted in a Hong Kong court for attempted violation of export regulations. The captain of the patrol vessel testified that if the chase had lasted another 25 minutes the smugglers would have been in Chinese waters and out of reach of Hong Kong authorities. This problem was pointed up even more strikingly a couple of months later, when Hong Kong Revenue Launch No. 2, pursuing a motor junk suspected of carrying illegal exports, was fired upon by a Chinese Communist gunboat off Ling Ting Island, only 15 miles southwest of Hong Kong. The launch broke off the chase and the motor junk was last seen entering Chinese territorial waters. But the day was not entirely lost, for earlier the same launch had captured a fishing vessel in that vicinity. The fishing vessel's cargo was not fish; it was steel plates.

At about this same time, another episode was unfolding a thousand miles to the westward. A posse of Thai police lay hidden near the border between Thailand and Laos. At 7:30 a. m. an automobile drove up. The police closed in; a shot was fired; four men in the car surrendered. The police later reported that the car contained 2 bazookas, a mortar, a Colt-Smith gun, 7 grenades, and 2 field radio transmitters and receiving sets—all destined for the Communist-directed Vietminh guerillas across the border in Laos.

The Tricks of the Trade

Violations of the export controls of the free nations of the world are not confined to the stunts of frogman smugglers, the concealment of steel plates beneath the decks of fishing junks, nor dashes across lonely jungle borders. There are methods that are more refined than those, more diverse and ingenious, and more troublesome. By such methods in Europe, for example, cargoes of highly strategic goods have too often moved to the Soviet bloc during the bright daylight, in ordinary freighters and Rhine barges and workaday railroad trains, looking for all the world like shipments in the routine course of international commerce.

The most common way in which this has been accomplished was to divert a shipment while it was in transit to an apparently innocent destination and send it behind the Iron Curtain. Dishonest paper work was usually in the picture. Export licenses and import certificates were forged. The nature of cargoes was misrepresented. The destinations were falsified. The financial arrangements were covered up. Phony letters from firms both real and nonexistent were offered as proof that materials ordered by Communist countries would be used in the free world. Forged expressions of governmental approval were handed around. Cargoes were shunted from country to country. Sometimes a cargo moved far westward, *away* from the Soviet bloc, and then made a sweeping end run in an attempt to cross the goal line in a different part of the continent. Communist Party officials were active in the intricate underground networks, but many of the violators were inflamed by no other ideology than that of personal gain. Moscow was willing to pay premium prices and fat commissions for the strategic materials it needed; so illegal East-West trade assumed the form of profitable business—and sometimes *big* business—for those few persons in free countries who were naive or callous enough to engage in it.

The Case of the Misdirected Boring Mill

In illustrating how a cargo of strategic goods can find its way into Communist hands, despite laws to prevent it, let us first consider a case involving a violation of the export controls of the United States. The Export Control Investigation Staff of the Office of International Trade, United States Department of Commerce, furnishes the following account from its files:

In 1947 a firm in Poland placed an order with an American manufacturer (no longer in business) for a boring and turning mill valued at $118,000. The mill was completed in 1948. The manufacturer applied for an export license. The Commerce Department refused to grant it, because by that time the menace of world communism was growing and the mill was capable of creating things of strategic value for Poland, such as tank turrets.

The American firm was left holding a $118,000 white elephant. In 1949, the company received an order for the mill from Satis, A. G., an export-import firm in Zurich, Switzerland. The deal was finally concluded in Switzerland with the help of two Hungarians who had been in the business of distributing machine tools in European countries. They ostensibly wanted a small cut of the commission so that one of them could have enough money to get his wife and children out of Hungary.

The American firm again applied for an export license. Again it was denied because Satis, A. G., had not disclosed the ultimate destination of the mill. Then Satis said the mill was being purchased for an Italian manufacturer, which would use it in the production of textile machinery at a new branch factory in Brescia, Italy. Photographs showed that space for the mill had been marked out on the floor of the plant and the electrical installations were already in. It did seem slightly unusual that the shipment was to be made through the port of Rotterdam, which is fairly far from Italy, but this was explained satisfactorily—something to do with payments in lire and Swiss francs. It also looked a bit odd that the instruction plates on the mill were to be in the German language. But it was explained that the mill was going to be operated by some skilled workers of Milan who had been trained in Germany. Since the United States Government at that time was making special efforts to relieve the American machine tool industry by finding customers in non-Communist countries, and since all seemed to be in order at last, the Commerce Department granted the license in the fall of 1949.

The mill arrived in Rotterdam in January 1950. A freight-forwarding firm named N. V. Van Uden's Transport Bureau received it and shipped it southward on 12 flatcars. The flatcars didn't go to Italy. They rolled straight to Hungary, on the other side of the Iron Curtain.

There was a long, embarrassed pause while the United States Government, handicapped by distance and lack of legal jurisdiction over citizens abroad—and determined to be perfectly fair to all concerned—tried to discover the truth concerning what had happened and to see that the parties had a fair hearing. Finally, in October 1951, the Commerce Department announced that Satis, A. G., and the freight-forwarding company were barred henceforth from participating in United States export trade. That meant they couldn't handle any more goods licensed for export from the United States.

Both firms appealed the decision. And they began giving explanations. Satis said that the real intention had been to ship the mill to the waiting Italian company. Satis said that Hungary had been told that it would get the mill, but had been so informed only as a device to bring about the release of some people from Hungary, and that after they had been released, Hungary was to have been told in effect, "The United States license is for Italy. So sorry. Here's your money back." Satis said this plan had gone awry in that nobody notified the Dutch freight forwarder. Satis said it thought one of the Hungarian commission agents was going to do it. The commission agent said he thought Satis was. Nobody did. The freight forwarder, in turn, said that Hungary had paid Satis for the machine in April 1949, and that the freight forwarder had simply carried out Hungarian instructions to ship the mill to Hungary. The freight-forwarding bureau said, too, that it had been unaware at that time of the precise details of United States export regulations (under which the boring mill could be licensed for export to a *specific destination* only). It developed that the freight forwarder had known from the bill of lading that the mill was licensed to go to Italy, and that the Hungarian instructions had been concealed from United States Government officials in Rotterdam, even though they had asked the freight-forwarding bureau about the shipment several times, both before and after it arrived in Rotterdam.

In April 1953, after another long period of conscientious deliberation during which the suspension remained in effect, the Appeals Board of the Commerce Department turned down the appeals of the two companies. However, with respect to the freight-forwarding bureau, the board said that this firm's export privileges might be restored next year if it could show that it had not committed any other violation of United States export controls since 1950.

Other examples of United States enforcement activities include the following:

Victor Samaan of the Union Export Co., Daytona Beach, Fla., was suspended from all export privileges pending a criminal trial in connection with various exports of ball bearings, some of which were transshipped to Iron Curtain countries without United States authorization. Samaan died while the trial was pending.

Victor England, of San Francisco, and Peter H. T. Pan, a partner of the Capital Co., of Hong Kong, were denied United States export privileges for approximately 2 years, until May 1, 1955. The Commerce Department said England and Pan made an arrangement to circumvent United States licensing requirements for exports to Macao, a tiny Portuguese colony on the edge of China. One result of this arrangement was the shipment of some public address loudspeaker equipment to a fictitious firm at Lisbon, Portugal, with Lisbon described as the ultimate destination. Actually the equipment was forwarded from Lisbon to Macao.

A Man Named Magura

Like the United States, other important countries of the free world have agencies to enforce their export controls.

As these countries perfect their regulations and broaden the area of agreement as to what materials ought to be controlled, the emphasis shifts increasingly to enforcement activities. This shift has been taking place during the period under review, January through June 1953. It is expected to continue. The governments that have cooperated with one another to control shipments of materials of strategic importance to potential aggressors through normal channels are expected to devote more and more attention to blocking shipments through *underground* channels.

In the first half of 1953, an intensified drive by Italian enforcement officials resulted in the uncovering of an international ring of smugglers. This organization, involving a large number of firms and individuals in many Western countries, dealt in aluminum, copper, ferroalloys, cobalt, cadmium, strategic machinery and other items needed by the Soviet bloc.

Italian newspapers, giving surprisingly detailed coverage of these police operations, exposed the fact that a key figure in organizing this clandestine ring was Jacob Magura, the Rumanian Commercial Attaché at Bern, Switzerland. According to these reports, an Italian arrest warrant had been issued for Magura, and when he was challenged by an Italian policeman aboard a train near Como, he threw himself from the moving coach and crossed the Swiss border on foot.

The following cases illustrate the kind of activity carried on through the network directed by Magura. It should be emphasized that this organization extends into other countries and that the examples involving persons in Italy are simply illustrative of a general situation.

Between January and May 1953, the Italian authorities discovered 11 diversion attempts involving about 10,150 tons of Austrian aluminum and 5,000 tons of Japanese aluminum. The aluminum was supposed to be delivered to Italian firms but the Italian government discovered that the transactions had been misrepresented and the metal was to be diverted to the Soviet bloc. The government was able to block the entire plan. Nine Italian firms were named in connection with these schemes, though three of them appear to have been innocently involved. Italian nationals having a part in the transaction were reported to the judicial authorities, and were denied foreign trading privileges pending final decision on the charges against them.

In 1953, a certain shipment of strategic materials moved to the Soviet bloc by way of Austria. These materials had been illegally exported, some from Italy and some from West Germany.

The materials of Italian origin included 121 cases of ball bearings. According to articles in the Italian press, these materials were exported from Italy misclassified as "chain rollers." The transaction was carried out under Jacob Magura's direction. The following Italians were jailed by the Italian authorities: Bruno Pontoni, a known Communist and manager of the Communist-owned firm INTEC; Ezio Ottanelli and Valentino Tramontin. The three men were charged under the penal code with receiving payment from a foreign power for the purpose of committing acts against the interest of the state.

The materials of West German origin were 67 cases of ball and roller bearings. Investigations revealed the same thing that the Italian police had turned up—that is to say, the fine Rumanian hand of Mr. Magura. It seems that these 67 cases of bearings had been purchased from a German firm by a Swiss agent who said he was acting for a company in Lima, Peru. The German export license had been granted on the basis of this Peruvian destination. Actually the Lima firm had not ordered the bearings and apparently knew nothing about the transactions. The Swiss agent appears to have sold the bearings to Magura, and when the goods had arrived at a Eupopean free port Magura reversed their direction, shipping them back eastward toward the Soviet bloc.

On the morning of May 19, 1953, a California-born Italian citizen named Walter Rava was sitting in a small room of a cafe at Milan, when Italian Finance Police suddenly confronted him. The police say they caught Rava in the act of pasting official stamps on a forged letter. This spectacular arrest halted another operation directed by Magura, an operation which, if successful, would have resulted in the diversion of about 17,000 tons of copper to the Soviet bloc. The operation again involved Valentino Tramontin, Bruno Pontoni, and Ezio Ottanelli, also two other Italians named Giorgio Gaiani and Fausto Pozzi. All were charged with receiving payment from a foreign power for the purpose of committing acts against the interest of the state. Various firms in Zurich and London were to have been used in the scheme. A Swiss citizen, Adolfo D'Aujourd'hui, was said to have had an important part in the preparations.

The events leading up to the arrests were as follows: The Magura gang planned first to swing a deal involving 5,000 tons of Chilean copper. They apparently considered this a pilot case. Magura, acting through D'Aujourd'hui, had given Walter Rava the task of obtaining authentic Italian import certificates that would pave the way for the importation of the Chilean copper to an imaginary firm in Milan. Somewhere en route, after the copper had passed beyond Chile's control, the destination would have been switched and the precious metal diverted to Eastern Europe. But Rava could not get authentic import certificates. So he had them forged. Besides, he got someone to forge a letter purporting to have been sent by the Italian Ministry of Foreign Trade to the nonexistent Milan company, certifying that the forged import certificates were bona fide. Rava expected this letter to convince the Chilean Consulate in Milan that the transaction was in order. By such means, clearance was to have been obtained for the copper to leave Chile. It was at this crucial point, while Rava was sitting in the cafe with his forged letter and applying official stamps of the type required by the Italian government on all legal documents, that the police closed in on the conspirators.

Diamonds, Copper, and Other Precious Items

Copper, aluminum, and other metals needed in war production are in great demand beyond the Iron Curtain. That is shown all too vividly by these enforcement cases. Take the following Netherlands example:

Last year the Dutch authorities uncovered an international ring that was engaged in shipping strategic goods to Eastern Europe with the help—as in Italy—of forged documents. Some of these documents carried a fake seal of the American Consulate at Rotterdam. American missions in the Netherlands, Switzerland, and Western Germany, cooperating with the Dutch authorities, obtained documentation that was helpful to them in preparing the case against the ringleader and his firm. The ringleader was arrested in May 1952 and sent to jail where he stayed until May 1953, to serve out the 1-year sentence handed down by a court in November 1952.

Before the arrest, 600 diamond tools, 958 carats of diamond dust, and 105 tons of ferrotungsten slipped through to Czechoslovakia.

But the planned shipment of 3,000 tons of copper and 5,000 tons of aluminum, total value about $7,000,000, was forestalled.

The following is an illustration of the numerous cases in which the Netherlands has been able to block undesirable strategic shipments by closely investigating the transactions and prohibiting its residents from financing them.

Early this year several Dutch banks were approached in connection with financing a shipment of 500 tons of copper to Austria. Documents were offered to show that the metal was to be shipped from Antwerp to Trieste and from there to Austria for use by Austrian manufacturers. But investigations showed that the Viennese individual who was to receive the copper was notorious for illegal trade with the Soviet bloc, and because of a strong suspicion that the copper would be diverted to the Soviet bloc, the Netherlands government refused to authorize the transaction.

Certain other governments also have financial controls of various kinds.

Goods in Transit

During the period under review, some governments did not exercise controls over goods that merely passed through their countries "in transit" to other destinations. There are seaports in Europe that have served for centuries as receiving points where goods coming to and from the continent are loaded from one kind of vessel to another. For example, Rotterdam, at the mouth of the Rhine, and Antwerp, at the mouth of the Scheldt, are among the ports where such trade traditionally has been important. Goods "in transit" flow through such ports in large quantity. Included in this trade are strategic goods which are diverted to the Soviet bloc while in transit.

Governments that have permitted transit goods to pass through without restriction have taken the position that there were legal complications in controlling such trade, inasmuch as the goods never entered the economy of the transit country. They have felt, too, that transit controls alone would provide only a limited solution, and that a more adequate solution could be achieved only if other countries would prohibit their residents from engaging in transactions involving strategic shipments to the Soviet bloc.

During the period under review, the Western governments were examining various means of resolving the whole problem.

But even in countries lacking general systems of transit controls, transit trade was not always entirely free. In Belgium, for example, all armament shipments and petroleum, even in transit, had to have a license before proceeding. And out of the enforcement of those requirements grew an interesting case.

Several months ago, 1,500 tons of machine parts arrived in Antwerp in transit, to be loaded on a vessel bound for a Near Eastern country. The Belgian authorities entertained misgivings as to the real destination and the ultimate use of these parts, for the simple reason that they had originally been manufactured for Sherman tanks. Because of the adaptability of these parts they now were to be used, so it was stated, in farm tractors. The Belgian authorities examined the matter and determined the parts to be armaments under Belgian law. As armaments, they could not be transshipped without a license. The Belgian authorities refused to grant a license until satisfied as to the ultimate destination. Meantime the ship sailed without the parts. Pending an investigation the parts were stored in Antwerp, and were still there when the period under review ended.

Two shipments of goods in transit were recently stopped short by the Danish authorities in the Free Port of Copenhagen when it was discovered that the goods were not what they were represented to be. (Denmark controls the movement of strategic goods in transit.) These goods, packed in 98 cases, had moved from Paris to Copenhagen in the early part of May 1953 with instructions for reforwarding to Rotterdam, where no doubt they would have been reforwarded still elsewhere. The cargo was declared to be alloy steel. But while the first shipment was being unloaded at Copenhagen, one of the boxes broke open. A port checker saw at once that the metal was not alloy steel. In fact, tests showed that both shipments were nickel, which has a greater strategic value. It is used, for example, in gun barrels and ammunition. The total amount was 12,716 kilograms (28,034 pounds). The Danish authorities promptly seized the whole lot, pending an investigation in which the police of four other countries are cooperating.

Another seizure took place earlier in the same Free Port of Copenhagen. A man named Jens Mauritz Andersen attempted to ship some goods to Czechoslovakia. He declared them to be "instruments". Suspicious, the Danish customs authorities had the goods unpacked. There, amidst the dismantled packing boxes, stood an *automatic pilot assembly* of United States origin. Andersen came up for trial last October. He pleaded guilty and was fined.

Of course the authorities of these countries do not always succeed so well in preventing illicit shipments. As in the United States, sometimes they do not detect the violation until after the cargo has been swallowed up behind the Curtain; and sometimes they never learn of the violation at all. But it is significant that in free countries around the globe, there are official agencies working to enforce strategic controls, and to improve their methods. Following is an example of how a shipment of copper was intercepted through luck and alertness, even though it was moving in transit.

Toward the end of 1952, several hundred tons of high-grade copper arrived at a certain European port from Chile. The shipment was marked for ultimate delivery to a certain firm, which we will call "Firm X", in a neighboring country. The copper was received "in transit" at the European port, and would have gone on through, except for two circumstances: First, the transit document did not describe the copper according to regulations. Second, these documents were presented by a local firm that was suspected of doing a lot of illicit business behind the Iron Curtain. Therefore a port official held up the shipment in a bonded warehouse on the technicality of the incorrect description, and in the meantime caused inquiries to be made.

Thus it was discovered that "Firm X" knew nothing whatever about the copper. It was also found that the sworn statements that had been presented to the Chilean Government to show the ultimate destination of the copper had been forged. And it appeared that the forgery had probably been committed by a middleman in the transaction, located in still another European country. It was not a novel scheme, and in fact was very like the plot of the Magura-Rava gang that was shattered when Walter Rava was arrested in the Milan cafe.

But even now, the only thing that prevented the copper from going to the Soviet bloc was the chance circumstance that the original bill of lading had been endorsed by the shipper's bank in Chile to the favor of "Firm X," rather than to some other individual or firm.

Since the port authorities now knew that any signature purporting to come from this firm must be a forgery, they were able to insist that whoever might present the original bill of lading—and thus claim title to the goods—must offer proof that the copper would be forwarded to a *bona fide* user on *this* side of the Iron Curtain. With the cooperation of the Chilean Government, this was finally accomplished.

Four Potent Letters: I-C-D-V

To anyone who has read to this point, it must be perfectly clear that a country exporting strategic goods cannot *alone* insure their safe arrival at their intended destination. The cooperation of other countries is necessary, and especially the cooperation of the importing country. Without such international cooperation it would be much easier for the profiteers of East-West trade to divert the shipments to the Soviet bloc.

For this reason the free nations which cooperate in strategic trade controls have created a system known as ICDV. The first two initials stand for "Import Certificate." The last two stand for "Delivery Verification." Under this system a government, before granting an export license, may require the exporting firm to present an import certificate, executed by the importing firm and certified by *his* government. In this import certificate, the prospective importer gives assurance that he really intends to receive goods of a stated description, quantity, and value, and that they will not be reexported without the approval of his country's authorities. After the goods have been shipped, the exporting country may further require that the exporting firm produce a "delivery verification" in which the importing country verifies that the goods were really delivered to the country for which they were originally licensed. Violators then are subject to the penalties not only of the exporting country but also of the importing country.

ICDV does not work flawlessly. It is subject to abuse, as when a forged import certificate is used to deceive the exporting country. But the advantages of ICDV are easy to appreciate. The nations work constantly to improve and extend the system. Here is a case that illustrates the operation of ICDV:

In January 1953 a merchant in the United Kingdom placed an order for 8,000 tons of aluminum ingots with a firm in Geneva, Switzerland. The merchant said it was his intention to import the aluminum into the United Kingdom. The Geneva company, in turn, negotiated to buy the aluminum from a reputable firm in another Western European country. During the negotiations, the latter firm requested that a United Kingdom import certificate be furnished to support its application for an export license. The United Kingdom merchant declined to ask the United Kingdom government for the certificate on technical grounds that need not concern us here. An investigation brought to light the fact that the merchant's real reason for declining to apply was that he intended to transship the aluminum to Poland. In the absence of the import certificate, the whole scheme collapsed.

In another recent case, a British trading company actually obtained an import certificate for the stated purpose of importing 100 tons of pig lead into the United Kingdom. After obtaining the certificate, the company sold the lead to a second British trading company without having obtained a "waiver license" to release it of the obligation to bring the metal into the United Kingdom. The lead never reached the United Kingdom, but was sold to other buyers and finally to a country of the Soviet bloc. The British Board of Trade, though making no suggestion that the British companies knew of the ultimate destination, brought action against the first company for violation of the Import Certificates Order, and against a director of the second company for aiding and abetting the violation. Both defendants received substantial fines, and the magistrate delivered a strong warning about the gravity of the offense.

The magistrate said the Import Certificates Order "deals, and obviously deals, in my view, with no less a subject than international security. The regulation is a simple one: the intention is that the Government should be able to prevent, as far as may be possible, important and valuable strategic goods from accumulating in Europe and elsewhere at any point, which might give rise in the future to any change in the balance of power. There could hardly be a more important regulation."

The United Kingdom, incidentally, like the United States and certain other countries, has long had strict provisions against diversions of strategic goods in its own ports, and transshipments of such goods have seldom occurred in British harbors.

In the following case, firms in both the United States and the United Kingdom were involved, but the shipment never actually came to either country, and eventually found its way to the Communists. The shipment was 50 metric tons of aluminum ingots. A New York firm ordered the aluminum from a British merchant, who in turn ordered it from the Norwegian subsidiary of a large and reputable British company. The British merchant stipulated in the contract that the destination was to be a friendly country approved by the United States. Last December the aluminum was shipped from Norway to Rotterdam and there transshipped to Poland. When this happened, a "delivery verification" was demanded, but of course no one could supply an authentic "delivery verification." An investigation by United States authorities indicated that the New York firm had no part in the diversion scheme but erred in not demanding advance assurances from the supposed country of destination that the metal would be used in that country. Actually the aluminum changed hands three or more times after leaving the control of the New York firm.

Enforcement by Denial of Licenses

As most of these cases illustrate, the governments of free countries, when they receive applications for export licenses, take into account not only the stated destination of the shipment but also every bit of available information about the transaction. Such information frequently results in the denial of the export license. For example, the Government of France rejected the following applications in May 1953 on the basis of special information received from French missions in other countries and from other sources:

> Nine applications to export a total of 10,620 tons of tube steel; one application to export 850 carats of diamonds; one application to export 3,960 bearings.

To illustrate further: In January 1953 a French firm received an order for 10 tooling machines from a firm in a country that participates in the ICDV system. One of these machines was shipped. The firm that had placed the order could not furnish a "delivery verification." The French Government told the government of the other country about it, and denied export licenses covering the rest of the machines.

In February 1953 a Western European firm ordered five tons of electrolytic copper from a French firm. All the documentation seemed to be in order and a valid French export license was issued. But at that point the French Government received confidential information concerning the true ultimate destination. The French exporter, at the request of the French authorities, agreed not to ship the copper.

Another French company received an order for 500 tons of ferrochrome last April. The order was accompanied by a statement that the ferrochrome would be used for a certain purpose. French authorities determined that this statement was false, and they did not authorize the export.

A South American firm ordered 1,000 tons of aluminum ingots from a French exporter in May. But the French authorities refused to issue an export license because they received confidential information that the statement received from the South American importer was false as to the ultimate use of the metal, and misleading as to the ultimate destination.

Such cases show how a government, by careful checking and by using all available facts about the persons and firms involved, can stop an illegal shipment before it ever gets started. This *preventive* enforcement of trade controls goes on all the time, though quietly for the most part, in the major trading countries of the free world.

The Government of the Federal Republic of Germany, for example, has denied in recent months a long list of export licenses for such materials as pig aluminum, lead, copper, ball bearings, and machinery, because there was information to indicate that the materials would eventually go to shadowy destinations.

In May, a Dusseldorf firm asked for a West German license to export 600 tons of lead to a Netherlands company which in turn would forward it to Caracas, Venezuela. The license was denied because the evidence that the lead would ever get to Venezuela was not convincing.

This summer the West German authorities received 10 applications for licenses to export a very impressive amount of copper to Rotterdam and then (supposedly) to a firm in Milan, Italy. Import certificates were presented, but they were detected as forgeries, and the applications were quickly tossed out.

There was an earlier case, however, in which an import certificate made out in the name of a Milan firm was not detected as false until too late. A company in Zurich, Switzerland, had ordered 50 metric tons of carbon black (essential to the production of tires) from West Germany, ostensibly for this Milan firm. On the basis of the import certificate, the shipment was allowed to leave West Germany, but when it reached Basle, Switzerland, the Swiss purchaser shot it back through West Germany as "transit goods" from Switzerland to the Soviet Zone of Germany. The Milan firm uttered no word of protest, for the Milan firm never existed.

Ever the Twain Shall Meet

Japan, like Hong Kong, maintains far-reaching and strict controls on the export of strategic materials to Communist China. Japan's *total* exports to that country in 1952, by the way, were little more than half a million dollars, the major item being seaweed. But it happens that Japan figured unwittingly, along with several other countries, in one of the most fantastic episodes of East-West trade that can be found in any files.

In 1950, before the Korean hostilities broke out, certain shipments of strategic goods left West Germany, Italy, and the Netherlands, bound for the Chinese mainland. They were carried on a Dutch vessel, the M. V. Rijnkerk. En route, this vessel stopped in Japan. By that time the Korean invasion was in full blast, and the American occupation authorities ordered the goods to be off-loaded at Kobe, Japan. There they sat for a long time. Finally, last year, a Japanese license was obtained for another Dutch steamship line to haul the goods back to West Germany, Italy, and the Netherlands. This seemed reasonable at the time.

But when the cargoes had made the long voyage back to Europe, they were unloaded at Antwerp. And it turned out that the bills of lading had been made out to a Belgian trading firm with a propensity toward trade with the Communists. At Antwerp, the goods were loaded on Polish vessels. The Polish vessels took them to Poland and then back around to the other side of the world again—to Communist China.

A more recent case, involving Japanese aluminum, turned out more happily. Early this year the Japanese Government issued an export license for 1,000 tons of aluminum—destination Belgium. After reports appeared in the press that the aluminum was being sold at unusually high prices, a check with the Belgian Commercial Attaché in Tokyo revealed that Belgium had not issued an import license for the shipment. The Japanese authorities cancelled the export license.

A few months later, in a somewhat similar case, already mentioned in connection with Italian enforcement activities, the Japanese authorities refused to license an even larger amount of aluminum that ostensibly was going to Italy but actually would have been diverted to the Soviet bloc.

The false labeling of goods is often attempted in the Far East as well as in Europe. Early in 1953, for example, a box of goods arrived in Hong Kong from a company in Osaka, Japan. The box was marked "sample porcelain ware." It had left Japan without a license because Japanese licenses are not required for samples. In Hong Kong, however, a customs official wanted to look at these "samples." He found them to be tool bits, greatly in demand in Communist China, and similar to those that were to be towed through the water by the "frogman smuggler" a few months later. The Hong Kong authorities seized the "samples," and the matter was referred to the Japanese Government for possible prosecution of the shipper.

At about this same time, Hong Kong waterfront inspectors turned up an export license that seemed to have been tampered with. They put it under an ultra-violet lamp. Sure enough, the document had been altered with chemicals. The original wording "ash trays" had been changed to "steel plates." The proprietor of a metal company was charged with trying to export 30 tons of steel plates on a license that had been granted for ash trays. On March 18, 1953, he was placed on bail of five thousand Hong Kong dollars.

The same sort of vigilance is necessary at the British colony of Singapore. For example, 53 cases of automobile spare parts destined for Communist China were falsely declared as letter trays and toys. The parts were intercepted by the Singapore customs, and the authorities took punitive action.

* * * * * * *

And so it went, in the first half of 1953. In Asia, in Europe, in North and South America, a criminal fringe of people who don't mind fooling with dynamite in order to fill their pockets with contaminated banknotes or to carry out the wishes of Communist higher-ups—this criminal element continued their attempts to evade the strategic controls of the free nations. The sampling of actual cases related in this chapter has been confined, of course, to those that can be disclosed publicly. Many more examples must, for sound reasons of security, remain in Government files.

Some of the illicit attempts were successful. Others were broken up. Out of all these cases the free world has learned lessons and has applied them through positive enforcement action with increasing effectiveness.

CHAPTER II

The Nations Pull Together

AS YOU saw in the preceding chapter, the enforcement of strategic trade controls would be much harder than it is, if each nation had to go it alone, lacking exchange of information with other governments, lacking parallel action by them.

Behind all these far-spreading activities, behind the development and strengthening of the controls themselves, is a little known story of international cooperation.

Take the ICDV system—"Import Certificate" and "Delivery Verification"—whose value was illustrated in chapter I. This system did not spring up of its own accord.

Parallel measures for *economic* defense, like those for *military* defense, have been successful and grow increasingly effective because the countries of the free world have agreed on security objectives and have worked together to achieve them.

Since the latter part of 1949, the United States has participated in an informal, voluntary, multi-national organization aimed at the control of the export of strategic commodities. The general objective of this informal organization is to coordinate and unify such security controls on exports of strategic commodities to certain countries as may be necessary to safeguard the interests and resources of its members.

During the period covered by this report the other participants were: Belgium, Canada, Denmark, France, Federal Republic of Germany, Italy, Japan, Luxembourg, The Netherlands, Norway, Portugal, and the United Kingdom.

(Greece and Turkey were welcomed as new members early in August 1953.)

Some Notes for Historians

People sometimes fail to recognize that effective multi-national security trade controls would not exist today unless they had been developed on the basis of mutual accord and voluntary action of the participating governments. On the one hand there are segments of American opinion convinced that international cooperation in this field has been lacking, or at best passive. On the other hand there are segments of opinion abroad convinced that strict United States export controls have, under the Battle Act, been forced upon other countries against their will, and as the Communists would have it in their propaganda, against the best interests of the free nations.

Both of these views are erroneous, and such extremes of opinion tend to contribute to a weakening of the overall collective defense system of the free world. Communist propagandists find the subject of trade controls a useful one in their efforts to create discord in the West and disunity between the United States and its allies.

For security reasons, all facts about international negotiations in this field cannot be made public. Even if they could, the complex details of a strategic export control program would scarcely interest the average citizen, but they would be of great advantage to countries that would like to thwart the program. A brief resume of the way in which international cooperation has developed in this field, however, might be helpful.

As early as 1948, after the Communist coup in Czechoslovakia, the United States developed its own plans for seeking cooperative international action in the field of security trade controls. Talks with individual countries took place in late 1948 and during 1949. The export control lists of the United States were used as a basis for discussion.

By mid-1949 it was recognized that a multilateral approach was required in order to make maximum progress towards the main objective—that all countries should control the same goods in the same manner at the same time. Some countries already had rather extensive controls, but a uniform minimum goal and coordinated progress were needed. Therefore the bilateral talks soon led to informal consultations in which several countries took part. European countries then took the lead in suggesting a regional approach to the complex problem of strategic export controls.

The Machinery Assembled

In November 1949 an informal multilateral Consultative Group was formed in Paris, in order to place the normal exchanges of views through diplomatic channels on a more systematic basis. It began functioning actively in January 1950. The governments concerned, represented by senior officials, have continued their consultations in this group several times each year since 1949 in order to discuss basic policies and problems in this field.

Shortly after the Consultative Group came into being, a subordinate Coordinating Committee (known as COCOM) was organized to provide an informal forum at a working level for day-to-day discussions. A small secretariat was established to service the complicated and unique requirements of the Group. Later, the increasing work involved in connection with special controls applicable to the Far East led to the creation of a separate China Committee, also under the Consultative Group, in September 1952.

The Consultative Group organization has no direct connection with formal organizations such as the North Atlantic Treaty Organization or the Organization for European Economic Cooperation.

The Work of the Group

The machinery for multilateral consultation has proved most useful in providing a forum for a regular exchange of views on questions which arise out of the need to balance the requirements of military security against the economic gains from trade.

It has enabled each government to take action with the assurance that others are simultaneously enforcing similar measures and policies.

For example, it provides a basis for common embargo policy for goods recognized to be of high strategic importance, and an equitable basis for limiting the quantities of other strategic exports.

Over the last 3½ years, numerous measures have been discussed and many have been recommended to governments to strengthen the system of security controls. Suggestions for improvements have come from all quarters. The United States has taken a leading part in the work of the group, but no country has a monopoly on good ideas, and some of the best suggestions have come from our allies.

Suggestions for parallel action are developed in the informal group and forwarded to the governments as recommendations for their consideration. However, any member is free to adopt any control scheme it deems necessary. Obviously, there are sometimes legitimate differences of opinion and orientation on what should be done. These are frankly discussed, and mutually acceptable solutions are sought.

Views have been exchanged on a wide range of problems, many of a highly technical nature, which are involved in maintaining security controls on trade. Apart from developing lists of commodities of varying degrees of strategic importance, the participating governments consult with one another before any of them enters into any commitments to ship items of primary strategic importance. Such commitments are entered into only if they are considered essential. Attention has also been given to cooperative action on such matters as transit controls and financial and shipping controls.

The ICDV system, as we said at the outset of this chapter, did not spring up spontaneously. It was developed in the Coordinating Committee and has been in operation for nearly 2 years. Improvements and extensions of the system are continually under study, and some were made during the 6 months covered by this report. In addition, systems similar to ICDV are now used by a number of governments outside the group.

That, in brief, is the story of how the nations have pulled together in the trade control program. Now let us examine the basic facts about trade between Western and Eastern Europe.

CHAPTER III

Myths About East-West Trade in Europe

EAST-WEST trade under present conditions—when the free nations are striving amid economic, political, and social cross-currents to make themselves strong enough to insure against aggression and prevent another world war—is a subject of some complexity. The facts about it are often unknown or poorly understood. The vacuums thus created by the absence of hard facts are sometimes occupied by emotionalism and wishful thinking.

Trade between Western and Eastern Europe is a fertile field for the cultivation of myths. This modern mythology is found, in contrasting forms, on both sides of the Atlantic Ocean.

In Western Europe, for example, it is not rare to encounter the notion that a vast increase in East-West trade is dangling just beyond the horizon; that if the Western nations would only reach out and grasp this horn of plenty it would rid them of unemployment, raise their living standards, solve most of the problems growing out of their shortage of dollars, and put the world on the road toward lasting peace; and that the only obstacle to this fulfillment is the restrictions imposed upon trade by the Western countries. All this is a myth, for the chief deterrent to peaceful trade has been the policies of the Soviet Union.

In the United States, on the other hand, the notion is held by some people that our allies are shipping military items to the Soviet bloc, and some have the idea, besides, that *all* East-West trade is evil in itself, unpatriotic, disgraceful, no different from wartime "trading with the enemy," and ought to be abolished; and that the United States could and should "get tough" about East-West trade, regardless of the disrupting effect it would have on the Mutual Security Program. All this, too, is a mythical view because it bears no relation to the hard facts.

Misconceptions like these on both sides of the Atlantic obviously are not shared by the governments of the free nations nor the majorities of their peoples. If they were, the present cooperative system of selective controls over strategic shipments could not exist.

Nevertheless, such illusions entertained by portions of the public in both Europe and North America can be damaging to the unity of the free nations, and it is well to face them squarely and to dispel myths with facts.

Why Has Trade Declined?

One error often made by Europeans is to suppose that the strategic trade controls of the free nations have brought about the near-strangulation of East-West trade in Europe.

This is doubly mistaken. In the first place, although trade between Western and Eastern Europe *has* declined since before the war, it still amounted last year to $908,000,000 from West to East and $1,013,000,000 from East to West—hardly approaching strangulation. In the second place, the decline that has occurred is attributable only in part to Western trade controls.

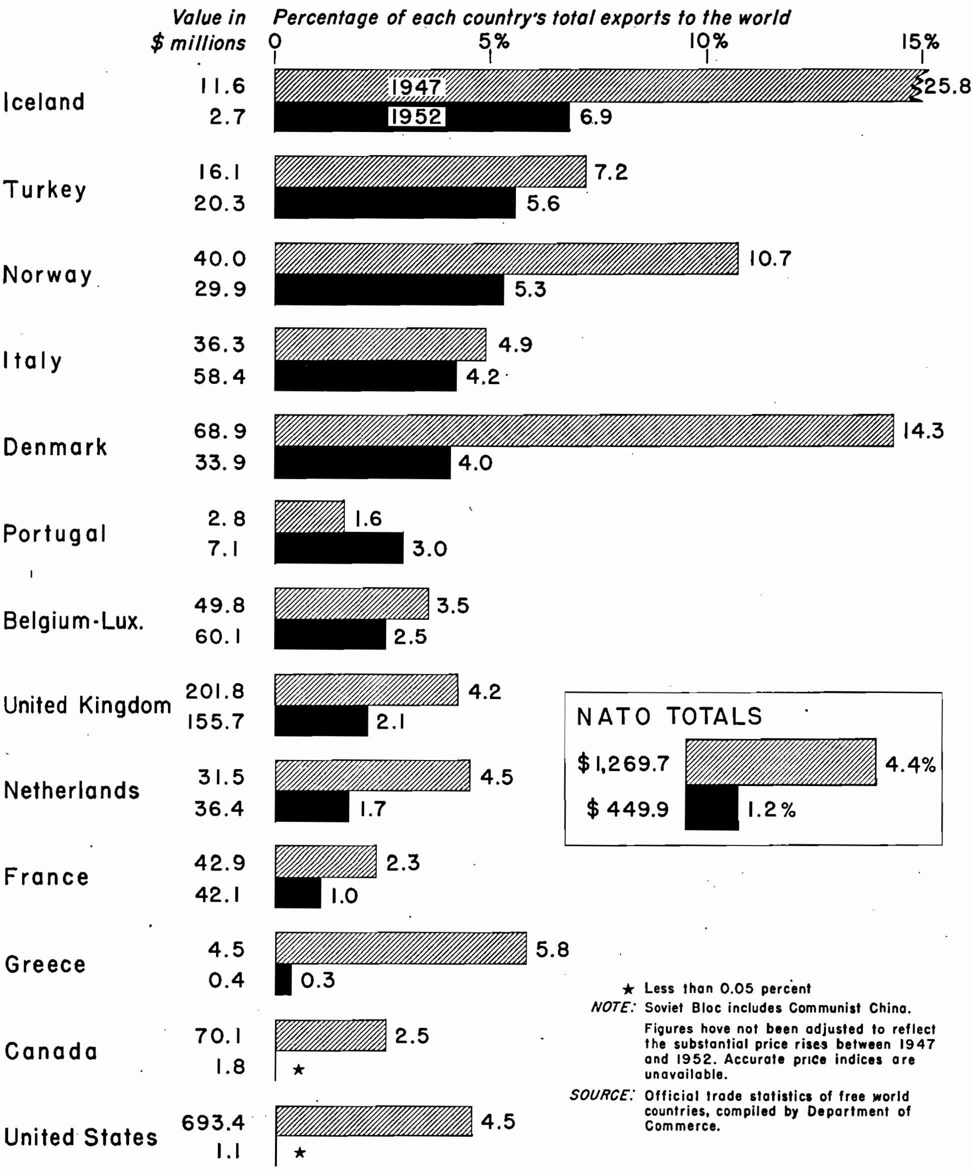
The most fundamental cause of the decline of European East-West trade is to be found in the fact that the Eastern European countries, under central Moscow domination, have pursued a policy of Soviet-bloc autarchy, that is, of striving toward economic self-sufficiency. Trade among the Eastern European countries has increased more than tenfold since before the war. All those countries have worked to build up not only basic industries, but also engineering, transportation equipment and other such enterprises. In the big push to industrialize they have been using raw materials that they formerly had for export. The area as a whole has been following a course clearly aimed at achieving economic isolation for the Soviet bloc at the earliest possible time. This objective has been shown not only by the trading practices of the bloc nations but also by the explicit public statements of the highest Soviet leaders.

The peoples of Eastern Europe would not choose this course if they had freedom to choose.

When opportunities have presented themselves, satellite peoples, starved for consumer goods, have braved Soviet tanks for a few simple necessities that could be received from the free world, were it not for the policies imposed on them by their Russian masters.

The East Germans, the Czechoslovakians, the Poles, Hungarians, Rumanians, Bulgarians have not voted for the policy of economic self-sufficiency. They have never been asked whether they would like to put the products of their fields and mines into a buildup of heavy industry serving only the militaristic imperialism of the Communist Party of the U. S. S. R. Their opinions were not sought as to whether they should do without the peaceful goods that had traditionally been made available by Western Europe. They have not had free elections of any kind—not since being occupied by the armies of the Soviet Union.

NATO NATIONS' EXPORTS TO SOVIET BLOC
1947 AND 1952



★ Less than 0.05 percent

NOTE: Soviet Bloc includes Communist China.
Figures have not been adjusted to reflect the substantial price rises between 1947 and 1952. Accurate price indices are unavailable.

SOURCE: Official trade statistics of free world countries, compiled by Department of Commerce.

The economic objectives being pursued in Eastern Europe are those of the Kremlin, not of the millions upon millions who suffer because of those objectives.

The Propaganda Bubble

So it was Moscow's policies and the resulting lack of exportable surpluses in Eastern Europe and the reluctance of the puppet governments to import Western European consumer goods that contributed most to the decline of trade.

All this being true, what becomes of the notion, seized upon so hopefully by some in Western Europe, that there is an extremely large untapped potential in trade with Eastern Europe and that if the barriers could only be let down by the Western governments, this trade would come in with a rush and sweep away a great many economic ills?

Unfortunately this notion has to disappear, upon close examination, like any other mirage. And with the disappearance, one has no difficulty in perceiving that it was all along a false hope and that it has been deliberately fostered by Communist propaganda.

Some countries of Western Europe still find Eastern Europe valuable as a source or a market for significant amounts of certain commodities, as we shall see later in this chapter. But taking a broad view of the trade picture, Eastern Europe has never been, even before its drive toward self-sufficiency, a really large source of supply for Western Europe. And it has even less to sell now. Nor has Eastern Europe ever been a major market for Western products, and it has been a poorer market since the war.

This does not have to be so. The situation could be changed. A change would be welcome. When the Marshall plan for European recovery came into operation in 1947 it did not exclude the countries of Eastern Europe. They were invited to join the nations that came together to help one another. It was hoped that trade throughout Europe would climb to prewar levels and keep climbing. But the U. S. S. R. said no. The U. S. S. R. would not join and would not let its satellites join with the other nations. Instead, Moscow launched its program of intimidation and aggression, and drove its satellites into conformity with the unfortunate economic policies that we have been discussing.

For its purposes, Moscow was more interested in strategic goods than any other goods from the West. And when the free nations, for the common-sense reason of protecting their own security, began to control the shipment of strategic goods, the busy propagandists of the Communist Parties of all nations tried their best—and are still trying—to break down the system of strategic trade controls.

They tried—and are still trying—to stir up suspicion and resentment among the Western countries. These propagandists, and groups gullible enough to help them, tell the business community of each country that it is being discriminated against by trade restrictions and that *other* Western countries are rushing in and getting the gravy. The Communist *Daily Worker* in London, for example, prints headlines like this: "Trade Rush Begins; Britain Must Break United States Bans or Be Left Behind." At the same time the Communist press of other countries is shouting that the businessmen of West Germany, of France, of Italy—or whatever country it may be—are being outdistanced in the race for juicy trade rewards. The truth is that the governments of all these countries have steadfastly continued to cooperate with one another in the strategic control program.

These propagandists have for years been spreading the false story that the United States Government constantly presses Western Europe to reduce *all* East-West trade, whether strategic or nonstrategic. The truth is that United States policy does not oppose the shipment of nonstrategic goods.

The Soviet Trade Offensive of 1953

At this point it is necessary to consider whether, since the death of Stalin, the Soviet leaders have dropped their economic objectives and adopted new ones, more conducive to a great increase in peaceful trade on a business-like basis.

During the period covered by this report, there has indeed been some change in tactics.

In April a conference on East-West trade was held at Geneva, sponsored by the Economic Commission for Europe (ECE), a regional commission of the United Nations. The ECE had attempted to set up such a conference in September 1952 but at that time the Soviet-bloc countries had ignored the invitations.

Their representatives came to Geneva, however, and sat down with the Western Europeans and gave every appearance of meaning business. They talked about specific commodities. They left off their customary violent denunciations of the United States. Their attitude was different from the attitude they had shown in April 1952 at the Moscow Economic Conference, a propaganda forum which produced extravagant promises but very little in the way of concrete trade.

The new attitude at Geneva was obviously in tune with the worldwide peace gestures emanating from Moscow during recent months. It is still too early to evaluate the results of the Geneva discussions. Apparently they have led to some increased activity in the way of trade arrangements.

The United States believes in meeting all Soviet peace gestures halfway, but with caution. Deeds, not words, are demanded. No real opportunity should be lost to reach agreements and ease world tensions. On the other hand, there have been no actions on the part of the Soviet bloc toward the free world which lessen the imperative necessity of our being prepared militarily and economically for future months and years of grave danger.

A change of tactics in trade matters, though refreshing, does not necessarily mean a change in fundamental objectives. There is no evidence Moscow has abandoned the economic objective of autarchy behind the Iron Curtain, nor its political domination over the trade of the satellites, nor its objective of using trade and trade promises as a cold-war weapon to divide the Western nations.

The hard facts relating to the Soviet bloc's lack of exportable surpluses of goods needed by the West, or of markets for Western consumer goods, cannot be altered by soft words.

And the program of strategic trade controls must be continued.

Myths on This Side of the Atlantic

If it is erroneous to look upon the potentialities of East-West trade as a panacea for all the ailments of Europe, it is equally erroneous to look upon any and all East-West trade as an evil thing that must be stamped out.

Some Americans have fallen into this error. They think the United States and its allies should still be following the World War II policies of all-out economic warfare—that is, embargo *everything* and enforce the embargo with military blockades. Therefore they are likely to be puzzled, dismayed, or angry whenever they read in the newspaper that a new trade agreement between a country of Western Europe and a country of the Soviet bloc has been concluded.

But East-West trade is not necessarily harmful to the West. It depends on what is shipped, where and when it is shipped, and what is received in return.

To try to force a stoppage of all East-West commerce would be precisely the wrong way to assure peace in the world. Such a stoppage would be impossible in the present climate, and even if it were possible, it would not conform with the economic and political facts of life in Europe.

Western European countries depend more heavily on foreign trade than does the United States. In order to live, they must trade. Western European countries trade mainly in the West, but some of them still obtain certain benefits from commerce with Eastern Europe. They have strong motivations for continuing it.

Trade being a two-way street, these countries receive from Eastern Europe certain materials they need, such as coal, bread grains, feedstuffs, and timber. They also want to sell commodities in Eastern Europe that they cannot readily sell in other parts of the world. There are other motivations, too, such as geographical proximity, traditional patterns of commerce, and internal political pressures.

The governments of these countries are not deceived by exaggerated claims concerning the potentialities of trade with Eastern Europe, but they do want to obtain what benefits *can* be obtained through the export of nonstrategic goods.

We are trying to prevent a world war from occurring, and we do not consider its occurrence inevitable. We must look upon every part of the East-West relationship from the viewpoint of how it might move toward peace rather than war. In this connection the Secretary of State, on May 6, told the Senate Committee on Foreign Relations concerning nonstrategic East-West trade in Europe: "I believe that that kind of trade can be definitely to our advantage in awakening the satellite countries to the possibilities of closer relations with the Western countries as against what they can get through their present relations with the Soviet Union."

Chamber of Commerce Versus Total Embargo

Neither do leading American businessmen share the notion that all European East-West trade is wrong. The Chamber of Commerce of the United States, for example, adopted the following resolution at its annual meeting in April:

> The Chamber supports collective measures on the part of the United States and allied nations of the free world to prevent Communist bloc countries from receiving strategic items which would contribute to their war potential.
>
> The Western world hopes for the ultimate freedom of captive countries of East Europe. Commerce, as a peaceful means of maintaining relationships with such countries could be singularly effective in penetrating their isolation.
>
> Severance of all trade relations with those countries, however, would in some cases be more harmful to the free world than to the countries behind the Iron Curtain. The West obtains from the East commodities vital to its own defense and of value to its economic stability. The criterion of such trade must be one of net advantage. Full consideration must also be given to the alternatives and their implication.
>
> Absolute embargo of the Soviet bloc would be cited by the Kremlin and Communist elements in other areas and thus serve as a powerful propaganda weapon.

The United States and Nonstrategic Trade

The United States does not oppose nonstrategic trade as such. If, however, the shipment of nonstrategic goods is made contingent upon the shipment of strategic items, it becomes another matter and must be closely examined by the free nations. The same is true if non-strategic trade is of such a nature as to build up undue dependence upon the unreliable and politically controlled sources and markets in Eastern European countries that are still being forced by Moscow to strain toward Soviet-bloc autarchy. Such dependence is risky if great enough to make a Western country unduly vulnerable to pressures from the bloc, pressures that would weaken the Western alliance.

The question of undue dependence is a hard one. The best answer to it is the development of new sources of supply and new markets within the free world.

This cannot be done overnight but it must be done. It means the reduction of tariff walls in the United States, thus allowing more imports to come in from our friends and allies. It means a similar loosening of trade restrictions by other free nations. It means greater economic integration among the European countries. It means more production per man hour in the factories, mines, and farms of the free world. It means steady advancement in the economic development of the underdeveloped areas of the world. All those things are important for reasons that are not related to East-West trade, but the problem of East-West trade gives them an additional element of urgency.

No Arms or Ammunition

An especially unfortunate fallacy that is found among some people in the United States is that our allies are pouring large quantities of military items into the Soviet bloc. This is completely untrue.

The major trading nations of Western Europe have been cooperating for years in the program of denying strategic materials to the bloc. They ship no arms, ammunition, implements of war, or atomic energy materials whatsoever. They maintain generally an embargo on a wide range of industrial items that would make a significant contribution to war potential.

President Eisenhower told the Congress on August 1 in a letter concerning the shipment of items listed for embargo under the Battle Act: "I have been struck by the relative infrequency of shipments of this kind, and by the fact that the few shipments made have been based upon a policy of honoring commitments previously undertaken or upon the conviction that the margin of the strength of the free world over that of the Soviet bloc was being increased by the resulting two-way trade."

The United States has not always agreed with other countries on questions that have arisen in the day-to-day operation of strategic controls. But the exaggerated idea that these countries have no interest in controlling strategic items is not only false but dangerous, since it leads to unwarranted distrust toward the very countries that we badly need, and that badly need us, in the common defense effort.

Free Nations Must Stand Together

Most dangerous of all, perhaps, among the misconceptions that sometimes appear in segments of the American public is the misconception that the United States could afford to "dictate" to those allies and coerce them to do its bidding—even to the extent of cutting off United States aid every time there is a difference in honest judgment between our allies and us concerning their trade.

The United States Government can and does exert its influence through negotiations, through persuasion, and through the weight of factual evidence. But no one country in the North Atlantic community is in the position of "dictating" to the others. As President Eisenhower said in a speech on June 10, "All of us have learned—first from the onslaught of Nazi aggression, then from Communist aggression—that all free nations must stand together, or they shall fall separately".

The President continued:

> This essential, indispensable unity means compromise—always within a clearly defined, clearly understood framework of principle. We know the need of compromise, in harmony with basic principles, within our own Nation. It is the essence of the democratic process. We should not be surprised that it applies just as vitally among nations—in the wide community of the world's free peoples. . .
>
> None of us can rightly forget that neither the world—nor the United Nations—is or can be made in a single image of one nation's will or idea.

We can never afford to forget that not one of our special programs, including the important program of controlling strategic exports, has any real promise of lasting value for the cause of freedom unless the countries that mean to defend their freedom can stand together in mutual respect and united purpose.

As for the termination of aid, this weapon will of course be used whenever warranted under the terms of the Battle Act. But it cannot be used lightly, for the simple reason that our aid to other countries under the Mutual Security Program is not a program of charity. As the *New York Times* put it so aptly on July 24, "We must not give way to the temptation to consider foreign aid in today's world crisis as a sort of Christmas tree from which the American Santa Claus hands over tanks, guns, ammunition, and other goodies to deserving little nations. Foreign aid today is aid to everybody concerned including ourselves. . . . This is no charity. It is a matter of peace or war, of life or death, of honorable defense or, in some form, of dishonorable tribute."

The myths about European East-West trade, representing the emotionalism and wishful thinking of misinformed individuals on both sides of the Atlantic, can grow only in the dark. National policies, designed to build strength, to deter aggression, and to prevent war, must be soundly balanced between the extremes and realistically based on the facts as we find them.

CHAPTER IV

The China Trade

THE preceding chapter was mainly about Europe. Now let's turn to the China trade.

Much of what was said about relations between Western and Eastern Europe is equally applicable to the Orient. For example, the free nations must and do stand together in united purpose whether Far Eastern or European matters are being considered. And the contention that our allies are shipping military articles to the Communists is fallacious and harmful, whether one is talking about the Chinese Communists or the Russian Communists.

China trade, however, must be regarded as a different problem. It is different because the Chinese Communists throughout the six months covered by this report were engaged in aggressive warfare against the United Nations in Korea. None of the free countries was in an all-out declared war with China, but the urgent situation in Korea, aggravated by other Communist violence in the south of Asia, made it necessary for the free world to maintain strategic trade controls against Communist China that were much more severe and sweeping than the system applicable to the rest of the Soviet bloc.

Strategic Goods Embargoed

One of the chief events in the development of these tighter controls over shipments to Communist China had taken place on May 18, 1951. That was the day when the United Nations General Assembly recommended that all nations apply an embargo to Communist China and North Korea covering "arms, ammunition, and implements of war, atomic energy materials, petroleum, transportation materials of strategic value, and items useful in the production of arms, ammunition, and implements of war."

With extremely rare exceptions all the free nations of the world have complied with this resolution ever since.

Furthermore the embargo was steadily improved, month after month, for the duration of the Korean war. The important industrial nations that cooperate with one another in the informal Consultative

Group (described in chapter II) have devoted special attention to the China trade. In addition to the items embargoed to the European Soviet bloc, these nations have extended their China embargo lists to cover several hundred other items which they believe to be of strategic significance to the Chinese Communists.

New measures that were taken by the free governments to tighten their China controls during the period under review will be described later in this chapter. But first it is necessary to deal with a matter that has caused much confusion—namely, the difference between the China-trade policy of the United States and the policies of our allies.

The United States Embargoes Everything

The Congress provided that the Battle Act shall be administered in such a way as to give the fullest support to the United Nations embargo of strategic shipments to Communist China, and this Government has indeed worked to extend that embargo throughout the free world and make it more effective. But this Government, in respect to its own exports, went even further.

United States exports to China had been $354 million in 1947, $273 million in 1948, $83 million in 1949, and $47 million in 1950. After the Chinese Communists entered the Korean fighting, the United States in December 1950 prohibited the export of all items, whether strategic or nonstrategic, to Communist China. In addition United States ships were forbidden to call at Communist Chinese ports. For a while, the United States continued to allow certain imports of Chinese origin. Official statistics for 1952 show U. S. imports from China of $27.7 million, of which more than four-fifths came in the first half of the year. (See table 9 on page 87.) The imports of Chinese origin were largely hog bristles and crude feathers, needed at that time for strategic stockpiles. The statistics also include, however, imports of goat hair and marmot fur from Outer Mongolia, which is not considered a part of Communist China, except for statistical purposes.

The reason for the United States prohibition against all exports to Communist China was not that every kind of merchandise was considered to be directly helpful on the battlefield. Rather the prohibition was based on a deep-felt conviction that an aggressor nation, engaged in fighting and killing the troops of the United States and other free countries, ought to be subjected to the maximum possible economic pressure, and that we ought not to supply its economy with any articles whatever, even civilian-type articles.

The United States also took into account the fact that the Chinese Communists, in addition to being aggressors, were trying to build a stronger war-potential base for their weak and primitive industry and needed outside help to do it; therefore many items were considered strategic to them which were not strategic to the rest of the Soviet bloc.

A policy of total embargo to Communist China has been the consistent position of the United States. And this Government suggested that other free nations take the same position.

Nonstrategic Trade Goes On

Most of the major trading countries of Western Europe and Asia could not accept the position of the United States. These nations cooperated in the embargo of strategic items, but when it came to goods like cotton, fertilizer, textiles, textile machinery, dyes, and drugs, they were not willing to cut off their exports to China. One does not need to assume that these governments were any less sincere in their decisions than the United States, but only that they were in different circumstances and saw the problem through different eyes.

Many of these countries feel keenly their heavy dependence on foreign trade. They argued that they got economic benefits not only from selling nonstrategic exports to China but from the imports they received from China in return, and from the shipping services they provided. They argued that this sort of trade was to the advantage of the free world, not of the Chinese military machine. It was contended, too, in some quarters, that it was wise to preserve a strong economic link between China and the West, in order to reduce China's dependence on Moscow and perhaps some day turn Mao into a Tito. The trading policies of some of these countries were also influenced by the fact that they, unlike the United States, had extended diplomatic recognition to the Chinese Communist Government.

So most of our allies kept on shipping what they considered to be nonstrategic items and obtaining Chinese goods in return. Exports from the free world to Communist China in 1952 were about $257 million. In 1951 they had been $433 million. The drop in 1952 was caused by a number of factors, including the free-world embargo of strategic items and the fact that in the first part of 1952, Communist China was outwardly cool toward trade with the West. In the latter part of 1951 and the early part of 1952 the Chinese were trying to orient their trade away from the free world and toward the Soviet Union. They reorganized and centralized their foreign trade machinery and carried on an "anti-five-vices" campaign, directed in part against "foreigners" and trade with the free world. The Chinese made an about-face in 1952, and by the fall of that year were actively seeking Western trade again. This campaign began to be reflected in the statistics in 1953.

Of all the free countries that exported goods to Communist China in 1952, Hong Kong led the list with $91 million (contrasted with $281 million in 1951) and Hong Kong's principal items—largely re-exports originating in other countries—were medicines, fertilizer, dye, wool tops, paper, and textile machinery. Pakistan, in second place, shipped $83.9 million worth of raw cotton. Ceylon shipped $26 million worth of rubber in exchange for Chinese rice (rubber is a strategic item but efforts to persuade Ceylon not to ship it have failed). The United Kingdom shipped $12.8 million of miscellaneous items, the major ones being sodium compounds such as caustic soda, fertilizer, rugs, wool tops, and textile machinery. Egypt (cotton), Finland (paper and wood pulp), India (jute products), and Switzerland (dye, textile machinery, medicines) followed in that order. More details will be found on the chart opposite this page.

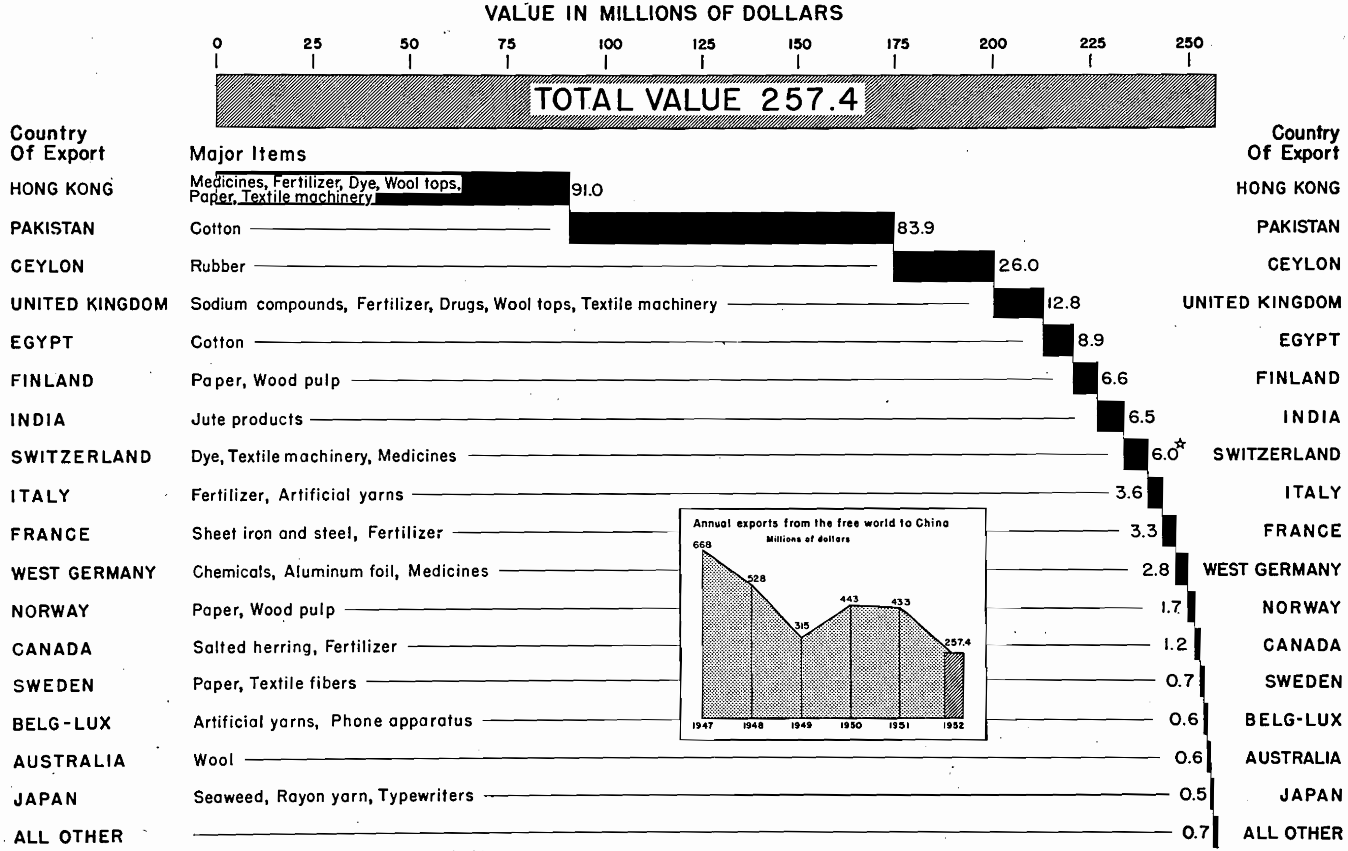
While the free world was exporting $257 million in goods to Communist China, it was importing from Communist China about $345 million. Among the principal items were soybeans, dried eggs, fruits, ground nuts, vegetable oils, iron ore, grains, and hog bristles. Hong Kong imported $145 million, Malaya $40 million, India $32 million, and the United States was in fourth place with $27.7 million. West Germany, Japan, Switzerland, and the United Kingdom followed in that order. Japan managed to import $15 million despite the fact that its carefully-screened exports to Communist China were not much over half a million.

The Chinese Communists are not entirely dependent on goods from the free world. They received from their European Soviet allies during 1952 several times as much as they received from the free nations. The shipments of Communist origin included arms and ammunition and other strategic materials. Most of them moved over the trans-Siberian railroad. The Chinese Communists claim that only 25 percent of China's total foreign trade in 1950 was with Soviet-bloc countries, and that this had risen to 72 percent in 1952.

In the early months of 1953, trade between many nations of the free world and Communist China was on the increase. For example, shipments from Hong Kong, Ceylon, West Germany, the United Kingdom, France, Italy, Belgium, and the Netherlands were running at a higher annual rate than their unusually low shipments of last year. If free-world exports continued at the same rate as that of the first 3 or 4 months of the year—and that is not at all certain—the 1953 total would be around $375 million. This would be higher than 1952 but not as high as 1951.

The 1953 increase was not due to a relaxation of strategic trade controls. The strategic embargo was being tightened in the first half of 1953, not relaxed. The increase was in nonstrategic goods. The

FREE WORLD EXPORTS TO COMMUNIST CHINA IN 1952



* Estimated; exact figure not available.

Note: As far as possible, figures refer to Mainland (Communist) China, including Manchuria.

Source: Official trade statistics of free world countries, compiled by Commerce Department.

main reason for it seems to be the changed attitude of the Chinese Communists, who had dropped their reluctance to deal with the West and were placing more and bigger orders for the kind of goods that the free governments would have been willing to ship all along.

First Things First

The difference between the China-trade policy of the United States and the policies of its major allies was one part of the many-sided Far Eastern problem that confronted the new administration when it took office in January.

With Chinese Communist soldiers fighting our troops in Korea, what was the best thing to do? Should we bomb Chinese territory and go all-out in the war against Communist China? Should we blockade the Chinese coast and attempt to stop all ships, whether belonging to the Soviet bloc or to our allies? Should we notify our allies that we would terminate or reduce our aid to them—or punish them in other ways—if they continue to trade with the Chinese Communists?

The policy chosen by the administration included building up South Korean strength in Korea, building up the Chinese Nationalist forces in Formosa, strengthening the forces fighting Communism in Indochina, and at the same time showing a willingness to reach a truce in Korea.

With respect to the China trade, the administration during the first half of 1953 followed a policy of concentrating on first things first. Our policy was to get our allies to exert economic pressure on Communist China, but we had no illusion as to the immediate feasibility of stopping trade in nonstrategic goods. We had to recognize that transactions in the China trade could be advantageous to the free world (the United States itself had imported strategic items from China in 1952). And we had to recognize that other sovereign countries were entitled to make judgments of their own with respect to their own trade, and that we could not stop their nonstrategic shipments without taking measures that in the long run would do the free world and the United States far more harm than the existing trade could possibly do.

Thus the United States Government, in the period under review, did not press other governments to cut off their nonstrategic trade with China.

Instead, this Government used its influence and its energies in a direction more likely to pay off in increased security for the United States and the free world—namely, toward the more effective control of *strategic* materials.

Strategic Embargo Tightened

There were two principal ways in which the free governments could improve their control of strategic items in the China trade:

1. *The free governments could make sure that their lists of strategic items for embargo did indeed include all those items which were strategic in nature.* Steady progress was made in this direction during the 6 months. Discussions on the strategic importance of specific items took place at Paris throughout the period. The lists were further expanded. The area of disagreement among the Western nations was further reduced. Differences over the strategic importance of commodities are inevitable, for there is no hard and fast boundary between "strategic" and "nonstrategic." To get adequate facts as to how a commodity is being used by a given country sometimes requires a vast amount of careful intelligence work. There have been, and still are, commodities which the United States considered strategic to Communist China but which some of our allies did not. This relatively small area of disagreement over whether specific items were strategic should not be allowed to obscure the vastly greater area of agreement existing among the free countries.

2. *The free governments could make sure that their ships did not carry to Communist China any of the strategic items which they listed for embargo.* Helpful strides in shipping controls were made during the 6 months.

An important event having to do with shipping controls was announced in Washington on March 7, 1953, at the close of talks between Secretary of State Dulles and Anthony Eden, the British foreign Secretary. Mr. Eden stated that the United Kingdom, in addition to the existing controls over the export of strategic materials from Britain and her colonies, had decided to introduce a new system of licensing British-flag ships so that they could not carry strategic materials from non-British sources to Red China. Mr. Eden also stated that his Government would take additional steps designed to insure that no ships of any nationality carrying strategic cargoes to China should be bunkered in a British port. The two Governments agreed to concert their efforts to obtain the cooperation of other nations in such measures.

The new British licensing procedure went into force on March 31. Commenting on this procedure and on British trade with China, the Joint Under-Secretary of State for Foreign Affairs, Mr. Nutting, told the House of Commons on June 17:

> I welcome this opportunity of making our position clear on the question of British trade with China.
>
> We stand by the United Nations resolution of May 18, 1951, which called for an embargo on the supply of strategic goods to China and we

are carrying it out with vigour. Export licenses for strategic goods to China had in fact been refused by the United Kingdom for nearly a year before the United Nations resolution. Lists of strategic materials are coordinated by a group of nations of which the United States is one. We have recently still further tightened up our controls. Ships on United Kingdom or Colonial registers require licenses for any voyage to a Chinese port or between Chinese ports. If any of our ships were to contravene these regulations they would be liable to be hunted down on the High Seas by British Naval vessels and their managers and masters would become liable to severe penalties.

We have no power to apply these measures to ships flying other flags but we have taken steps to ensure that no ship of any nation can be bunkered in ports under our control unless we are satisfied that it is not carrying strategic materials to China.

So long as the United Nations resolution of May 18, 1951, is in force we shall continue these policies.

With regard to goods which are not the subject of these security controls it is the policy of Her Majesty's Government to develop trade with the countries of the Soviet bloc and with China. We cannot live without trade and we consider that this trade in nonstrategic goods is to the advantage of the free world. I repeat that the goods which we allow to be exported or carried to China by ships flying our flag are all goods which are not on the lists of strategic materials to which I have referred.

The new licensing and bunkering controls, as instituted by the British, spread rapidly to other countries in one form or another. On March 28, at the conclusion of United States-French talks in Washington, the United States and France announced that France would put similar controls into effect. During the next few months a number of other countries either established, or said they would soon establish, new arrangements designed to insure that their ships would not carry strategic goods from anywhere to Communist China. These countries included the Netherlands, Belgium, Canada, Denmark, Norway, Italy, and Japan. (Appendix A, beginning on page 53, contains brief descriptions of the trade controls of major nations, including shipping controls.)

Some countries made it clear, while issuing new regulations, that in practice their vessels had not been carrying strategic goods to China. Many governments of the free world have taken pains to point out during the last few months that the mere fact that a Western ship calls at a Chinese port does not mean that it delivers strategic goods there. It does not necessarily mean the delivery of any goods at all, for a common practice of Western ships is to unload cargoes at Japan or Hong Kong, then proceed to the China coast in ballast in order to pick up Chinese bulk cargoes for the free world. The types of goods coming out of China are generally more bulky than those goods going in, and far more shipping space is required for the goods leaving China.

Meanwhile, on March 17, the Greek Government had forbidden all Greek-flag vessels to stop at ports in Communist China.

The United States took new steps to make its own extensive shipping and bunkering controls more effective. For example, on February 20 the Mutual Security Agency changed its charter requirements in such a way as to deter foreign-flag vessels from calling at Communist ports within 60 days after carrying MSA cargoes to Formosa. This procedure was refined and adopted by other United States agencies, with the result that foreign ships chartered by the United States Government for the carrying of any civilian bulk cargoes—not only to Formosa but also to other destinations—were put on notice that if they called at Communist Far Eastern ports within 60 days after discharging the cargoes they would forfeit part of their charter fees. The basic intent of these measures was to insure that vessels would not be placed by virtue of United States contracts into a profitable and advantageous position to engage in the China trade. Another United States measure was taken on June 7 when the Department of Commerce tightened its controls over the furnishing of fuel or provisions to foreign ships or airplanes scheduled to visit Communist China.

Some countries, of course, had established shipping controls before this year. We have already seen that the United States removed all its vessels from the China trade in December 1950. Panama did the same in August 1951. The Honduran and Costa Rican republics issued similar regulations. Liberia prohibited the carrying of strategic goods to any Soviet-bloc port in a Liberian-flag vessel.

But the new shipping regulations of the first half of 1953 applied a welcome reinforcement to the free world's embargo over the shipment of strategic materials to Communist China.

After the Korean Truce

The armistice in Korea was signed on July 27, nearly a month after the end of the period covered by this report. The post-armistice developments in the China trade will be discussed in the next semiannual Battle Act report. No one can with certainty predict the outcome of efforts to reach a political settlement in Korea. But these facts can be reported now:

The July truce brought no relaxation of the strategic embargo exercised by the major free governments.

The United Nations resolution of May 18, 1951, did not go out of existence when the truce was signed.

The policy of the United States was to maintain its own strict controls over shipments to Communist China and to recommend that other countries maintain their controls also.

On July 14, about two weeks before the truce was signed, the foreign ministers of Britain, France, and the United States concluded several days of talks in Washington. The communique contained this sentence: "They considered that, in existing circumstances and pending further consultation, the common policies of the three Powers toward Communist China should be maintained." With respect to trade, this meant that a Korean armistice would not automatically lift their embargo on strategic goods to Communist China.

Certain private trading interests in some countries of the free world have been hoping that the barriers standing in the way of unrestricted trade with China would be eliminated, or at least lowered somewhat so that the strategic embargo would be no more strict than the embargo on shipments to the European Soviet bloc.

Delegations of businessmen have traveled to Peiping this summer and made unofficial trade agreements—not joined in by their governments—to trade in certain commodities. These tentative arrangements have included Western exports of nonstrategic goods, and also of certain strategic goods which, however, the businessmen well knew they could not ship unless controls were relaxed. Regardless of private arrangements to the contrary, governmental controls over strategic items are always overriding. Private arrangements should not be confused with the official actions of governments, which continue to consult closely with one another and to examine all proposals in the light of the security of the free world.

For example, after a group of private British businessmen visited China in June, the President of the Board of Trade said in the House of Commons on July 9, that "our strategic controls will not, of course, be affected in any way by any arrangements that have been made in Peking."

Events of great importance are brewing in the Far East. But the people of the free world cannot permit visions of the future to blind them to the grim realities of the present. As President Eisenhower said on July 27:

> We have won an armistice on a single battleground, not peace in the world.
>
> We may not now relax our guard nor cease our quest. Throughout the coming months, during the period of prisoner screening and exchange, and during the possibly longer period of the political conference which looks toward the unification of Korea, we and our United Nations allies must be vigilant against the possibility of untoward developments.

CHAPTER V

Administering the Battle Act

THE first four chapters have given a world-wide picture of strategic trade controls in action. Now it remains to take a closer look at how the Battle Act is administered, and then to give a brief summary of the whole report.

One provision of the Battle Act has the effect of insuring that it shall be administered by whoever has supervision over the Mutual Security Program.

During the period covered by this report, the title of Administrator of the Act was held by the Director for Mutual Security.

When the Foreign Operations Administration (FOA) came into being on August 1, Harold E. Stassen, who had been Director for Mutual Security since January 28, became Director of the FOA. The title of Director for Mutual Security was abolished. So was the formal title of "Administrator" of the Battle Act. Hence, the responsibilities of the act now are lodged with Mr. Stassen in his capacity as Director of Foreign Operations.

Those responsibilities include:

1. Determining which commodities should be embargoed by countries receiving United States aid.
2. Continually adjusting the embargo lists to current conditions.
3. Advising the President on whether or not United States aid should be continued to a country which has knowingly permitted the shipment of embargo-list items to the Soviet bloc.
4. Coordinating United States Government activities which are concerned with security controls over exports from other countries.
5. Making a continuing study of the administration of export control measures undertaken by foreign governments and reporting to the Congress at least every 6 months.
6. Making available technical advice and assistance on export control procedures to any nation desiring such cooperation.

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A Staff Known as "MDAC"

A Battle Act staff within FOA (Foreign Operations Administration) assists in carrying out these duties. This staff is known in the Government as "MDAC," which is pronounced "em-dac" and which stands for Mutual Defense Assistance Control. MDAC is headed by the Deputy Administrator of the Battle Act, a title which did not change when FOA was established. The Deputy Administrator now is Vice Admiral Walter S. DeLany, U. S. N. (Ret.), who took office on June 4, after having served as a consultant since April 8.

On June 30, MDAC consisted of 20 persons, including clerical employees. In addition, there were 95 other governmental personnel, not only in Washington but also in United States posts abroad, who were performing Battle Act functions and were paid out of MDAC budget funds. These 95 were in the following agencies:

Mutual Security Agency (now incorporated in FOA)	17
State Department	32
Defense Department	7
Commerce Department	39
Total	95

Besides the 20 people in MDAC and the 95 others who were paid from MDAC funds, the four agencies listed above had still other employees, paid from the agencies' own budgets, who worked at least part of their time on Battle Act functions, and who were engaged in the same general type of activity even before the Battle Act became law. On the average, in the first half of 1953, this third group was equivalent to 196 full-time employees, divided as follows:

Mutual Security Agency (FOA)	8
State Department	92
Defense Department	41
Commerce Department	55
Total	196

Thus the United States Government's attention to the strategic trade control program being carried out by the free world required the equivalent of 311 full-time employees. Of these, 209 were in Washington and 102 overseas. An Associate Deputy Administrator of the Battle Act is stationed in Paris. Also in Paris is the United States delegation to the informal committees that coordinate the strategic trade controls of the free world. And in various United States embassies there are economic defense staffs whose main concern is the operation of the control program.

A Machine Called "EDAC"

The Battle Act provides that the administrator shall coordinate United States Government activities which are concerned with the free world's security export controls. It also provides that the administrator in listing commodities for embargo shall give full consideration to the views of all appropriate United States Government agencies.

The machinery for all this coordination is the Economic Defense Advisory Committee. This is known in the Government as EDAC, pronounced "ee-dac." The chairman is the Deputy Administrator of the Battle Act. Eleven agencies are represented on EDAC. The chart following this page shows the membership of EDAC and the way the whole EDAC structure is organized.

EDAC is purely advisory. It takes no actions, but submits recommendations for actions in the economic defense field. The membership of EDAC is at the Assistant Secretary level, and the committee meets only when important policy recommendations must be made. EDAC held 11 meetings in the first half of 1953. The EDAC Executive Committee, a smaller group at a lower level of representation, held 33 meetings, and the various interagency working groups of EDAC, shown on the chart, made studies and were responsible for the coordination of action programs, each in its own field.

The Secretary of State also uses the EDAC structure to advise him whenever he requires the advice of other agencies on economic defense matters.

Six Months Under the Battle Act

With the indispensable help of the EDAC structure just described, and with the Department of State—the agency responsible for the coordination of United States foreign policy—performing the vital function of negotiating with other countries, activities of the following kinds were carried out under the Battle Act during the report period:

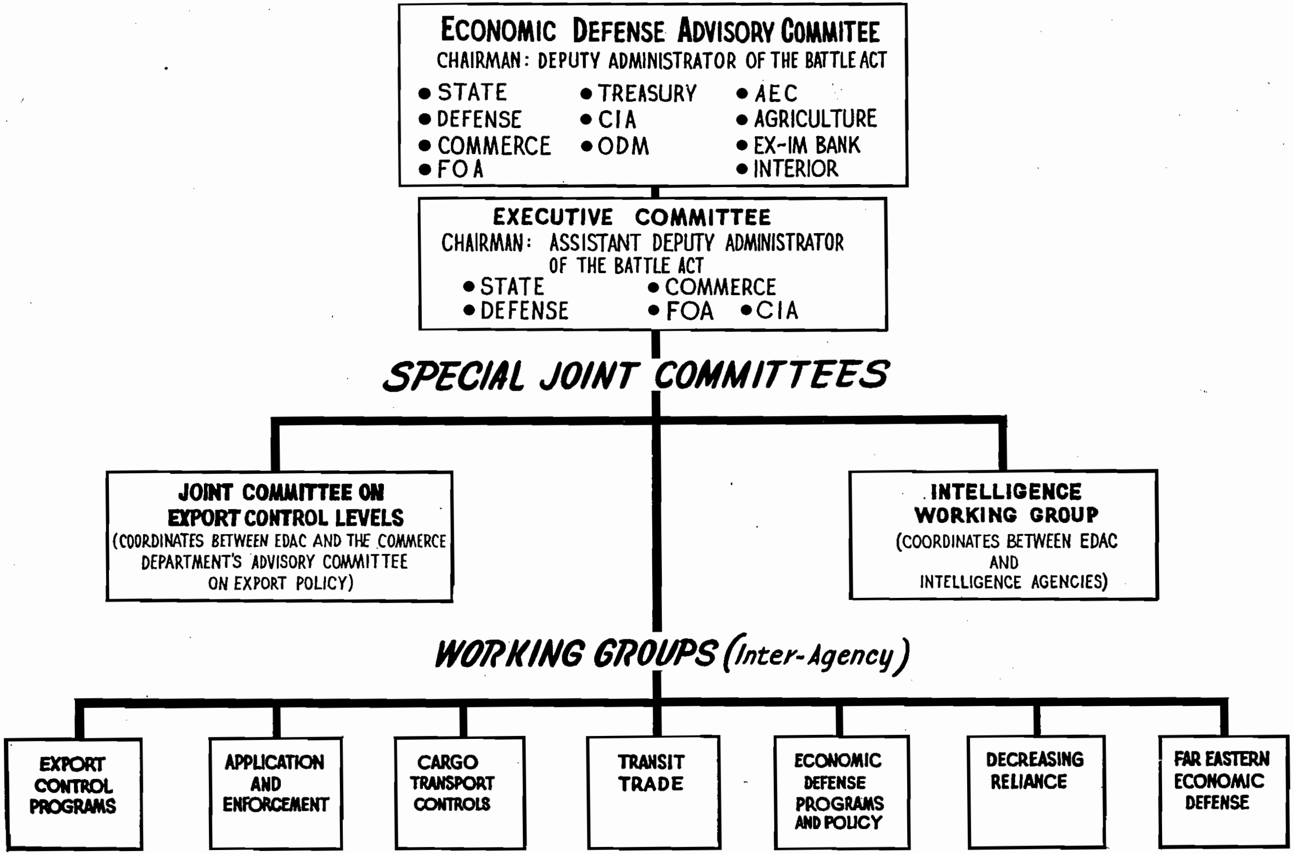
Intelligence data and embassy reports from all over the world had to be analyzed by experts.

United States positions had to be formulated on the strategic nature of commodities, on the establishment of new types of controls, and on other questions, and instructions had to be prepared for United States negotiators abroad.

Lists of strategic items, which are of concern to the Defense Department, the Commerce Department and various other agencies, were kept under review—a big job that never ceases.

United States cooperation was given at every possible opportunity

EDAC STRUCTURE



to other governments in the world-wide enforcement of strategic trade controls.

A new panel was created in Washington to review information collected from United States agencies concerning foreign firms and individuals, and concerning Americans abroad, who have willfully conducted operations in violation of strategic trade controls. In appropriate cases the panel recommends to all pertinent Government agencies that they take "administrative action" to withhold certain kinds of United States privileges and facilities from such firms and individuals.

The continuing study of the administration of export control measures undertaken by foreign governments went forward during the period under review, and in that connection, appendix A of this report contains up-to-date summaries of the controls of the major countries.

The giving of technical advice and assistance to other governments went forward, too. This worked both ways: The export-control technicians of the United States have both given and received valuable suggestions in the exchanges of technical teams with other countries. A five-man team from the United States studied British controls in London from April 27 to May 8, returning the visit made to Washington by a British team last November. Seven Italian officials were in Washington from May 19 to May 29.

Government agencies not only *give* advice in EDAC; they also *receive* advice on the performance of their own statutory duties that pertain to economic defense. The Commerce Department, for example, has the job of controlling most exports of United States origin. The Treasury Department administers the Foreign Assets Control Regulations, which prohibit commercial and financial transactions with or for the benefit of Communist China, North Korea, or their nationals. Under these regulations, Communist Chinese and North Korean property in the United States is controlled, as are importations of goods originating in those areas. All such activities bear upon one another and must be coordinated.

An illustration of one agency's action in which other agencies had an interest was the establishment of "transaction controls" by the Treasury Department on June 29. Persons living in the United States were prohibited from taking part in the purchase or sale of strategic materials in other countries for the purpose of shipping them to the Soviet bloc. This measure was designed to insure that persons in this country would not participate in transactions that would thwart the export controls of other countries.

United States economic defense personnel were busy abroad as well as in Washington. For example, from June 23 through 26, Economic

Defense Officers from United States missions throughout the Far East held a profitable conference at Manila, presided over by the Assistant Deputy Administrator of the Battle Act and attended by 8 other Washington officials from 5 agencies.

The MDAC staff, besides coordinating activities such as those described on the foregoing pages, had much else to do in the period under review. For one thing, it prepared numerous statements and letters in response to requests from Congressional Committees. MDAC also provided briefing papers, charts, and other data to the National Security Council, which conducted a reexamination of United States policies having to do with strategic trade controls. The NSC study was still going on when the period ended. Conclusions reached by the NSC will be reflected in the economic defense actions of this Government during the months to come.

The Termination-of-Aid Provision

No Presidential determinations either to cut off aid or continue it were made under the Battle Act during the 6 months. But some countries did permit the shipment of certain embargo-list items (not munitions) to Eastern Europe during the period, either because of commitments entered into before the Battle Act went into effect or because of a conviction that the resulting two-way trade would be advantageous to the free world.

These shipments had to be fully investigated, all pertinent considerations taken into account, and recommendations prepared. On August 1, the President notified the Congress that he had directed the continuance of United States aid to France, the Federal Republic of Germany, Norway, and the United Kingdom, because the cessation of aid would have been clearly detrimental to the security of the United States.

Even though this determination did not fall within the period covered by this report, the President's letter to the Congress is reprinted for handy reference as appendix B, on page 73, together with a letter to the President from the Director of Foreign Operations (at that time still Director for Mutual Security), dated July 31, recommending that aid be continued. All of the 11 Government agencies represented on EDAC concurred in this recommendation.

The Case of the Wiima

The problems arising in a world-wide program of economic defense are infinite in variety, and those who administer the Battle Act are often called upon to act in emergencies. Many of these cases cannot be disclosed publicly without endangering the success of similar actions in the future. A case that *was* made public was the case of the Wiima.

The Wiima, a tanker flying the Finnish flag and owned by Antti Wihuri of Helsinki, was chartered by the Polish Government's shipping agency for a voyage from Rumania to China.

In January the Wiima took on about 10,000 tons of refined kerosene at the Black Sea port of Constanza, Rumania, and began the long trip to Shanghai.

The charter specified that the kerosene was for domestic civilian use. But refined kerosene is a fuel used in jet planes, and this cargo of kerosene, though not up to United States jet standards, was sufficiently high grade for jet operations up to a certain altitude—and even higher if mixed with gasoline.

The problem was how to prevent the kerosene from arriving in Communist China. Here is how it was finally accomplished:

The vessel entered the British port of Singapore in February. The Wiima remained in the port for a period of approximately 3 months while negotiations for the purchase of her cargo by the United States were being conducted.

In May, the United States Government purchased the kerosene from the owner of the tanker. On May 12, in the vicinity of Singapore, the fuel was transferred to a tanker of the United States Military Sea Transport Service. It was then carried to Japan and used by United States Armed Forces (but not as jet fuel).

Thus the Wiima case was an example of how a strategic shipment was diverted—not *to* the Soviet bloc but away from it to free-world uses.

Summary of the Report

In chapter I of this report we cited cases from the files showing how controls are enforced. The underworld of East-West trade tries to divert strategic cargoes to the Soviet bloc in violation of the laws of free nations, by means of falsehood, forgery, and intricate arrangements to confuse the authorities and throw them off the trail. Some of the attempts are successful; illegal trade is a serious problem. But the free governments are far from idle. They have improved their cooperation with one another in enforcement matters. They have intensified their enforcement activities and made them increasingly effective.

Chapter II gave a behind-the-scenes glimpse of the nations at work in Paris, coordinating their strategic trade controls. Without close international cooperation, an effective system of controls would be out of the question. An embargo of a given item by one country, or even two or three countries, would be of little value if the Communists could readily get the item somewhere else.

Chapter III dealt with certain myths that have grown up concerning East-West trade in Europe. On both sides of the Atlantic, some people are nursing erroneous conceptions, based more on emotions and desires than on hard facts. In Western Europe, for example, some people influenced by Communist propaganda have embraced an exaggerated vision of the potentialities of trade with the Soviet bloc; they think that a vast increase in East-West trade, serving as a sort of cure-all for the ailments of Europe, would come about if it were not for the trade controls of the West. This is not true. Soviet policies are the main deterrent to peaceful trade. In the United States, on the other hand, there are people who have gained the false notion that our allies, disregarding their own security, are supplying arms and ammunition to the Soviet bloc, and there are those who have fallen victim to the fallacy that *all* East-West trade is wrong and ought to be abolished.

Sound policy must be based on reality. The United States Government and the other major governments of the free world do not attempt to shut off all East-West trade; they do cooperate to withhold strategic items in the interest of their security.

Chapter IV was a review of the China trade. The United States has prohibited all exports to Communist China. Our allies, which are in different economic and political circumstances, continue to ship nonstrategic commodities. But they joined with us, in accordance with the United Nations resolution of May 18, 1951, in an embargo of strategic shipments to the Chinese mainland. This embargo is far more extensive than the one applying to the Soviet bloc in Europe. Nonstrategic trade with China was on the increase during the early months of 1953. This did not mean a relaxation of controls. In fact, the strategic embargo was tightened in the first half of 1953 by expanding the embargo lists and by new controls over shipping and bunkering. Furthermore, the Korean truce did not bring a relaxation of controls, for winning an armistice on a single battleground does not mean that we have won peace in the world.

APPENDIX "A"

Trade Control of Free World Countries

APPENDIX A

Trade Controls of Free World Countries

This appendix summarizes, in accordance with section 302 (b) of the Battle Act, the trade control measures of most of the important mercantile countries of the free world, as well as of several others for which there is new information to report. These descriptions supplement the main text of this report and similar appendices contained in the first and second Battle Act reports.

The main features of the trade-control systems of most free-world countries were originally established to deal with such problems as foreign-exchange control, price control, conservation of goods in short supply, and directing foreign trade to particular currency areas. Security trade controls are exercised primarily through these procedures, using the same basic techniques of export licensing and customs inspection as in export control for other purposes, and are closely connected administratively with them.

The details of security trade controls of almost all countries have a security classification. Thus these descriptions must, in a public report, be presented in somewhat general terms. It is believed, however, that the descriptions contained herein convey more detailed information than in previous reports.

To avoid duplication, this appendix does not include countries which were included in the appendix of the first or second Battle Act report and for which there is no substantial new information on security trade controls which can be reported publicly.

Covered in this appendix, in alphabetical order, are the following:

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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.

Financial Controls

Prior authorization is required for all buying and selling transactions abroad by Belgian and Luxembourg residents. The exchange control is carried out by the Belgo-Luxembourg Exchange Institute.

Shipping Controls

Belgium has taken action to prevent the carrying of strategic goods in Belgium ships to Communist Chinese and North Korean destinations.

CANADA

License Requirements

The Canadian approach to export control is in two parts: by strategic and short supply commodities, and by areas. Under the commodity control two schedules of goods have been established: (1) goods in short supply for which permits are required for shipment to all destinations; and (2) goods of strategic importance for which permits are required for shipments to all countries other than the United States. The area control sets up a list of countries (roughly all of Europe and the Far East) to which all shipments normally require a license, except for specified items which can be exported to certain destinations.

Export controls are administered by the Export Permit Branch of the Canadian Department of Trade and Commerce under authority of The Export and Import Permits Act.

Transit Controls

An export permit is required for all goods originating outside Canada when tendered for export in the same condition as when imported, without further processing or manufacture in Canada. Goods in transit in bond on a through journey on a billing originating outside of Canada, clearly indicating the ultimate destination of the goods to be a third country, do not require a Canadian export permit. Foreign goods passing through Canada to a third country without a through bill of lading require a Canadian export permit. (If such goods represent United States shipments of controlled goods passing through Canada to third countries they must be covered by a U. S. export permit.) All Canadian goods having an undeclared ultimate destination require export permits. Effective from July 4, 1952, shipments of United States goods through Canada must be accompanied by a copy of the United States export declaration form.

Financial Controls

Canada does not exercise financial controls over the movement of any commodity.

DENMARK

License Requirements

Under the recently-revised export regulations in force in Denmark, export licenses are required for all commodities except certain agricultural products, if the goods are exported to or intended for end-use in countries which are not members of the European Payments Union or are within the Dollar Area.

For the goods enumerated in the below-mentioned Commodity Lists A and B, export licenses are required, irrespective of the country of destination.

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.

List B consists of nonstrategic goods. Export licenses for these are issued by the Board of Supply, 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.

Shipping Controls

An arrangement has been made by the Danish Government with Danish shipping companies to prevent the carrying in Danish vessels of strategic goods to Communist China and North Korea. This arrangement is implemented through a licensing system operated under a voluntary agreement with Danish shipowners.

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 various 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 strategic commodities controlled. The most recent increase was published in the *Journal Officiel* No. 116, May 18–19, 1953.

Applications for license to export, as submitted by French exporters, are examined by the Ministry of Industry and Energy, by the 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 the Ministry of Industry and Energy to submit a sample of the commodity in question. This sample is used in determining the advisability of issuing the export license requested. At the port of exit random samples of actual exports are extracted by customs officials and these are compared by competent technicians with the original sample submitted with the license application. This procedure is designed to assure in as many instances as practical that the commodity exported is identical with the commodity for which the export license is issued.

In the event fradulent action on the part of the exporter is found and can be legally established, the exporter is subject to confiscation of the goods in question and 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

All transactions in foreign exchange engaged in by French nationals require the prior authorization of the French Government.

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

Transshipment and Transit Trade

Control over reexports and transshipments of certain listed commodities was tightened April 5 and September 24, 1952. These actions introduced import certificate-delivery verification procedures in France and prohibit the 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 status of suspended duty and not on the 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.

Shipping Controls

Immediately following the publication on March 28 of the joint communique on the United States-French policy talks at Washington, indicating the intention of the French Government to take measures necessary to prevent the transport by French ships of strategic commodities to Communist China, studies of measures appropriate for this purpose were initiated. Several contacts were made by French officials with those of other friendly governments to assure multilateral action in this field. Meanwhile, to avoid the transport on French vessels of strategic commodities to Communist China, the French Government has reached agreement with the only French shipping firm operating on the China run that the latter will not transport commodities of any description to Communist China unless these are covered by an export license or permit indicating Communist China as the destination and issued by the French Government or a friendly foreign government maintaining the same level of controls as concerns strategic items to China as is maintained in France.

The French Government has also declared its intention to institute controls designed to deny bunkering facilities to vessels transporting strategic commodities to Communist China.

GERMANY (FEDERAL REPUBLIC) 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, Hong Kong or Macao, and for the export of all commodities in excess of DM 500 on the "restricted list" published by the Federal Government to all other countries. 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 exchange-control authorizations issued by the foreign-trade banks. Before those permits are granted, the transactions in question are not only screened with respect to currency problems but also in regard to the strategic nature of the goods. The latter screening is done by export control officials, who have the power to prevent the transaction.

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.

Shipping Controls

Effective March 17, 1953, the Greek Government prohibited Greek flag vessels from calling at Communist ports in China and North Korea. This was accomplished by the Greek Council of Ministers Act No. 204 of March 17, which was enacted into law by the Greek Parliament on May 7.

Violators are punishable under the provisions of law No. 2317 of 1953, published by the Greek Government in Gazette No. 61, dated March 17.

HONG KONG

License Requirements

Hong Kong's controls on the shipment of goods to Communist China, already extensive, were further tightened by an ordinance of September 26, 1952. Court cases had disclosed the necessity for this measure, owing to the ambiguity of some of the articles mentioned in previous lists (February 26, 1952 and June 25, 1952). Thus, in this latest list a separate category was established for air transports for fear that the prohibition against military aircraft might not be sufficiently broad. The phrase "and manufactured products of such metals and alloys" was added to broaden the controls over 24 strategic metals. A separate category was established for rubber solutions to replace an ambiguous one controlling only chemicals used in rubber solutions. Another change was the addition of such items as multiple-effect evaporators, certain types of pumps, conveyor belting, lithium, mercury, ships' bottom compositions, certain chromium compounds, abaca and sisal fibers and cordage.

Certain other commodities are controlled under the Defense Regulations (1940), mostly food items which are in short supply.

Transit Controls

Goods which are manifested to another destination and are transiting Hong Kong but which are not off-loaded may proceed without local licensing or interference. Where such goods are off-loaded for transshipment, intransit export licenses are issued when covered by through bills of lading to specific final destinations, including Soviet bloc countries. All goods consigned to Hong Kong merchants, however, are subject to full import and reexport control.

Financial Controls

In the case of exports to the United States and the Philippines of goods originating in China, Macao, South Korea, Taiwan, and Hong Kong, shippers are permitted to retain the full F. O. B. value of their foreign exchange earnings for disposal in the open market, unless the products concerned are on a restricted export schedule presently including wood-oil, tin, silver, lead, preserved ginger, copper, and cotton yarn, in which cases stipulated percentages of the foreign exchange earnings must be surrendered at the official rate. This principle also applies to goods from any source shipped to China, Macao, South Korea, and Taiwan.

In the case of goods shipped to any part of the sterling area, including all Commonwealth countries (but Canada and Newfoundland) and Burma, Iraq, Iceland, and Ireland, there are no limitations on the retention of foreign-exchange receipts.

Full proceeds must be surrendered at the official rate in all other cases in accordance with special country agreements, and subject to the proviso that goods not on the restricted schedule which had originally been imported from the United States with self-provided foreign exchange may be reexported (except to Japan or outside the traditional Hong Kong trading area) without surrender of United States dollar proceeds where it has been ascertained that the exporter is not taking undue advantage of the open market.

Shipping Controls

The United Kingdom Control of Trade by Sea (China and North Korea) Order, 1953, went into effect in Hong Kong March 31, 1953.

ITALY

License Requirements

All commodities listed in the new export tables of April 8, 1952, as amended, 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 inludes 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 confiscation of the goods and prefers charges against those responsible, if they are Italian nationals.

New regulations published in April 1953, impose a more strict financial control over indirect transit operations. Prior to this time, certain firms and individuals who were officially authorized to hold foreign currency accounts, were permitted to carry on transit operations without making an application for foreign exchange in each case. The new regulations withdrew this privilege, making it necessary for all transit operators to submit an application to the General Directorate for currencies of the Ministy of Foreign Trade before purchasing abroad any item listed in part "A" of the export tables (which include strategic items).

Shipping Controls

The Ministry of Merchant Marine has drafted a bill which, when enacted into law, will give the Italian Government the power to exercise control over shipping traffic with countries of the Soviet bloc. The bill contemplates quite severe penalties to be imposed upon owners and masters of ships failing to comply with regulations established by the Ministry of Merchant Marine.

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. Irregularities under the customs law may be punished by fines from 2,000 to 20,000 lire, while other infractions may incur the penalties contemplated by the penal code. Persons and firms under investigation for illegal export transactions are denied foreign trading privileges.

JAPAN

License Requirements

Beginning January 1, 1951, 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.

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 the latter months of the occupation.

Subsequent to April 28, 1952, 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.

End-use checks are made on suspicious applications for licenses to export strategic items to any destination. Import certificate delivery verification procedures were instituted on April 1, 1953. Items which Japan does not permit to be shipped to Communist China are licensed for export to Hong Kong if an essential supply certificate has been issued by the Hong Kong Government; or if an end-use check has been made; or there is reliable evidence that reexport to Communist China is unlikely. Exports of such items to Macao are confined to cases where the Macao Government has issued an import certificate, but end-use checks are also made if there is reason to suspect reexport to Communist China.

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 with these areas is largely confined to barter transactions which must be settled on the basis of back-to-back or escrow letters of credit approved by foreign exchange banks.

Shipping and Bunkering Controls

Since June 1951 it has been required that bills of lading issued by carriers for strategic items licensed for export must contain a "Notice to carrier" stating that delivery of the goods to countries other than the destination designated in the export license is prohibited without the express permission of the licensing authority.

On May 14, 1953, administrative measures were adopted as the result of which no "bare-boat" or "time" charter of any Japanese ship will be approved unless the Japanese Government is assured that the ship in question will not transport strategic goods to Communist China. Furthermore, all Japanese shipping companies have been warned not to accept "trip" charters to transport strategic materials to Communist China.

Japanese oil and fuel companies are to be warned by the Government that they should not grant bunkering facilities in Japan to any ship carrying strategic goods to Communist China.

THE NETHERLANDS

Licensing Requirements

All exports from the Netherlands are subject to export licenses. 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.

Shipping Controls

The Netherlands instituted voyage controls in May 1953, aimed at preventing the carriage of strategic commodities by Netherlands ships to Communist China and North Korea except pursuant to special permission.

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.

Shipping Controls

Norway foreign office announced publicly in April 1953 that the Norwegian war risk insurance group had refused to insure Norwegian vessels delivering strategic articles to Communist Chinese and North Korean ports. The list describing the strategic articles was said to be comprised of the same items as the United Kingdom list. The foreign office also announced that Norwegian ships had not violated the United Nations resolution prohibiting the shipment of strategic material to Communist China and North Korea. Several allegations that they had done so had been investigated and found to be unjustified.

PAKISTAN

License Requirements

Pakistan's export controls are exercised under the authority of the Imports and Exports (Control) Act, 1950 (act No. XXXIX of 1950) as amended by the Imports and Exports (Control) Amendment Act, 1953 (act No. IX of 1953), which extends the life of the 1950 act for 3 years, until April 18, 1956. The act empowers the Central Government to prohibit, restrict, or otherwise control the import or export of goods of any specified description, or regulate generally all practices and procedures connected with the import or export of such goods. Under an export trade control notification of 1948, which is still in effect, numerous categories embracing strategic or short-supply materials have been established for which no licenses are granted. Pakistan prohibits the reexport in their original form of all imported materials regardless of origin except in specific cases, each of which is examined on its own merits. With respect to goods of domestic origin, Pakistan encourages exports to all countries of such goods as are surplus to her own requirements and encourages shipments to the dollar area by placing selected items on export open general license specifically applicable to the dollar area. There is no significant trade in strategic materials with Soviet bloc countries.

Transit Controls

Pakistan has issued special transit regulation to govern trade passing through that country to Afghanistan. Strict control is maintained, however, at the ports to insure against unauthorized transit shipments.

Financial Controls

Pakistan has promulgated exchange control regulations which insure the surrender to the State Bank of Pakistan or its authorized agents of all foreign exchange derived from export transactions.

Shipping Controls

The Control of Shipping Act, 1947 (act XXIV), approved by the Central Government as amended by ordnance V of June 22, 1951, provides for the control of shipping from March 25, 1947, to March 31, 1954. Under this act a Shipping Authority appointed by the Central Government licenses vessels of both Pakistan and Foreign Registry which participate in coastal traffic.

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.

THAILAND

License Requirements

Thailand's export controls are based on a 1939 statute promulgated by royal decree in 1940 and subsequently amended 21 times. At the present time the export of most goods of Thailand origin and the reexport of all goods of foreign origin are controlled by an elaborate licensing system. Domestically-produced goods requiring export licenses include opium, tin ore, iron ore, wolfram ore, foodstuffs, rubber, textiles, arms and ammunition, precious stones, live animals, machinery and agricultural implements, cement, petroleum, various metals, and medical supplies.

Early in 1951 the Minister of Commerce (now Economic Affairs) announced that a complete embargo would be enforced against all Communist or Communist-dominated countries of the world. His statement appears to represent the policy of the Government although a complete boycott has not been embodied in an official decree. Licensing authorities have been instructed not to license goods for export to Communist China and North Korea. The Government of Thailand supports the United Nations embargo resolution.

Transit and Reexport Controls

There is no legal movement of in-transit goods through Thailand except that of tin and wolfram ore legally exported from Burma. However, the Government may permit in-transit shipments under extraordinary circumstances. An export control ordinance of 1949 prohibits the reexports of all types of goods except by permission of the Minister of Economic Affairs under special circumstances.

Such circumstances would include the return of goods to the country of origin and the sale of fuel to aircraft and vessels in international commerce.

Financial Controls

The Government of Thailand exercises a degree of financial control over all exports from Thailand, 100 percent of the official "ex-mill" value of exported rice and 20 percent of the proceeds from the export of tin and rubber must be sold to the Bank of Thailand at the official rate of exchange. The foreign exchange proceeds from the export of all other items must be sold to an authorized bank in Thailand, or, if not sold, must be deposited in such a bank in the name of the exporter. This requirement provides a further means of governmental control over exports from Thailand since an export permit is not granted unless a bank document is produced certifying that the foreign exchange proceeds from the transaction will be sold or deposited in Thailand.

Shipping Controls

There appear to be no Thai shipping controls based on legislation. It is understood that the National Assembly may consider new shipping legislation during its current session, but the details of such proposed legislation have not been revealed.

UNITED KINGDOM

License Requirements

The export control system in the United Kingdom is similar to but not identical with that of the United States. It is administered by the Board of Trade, and at present the list of goods subject to control comprises about 2,000 items. Although the present system grew out of measures originally promulgated at the start of World War II, its primary purpose now is the safeguarding of the country's requirements of strategic and short-supply goods, and the restriction of the flow of such items to undesirable destinations. The United Kingdom security trade control program was instituted in 1947.

The United Kingdom export control mechanism operates in the following manner:

The consolidated order, which encompasses all the items subject to control, is a published document and revisions are issued in the form of statutory orders which are also published in the Board of Trade Journal (an official weekly). The list is arranged into three schedules. The first schedule lists goods which, in general, cannot be exported to any destination without a license. The second schedule lists additional goods (mostly foodstuffs) which, in general, can be exported to any destination without a license. The two schedules are, however, subject to two qualifications. Firstly, a limited number of goods included in the first schedule can be exported without license to destinations within the British Commonwealth (except Hong Kong), Ireland, and the United States. Such goods are listed in the third schedule. Secondly, no goods, even those included on the second schedule, can be exported without license to China, Hong Kong, Macao, or Tibet.

The extent of the restriction on individual items is reflected in the administration of the control. Strict control is maintained over items which are prohibited exportation to certain areas, as, for instance, aircraft, firearms, ammunition, atomic materials. The exportation of a wide range of goods of strategic importance, including rubber, to Communist China is prohibited, as is the exportation to the Soviet bloc in Europe of a somewhat narrower range of commodities. The export to the Soviet bloc of many other items is subject to limitations as to quantities permitted to be shipped. In addition, there is the great bulk of items on which control is achieved through case-by-case scrutiny of individual license applications.

The Export of Goods (Control) (Consolidation) Order, described above, has been amended in recent months to bring under control some twelve additional items of goods determined to be of primary strategic significance and five others of atomic energy interest.

Transit Controls

The United Kingdom has had in effect since November 1951 a system whereby about 200 items of strategic importance arriving from other countries are subject to transshipment control. Individual licenses are required for all of the items on the licensing list before any of the goods, after being landed in the United Kingdom, can be transshipped to any destination other than the British Commonwealth (except Hong Kong), Ireland, and the United States. In administering the control, the British authorities normally grant licenses when they are satisfied that the goods will not be diverted to the Soviet bloc, China, etc., contrary to the wishes of the exporting country.

The United Kingdom has effectively implemented import certificate-delivery verification procedures.

Shipping Controls

In order to restrict further the flow of strategic goods to China and as an additional measure of control, a statutory order (titled the Control of Trade by Sea (China and North Korea) Order, 1953) was made on March 13, 1953, pursuant to which the Ministry of Transport is empowered to control all shipping to China and North Korea. In essence, the order applies to all British ships having a gross tonnage of 500 tons, limits the type of trade in which the ships may engage and the voyages which may be undertaken, affects the class of cargo or passengers which may be carried, and imposes certain conditions on the hiring of ships. Approximately a hundred items are listed in a schedule which is an integral part of the license issued under the order in question.

While formal shipping controls were not adopted until March 17, 1953, British shipping circles were kept under fairly close scrutiny by the Government ever since the adoption on May 18, 1951, by the Additional Measures Committee of the United Nations of the resolution to apply economic sanctions against China as a result of her aggressive intervention in Korea.

Complementary controls over the bunkering of vessels carrying strategic cargo (as defined in the Shipping Control Order) to China were adopted at the same time that the order affecting shipping became operative. These controls are administered by the Ministry of Fuel and Power on an informal basis, in cooperation with British oil companies which deny bunkers to ships carrying strategic cargo to China.

UNITED STATES

Export Controls in General

The Department of Commerce is responsible for controls over nearly all commercial exportations from the United States under the Export Control Act of 1949, as extended.

The Department of State is responsible for control over the exportation of arms, ammunition, and implements of war; the Atomic Energy Commission administers controls over the export of major atomic energy items; and the Department of Treasury administers controls over the exportation of gold and narcotics. All such items require export licenses, and shipments to the Soviet bloc are not permitted.

Administration of Export Controls by Commerce Department

All commodities exported to any destination, except Canada, from the United States, its territories and possessions are subject to export control. There are three main techniques utilized in the administration of such controls:

1. Shipments of commodities contained in the Positive List[1] are under control to virtually all destinations;

2. For some commodities, a general license is authorized permitting exportation to virtually all friendly destinations without requiring that an export license be issued;

3. All commodities, whether or not on the Positive List and irrespective of any general license provisions, are under licensing control to subgroup A destinations (i. e., Soviet Bloc, including Communist China and North Korea), Hong Kong and Macao.

The "Comprehensive Export Schedule" published by the Office of International Trade (OIT) of the Department of Commerce must be consulted in order to determine whether a validated license is required for the exportation of a given commodity to a specific destination as well as to determine other export control regulations of the Commerce Department. The "Comprehensive Export Schedule" is supplemented 2 or 3 times a month by OIT's "Current Export Bulletin". The Secretary of Commerce's Quarterly Report to the President and the Congress reports major policy changes and activities of the Department of Commerce in carrying out its export control activities.

The two main policies as indicated in the Export Control Act which is administered by the Department of Commerce are export controls for security and for short supply reasons. The objective of security controls as embodied in the Export Control Act of 1949, as extended, is to exercise the necessary vigilance over exports from the standpoint of their significance to the national security. The controls were designed to deny or restrict the exportation of strategic commodities to the Soviet bloc in order to impede the buildup and maintenance of the Soviet war potential. Shipments of all commodities to Communist China and North Korea are embargoed while shipments to the European Soviet bloc, Hong Kong, and Macao are either denied or restricted. In addition, all proposed shipments of strategic commodities to all destinations, except Canada, are carefully scrutinized to assure that the goods will not be transshipped or diverted to unfriendly hands. The Commerce Department 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.

In order to prevent the transshipment abroad of United States commodities the Department of Commerce also has regulations covering the unauthorized movement of United States commodities after they leave United States shores. These regulations generally referred to as the "destination control" provisions are designed to prohibit the reexportation from the country of ultimate destination except upon written authorization from OIT. These regulations also restrict ships, planes or other carrier from delivering United States origin

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[1] The Positive List of commodities is a current list contained in the Comprehensive Export Schedule showing the commodities which requuire a validated license from the Office of International Trade of the Department of Commerce.

goods to other than the destination specified on the export control documents. In addition, the United States participates in the international IC/DV system (Import Certificate/Delivery Verification) described in chapter I of this report.

In addition to United States export controls for security reasons it is necessary to administer export controls for short supply reasons in order to protect the domestic economy from the excessive drain of scarce materials and to reduce the inflationary impact of abnormal demand. Such controls are usually exercised by means of export programs or quotas fixed by the Secretary of Commerce. The easing of supply programs in recent months has led to the prompt lifting of nearly all domestic controls over materials; such actions have generally been followed by the relaxation of related export controls for short supply reasons. Thus, export controls for short supply reasons do not play as important a part as before in comparison with security controls.

Transit Controls

A validated export license is required for the exportation from any seaport, land frontier, airport, or foreign trade zone in the United States of certain strategic goods in transit through the United States which originate in or are destined for a foreign country. The commodities so controlled are the ones which are identified on the United States Department of Commerce Positive List by an asterisk.

Shipping Controls

Department of Commerce Transportation Order T–1 denies any United States-registered vessel or aircraft authority to carry items listed on the Positive List, or arms, ammunition and implements of war or fissionable material, to any Soviet-bloc destination, Hong Kong or Macao without a validated license issued by OIT or other appropriate licensing agencies or the express permission of the Under Secretary of Commerce for Transportation. This order includes shipments from foreign ports as well as from the United States.

Department of Commerce Transportation Order T–2 has the effect of preventing the transportation of any commodities directly or indirectly to Communist China, North Korea, or areas under their control, by United States-registered vessels or aircraft. It also prohibits American ships and aircraft from calling at any port or place in Communist China.

A validated license is required for delivery in United States ports of specified types of petroleum and petroleum products to foreign vessels, if the foreign carrier has called at any point under Far Eastern Communist control, or at Macao, since January 1, 1953, or will carry commodities of any origin from the United States destined directly or indirectly for any such point within a period of 120 days in the case of a vessel, or 30 days in the case of any aircraft. This regulation also requires that if a carrier is registered in or under charter to a Soviet-bloc country or is under charter to a national of a Soviet-bloc country it will be necessary to apply to OIT for a validated license.

American petroleum companies located abroad are required to seek permission from the Treasury Department prior to bunkering any vessel destined for Communist China or North Korea if they are carrying to those destinations arms, ammunition, and implements of war, atomic energy equipment, or commodities listed in the Department of Commerce's Positive List.

Financial and Transaction Controls

Foreign Assets Controls, administered by the Treasury Department, prohibits unlicensed dealings involving property in which Communist China or North Korea, or their nationals, have any interest. The regulations prevent the use of United States financial facilities by those countries and their nationals.

These regulations also prohibit the unlicensed importation of goods known or believed to be of Chinese Communist or North Korean origin.

The Treasury also prohibits persons in the United States from participating in the purchase or sale of certain important commodities for ultimate shipment from any country outside the United States to the countries of the Soviet bloc. This action, taken as a part of the Foreign Assets Control Program, supplements United States export control laws.

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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.

A regulation published in the Official Gazette on May 20, 1953 establishes a Board of Foreign Trade to "do the administrative work in the realm of foreign trade and foreign-exchange operations which so for has been done by the Federal State Secretariat for National Economy."

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.

APPENDIX "B"

Continuance of United States Aid to Four Countries

August 1, 1953

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APPENDIX B

Continuance of U.S. Aid to Four Countries

On August 1, 1953, the President sent the following letter to six committees of the Congress:

DEAR MR. CHAIRMAN: Acting on my authority under section 103 (b) of the Mutual Defense Assistance Control Act of 1951, I have directed the continuance of United States assistance to the Federal Republic of Germany, France, Norway and the United Kingdom.

In so doing, I have acted upon the advice of the Director for Mutual Security, who has the responsibility of administering the Mutual Defense Assistance Control Act. Before rendering this advice, he consulted with all the agencies represented on the Economic Defense Advisory Committee, including the Departments of State, Defense, Treasury and Commerce, and they recommended the continuance of aid.

The four countries named above have permitted the export to the Soviet bloc of certain industrial materials of primary strategic significance. I am attaching a letter from the Director for Mutual Security describing the shipments and discussing the reasons why these countries permitted them.

I have carefully taken into account the pertinent considerations involved in these cases, and I have determined that the cessation of aid would clearly be detrimental to the security of the United States. The termination of all aid to these countries at this time would jeopardize the unity and strength of the Western nations that are working together toward the common goal of world peace.

This is the first time that it has been necessary for me to exercise my authority under section 103 (b). In considering these cases, I have been struck by the relative infrequency of shipments of this kind, and by the fact that the few shipments made have been based upon a policy of honoring commitments previously undertaken or upon the conviction that the margin of the strength of the free world over that of the Soviet bloc was being increased by the resulting two-way trade.

The United States will continue to press its objective of preventing the shipment to the Soviet bloc of items of primary strategic importance. We will do so in such a way that our actions will serve the unity and security of the free nations in the common defense effort.

Sincerely yours,

DWIGHT D. EISENHOWER.

*   *   *   *   *

Attached to the above letter was a letter dated July 31, 1953, from Harold E. Stassen, Director of Foreign Operations (at that time Director for Mutual Security), recommending the continuance of aid to the four countries. Mr. Stassen's letter follows:

JULY 31, 1953.

MY DEAR MR. PRESIDENT: The purposes of this letter are as follows:

First, to report that certain countries of Western Europe have permitted the shipment of strategic materials under such circumstances as to require a Presidential Determination under title I, section 103 (b) of the Mutual Defense Assistance Control Act of 1951 (Battle Act).

Second, to advise that you direct the continuance of United States assistance to each of these countries, since in each case the termination of aid would be detrimental to the security of the United States. I make this recommendation on the advice of Vice Admiral Walter S. DeLany, USN (Ret.), my Deputy for Mutual Defense Assistance Control, and with the unanimous concurrence of the 11 Government agencies represented on the Economic Defense Advisory Committee, including the Departments of State, Treasury, Defense, and Commerce.

Section 103 (b) provides for the mandatory termination of all military, economic, and financial aid to any country that knowingly permits the shipment to the Soviet bloc of "arms, ammunition, implements of war or atomic energy materials"—items known as "Category A." To my knowledge no country receiving U. S. aid has permitted the shipment of such items.

The same section provides for termination of aid if a country ships "petroleum, transportation materials of strategic value, and items of primary strategic significance used in the production of arms, ammunition, and implements of war," as listed by the administrator of the Act. This list is designated "Category B." Concerning the shipment of such "Category B" items, however, the termination of aid is not mandatory; the President may direct the continuance of aid "when unusual circumstances indicate that the cessation of aid would clearly be detrimental to the security of the United States."

The following countries, although they cooperate with the United States and with one another in the control of strategic exports, have shipped certain amounts of "Category B" items to Soviet bloc countries.

The Federal Republic of Germany shipped $10,660 worth of ball and roller bearings to Hungary in fulfillment of a "prior commitment"—that is, a commitment made before the Battle Act embargo lists went into effect on January 24, 1952. The Hungarians ordered these bearings for railroad rolling stock which they are manufacturing on Argentina's order.

France shipped an additional $450,864 of its "prior-commitment" items to Eastern Europe, including various amounts of bearings, valves, cocks, lathes, grinders, aluminum, sodium, nickel tubes, and a boring mill.

Norway shipped 3,250 metric tons of aluminum ingots, valued at about $2,323,000. Of this, 2,000 tons went to the U. S. S. R., 750 to Poland, and 500 to Czechoslovakia.

The United Kingdom shipped an additional $580,016 of its "prior-commitment" items to Eastern Europe, including locomotive equipment, a small rolling mill, safety valves, and miscellaneous other articles. Besides these prior commitments, British firms have also exported to various Soviet bloc countries $25,925 worth of "Category B" items in very small shipments, some of which were less than $1 and only a few of which exceeded $1,000.

Summarizing the above figures, there is an estimated total of $3,260,286 worth of "Category B" items which were shipped by the four countries and which have not previously been the subject of a determination under the Battle Act.

All of those items went to Eastern Europe with the exception of one small shipment to Communist China—$32 worth of gages intended for a sugar-processing plant.

All the shipments from France and the Federal Republic of Germany, and nearly all those from the United Kingdom, as noted above, were made in accordance with "prior commitments." Therefore they constitute further developments in a long-standing situation which is already well-known to you and to the six committees of the Congress that have the statutory responsibility of receiving reports on Battle Act determinations.

The 3,250 tons of Norwegian aluminum were shipped under Norway's 1952 trade agreements with the U. S. S. R., Poland, and Czechoslovakia. Only the shipments to Czechoslovakia (500 tons) were "prior commitments," the Norwegian-Czech agreement having been signed before the Battle Act embargo lists went into effect. The agreements with the U. S. S. R. and Poland were concluded later in 1952.

The Norwegians shipped the aluminum on the ground that by so doing, they were enabled to obtain important commodities from Eastern Europe, including coal, manganese ore, grains, and sugar, and also to find a market for their salted herring.

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Norway depends heavily upon imports for the basic needs of its economy. By far the greater part of its imports come from the free world. Considerable amounts of certain important commodities, however, have traditionally come from Eastern Europe.

Under the 1952 trade agreements, Norway received coal, grains, sugar, manganese ore, fertilizer, steel ship plates, chemicals, machinery, and iron and steel products. Norway exported large quantities of salted herring and marine fats and oils (extracted from fish and whales), as well as aluminum, pyrites, iron ore, rayon pulp and rayon staple fiber.

Among those Norwegian shipments, aluminum was the only item on the Battle Act "Category B" list. According to the Norwegians, the making of all these two-way trade arrangements depended upon their willingness to ship aluminum. In the prewar year 1938 the Norwegians had shipped 5,269 tons to Eastern Europe; in 1950 it was 5,350 tons, and in 1951 it was 3,800 tons. The 1952 agreements provided for only 3,250 tons. (Deliveries were completed in the spring of 1953.)

These 3,250 tons probably amount to between 1 and 2 percent of the annual aluminum production of the Soviet bloc.

Primary aluminum, because it is used in aircraft production and has other strategic uses, has been on the Battle Act "Category B" list from the beginning. In the view of this Government, it would be desirable if no aluminum were shipped from the free world to the Soviet bloc. At the same time, we recognize that Norway's decision to ship aluminum grew out of genuinely difficult problems, and that the Norwegians felt that the resulting trade would benefit the free world.

This is true also of the miscellaneous shipments that are reported herein from the Federal Republic of Germany, France, and the United Kingdom. The Governments of all these countries cooperate in the mutual defense of free institutions.

The Battle Act provides that the President, in deciding whether to continue assistance to a country, shall take 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."

Though all those considerations are important and have entered into my recommendation to you in this letter, the central issue is whether the cessation of aid to these countries "would clearly be detrimental to the security of the United States."

There is no doubt in my mind that it would be. Again taking Norway as an example, that country, although it has a population of only about 3,300,000 and is not very richly endowed with natural resources, makes a valuable contribution to the mutual security of the free world. It has a geographical location of great strategic importance at the extreme north of Europe. Only Norway and Turkey among the fourteen NATO countries have common boundaries with the U. S. S. R. Despite this exposed position, the Norwegians have not hesitated to cast their lot openly with the West. They took part actively in the development of the North Atlantic Treaty and are engaged in a defense program that is unprecedented in Norwegian history.

Economic aid from the United States has been of great help to Norway in strengthening its economy; but by far the larger part of aid to Norway now is direct military aid, such as arms, ammunition, and other equipment for use by Norway's armed forces. This aid is essential to Norwegian combat effectiveness. It is a practical investment in a strong and peaceful world. It benefits not only Norway but also the United States and other free countries. To have a strong nation on the northern flank of Europe, with well-equipped forces for air, land, and sea defense, helps to deter aggression and prevent war.

To state the point concisely: The aid we are sending strengthens our security. Not to send it would be detrimental to our security.

Respectfully,

HAROLD E. STASSEN.

APPENDIX "C"

Statistical Tables

APPENDIX "C"

Statistical Tables

TABLE 1.—*Exports of free countries to the Soviet bloc, 1947 and 1952*

[In millions of U. S. dollars]

Country	Total exports to world		Exports to Soviet bloc		Exports to these parts of the bloc: U. S. S. R.		European satellites		China (*d*)		Exports to bloc as percentage of total to world	
	1947	1952	1947	1952	1947	1952	1947	1952	1947	1952	1947	1952
											Percent	*Percent*
Argentina	$1,639.4	$746.4	$23.7	$13.0	$9.8	(*a*)	$13.0	$13.0	$0.9	n. a.	1.4	1.7
Australia	1,025.4	1,716.2	18.9	8.9	.7	(*a*)	4.2	8.3	14.1	$0.6	1.8	.5
Austria	84.2	506.9	15.4	64.4	(*a*)	$0.3	14.6	63.8	.7	.3	18.3	12.7
Belgium-Luxembourg	1,407.0	2,451.0	49.8	60.1	1.9	14.8	32.2	44.6	15.7	.6	3.5	2.5
Brazil	1,144.7	1,408.8	48.9	6.5	.9	n. a.	31.2	6.5	16.9	(*a*)	4.3	.5
Canada	2,774.9	4,279.5	70.6	1.7	4.9	(*c*)	30.7	.6	35.0	1.2	2.5	(*b*)
Ceylon	268.7	315.5	(*a*)	28.9	------	.5	(*a*)	2.4	(*a*)	26.0	(*b*)	9.2
Chile	280.0	461.8	6.2	(*c*)	1.3	------	4.4	(*a*)	.5	------	2.2	(*b*)
Denmark	482.1	849.1	68.9	33.9	16.5	12.5	52.3	21.2	.1	.2	14.3	4.0
Finland (*e*)	409.1	717.3	127.2	183.5	117.7	155.0	8.3	21.9	1.2	6.6	31.1	25.6
France	1,875.0	4,046.9	42.9	42.1	.1	6.5	34.7	32.3	8.0	3.3	2.3	1.0
Germany, Federal Republic	n. a.	4,070.2	n. a	87.9	n. a.	.2	n. a.	84.9	n. a.	2.8	------	2.2
Hong Kong	306.5	507.3	68.4	91.0	1.2	------	------	n. a.	67.2	91.0	22.3	17.9
Iceland	44.8	39.3	11.6	2.7	8.4	------	3.2	2.7	------	------	25.8	6.9
India	1,173.0	1,299.3	54.0	12.7	9.3	4.2	10.7	2.0	33.9	6.5	4.6	1.0
Indochina	66.5	n. a.	1.6	n. a.	n. a.	n. a.	n. a.	n. a.	1.6	n. a.	2.3	n. a.
Indonesia	127.9	907.5	1.3	9.8	------	n. a.	.9	9.8	.4	(*a*)	1.0	1.1
Ireland	159.2	284.1	.3	(*a*)	n. a.	------	(*a*)	(*a*)	.2	------	.2	(*b*)
Italy	746.4	1,379.2	36.3	58.4	1.6	20.3	31.8	34.5	2.9	3.5	4.9	4.2
Japan	173.6	1,272.9	10.3	.7	.1	.2	------	(*a*)	10.2	.5	5.9	.1
Malaya	608.9	1,239.7	20.5	30.3	13.4	9.4	3.1	20.9	3.9	(*a*)	3.4	2.4
Mexico	445.3	592.5	9.8	.5	1.5	.1	.2	.4	8.1	(*a*)	2.2	.1
Netherlands	700.9	2,107.4	31.5	36.4	2.4	4.9	27.2	31.5	1.8	(*a*)	4.5	1.7
Norway	366.7	565.3	40.0	29.9	12.3	10.3	23.9	17.9	3.7	1.7	10.9	5.3
Pakistan	148.4	532.5	6.5	119.6	n. a.	15.4	1.0	20.3	5.5	83.9	4.4	22.5
Portugal	172.3	237.2	2.8	7.1	.6	5.9	2.2	1.2	.1	n. a.	1.6	3.0
Spain	306.5	403.5	.2	.3	------	------	.1	(*a*)	(*a*)	.3	.1	.1
Sweden	901.3	1,562.3	76.3	119.0	11.4	44.5	58.6	73.9	6.3	.6	8.5	7.6
Switzerland	760.4	1,100.1	70.0	57.0	1.1	2.4	57.1	36.6	11.8	18.0	9.2	5.2
United Kingdom	4,828.4	7,541.5	201.8	155.7	58.1	104.9	91.9	37.9	51.7	12.8	4.2	2.1
United States	15,340.3	12,565.0	693.4	1.1	149.1	(*a*)	190.8	1.1	353.5	------	4.5	(*b*)

n. a. Not available.
(*a*) Less than $50,000.
(*b*) Less than 0.05 percent.
(*c*) Less than $500.
(*d*) China data, as far as possible, refer to Mainland (Communist) China, including Manchuria and Inner Mongolia.
(*e*) Finland includes reparations to the U. S. S. R. of $76,506 million in 1947 and $35,721 million in 1952.

NOTE.—Figures unadjusted for price changes. No reliable price index available.

Exports include reexports for the following countries: Australia, Ceylon, Hong Kong, India, Ireland, Japan (1952), Malaya, Mexico, Pakistan, United Kingdom, and United States. All other countries exclude reexports.

Source: Official trade statistics of free world countries, compiled by U. S. Dept. of Commerce.

TABLE 2.—*Imports of free countries from the Soviet bloc, 1947 and 1952*

[In millions of U. S. dollars]

Country	Total imports from world		Imports from Soviet bloc		Imports from these parts of the bloc: U. S. S. R.		European satellites		China (d)		Imports from bloc as percentage of total from world	
	1947	1952	1947	1952	1947	1952	1947	1952	1947	1952	1947	1952
											Percent	*Percent*
Argentina	$1,307.7	$1,085.4	$15.6	$5.0	$1.0	------	$13.6	$5.0	$1.0	n. a.	1.2	0.5
Australia	884.3	1,734.8	7.9	14.0	.2	$1.1	2.5	9.4	5.3	$3.5	.9	.8
Austria	119.1	653.6	27.1	73.6	(a)	.1	27.0	73.5	.1	(a)	22.8	11.2
Belgium - Luxembourg	1,952.5	2,460.5	55.2	37.4	8.6	11.6	45.1	21.1	1.4	4.7	2.8	1.5
Brazil	1,231.8	2,009.5	7.3	5.9	(c)	------	6.5	5.8	.8	(a)	.6	.3
Canada	2,573.9	4,120.0	6.2	8.6	.2	2.3	3.7	5.0	2.3	1.3	.2	.2
Ceylon	280.0	357.5	1.3	8.0	(a)	.3	.5	.9	.8	6.9	.5	2.2
Chile	269.9	371.0	.3	.8	(a)	(c)	.1	(a)	.1	.8	.1	.2
Denmark	644.0	962.1	56.9	39.2	19.6	11.1	36.9	28.0	.4	(a)	8.8	4.1
Finland	345.4	791.7	49.4	153.5	28.9	81.6	20.2	71.7	.3	.3	14.3	19.4
France	3,334.3	4,547.3	57.1	64.2	10.2	18.1	32.5	40.5	14.4	5.6	1.7	1.4
Germany, Federal Republic	n. a.	3,873.2	n. a.	93.9	n. a.	4.0	n. a.	72.4	n. a.	17.6	------	2.4
Hong Kong	390.4	661.4	97.1	146.6	.9	.3	------	1.1	96.2	145.3	24.9	22.2
Iceland	80.0	56.0	5.5	3.7	1.4	------	4.1	3.7	------	------	6.9	6.6
India	1,157.1	1,657.0	13.5	38.8	.4	1.8	4.0	4.6	9.1	32.4	1.2	2.3
Indochina	138.1	n. a.	7.1	n. a.	n a.	n. a.	------	.7	7.1	n. a.	5.2	n. a.
Indonesia	304.4	924.0	14.6	5.3	------	n. a.	.9	3.4	13.7	1.9	4.8	.6
Ireland	529.3	482.2	6.3	2.3	n. a.	.2	5.9	1.8	.4	.3	1.2	.5
Italy	1,516.6	2,304.9	51.0	86.3	3.3	33.8	45.5	50.0	2.2	2.5	3.4	3.7
Japan	526.1	2,028.2	7.0	17.9	2.0	.5	------	2.6	5.0	14.9	1.3	.9
Malaya	643.0	1,256.9	60.0	42.5	.3	(a)	2.3	3.1	57.4	39.5	9.3	3.4
Mexico	665.4	739.2	1.9	1.5	(a)	(a)	1.5	1.2	.4	.3	.3	.2
Netherlands	1,603.2	2,240.2	64.6	59.1	2.9	25.6	54.9	28.6	6.9	4.9	4.0	2.6
Norway	769.7	872.7	39.4	35.4	10.6	11.4	27.0	20.8	1.8	3.2	5.1	4.1
Pakistan	46.2	609.7	.2	8.3	n. a.	.4	.2	5.6	(a)	2.3	.5	1.4
Portugal	378.5	346.6	1.4	.7	(a)	(a)	1.1	.7	.3	n. a.	.4	.2
Spain	396.8	518.5	1.2	.2	------	------	.6	.1	.6	.1	.3	(b)
Sweden	1,452.2	1,728.5	116.5	113.1	10.0	20.0	99.2	92.3	7.3	.8	8.0	6.5
Switzerland	1,121.6	1,205.1	96.9	44.1	2.0	2.8	89.6	31.5	5.3	9.9	8.6	3.6
United Kingdom	7,232.0	9,748.2	100.6	243.3	30.4	162.8	41.3	72.2	28.9	8.4	1.4	2.5
United States	5,755.7	10,713.5	224.9	67.3	77.1	16.7	31.1	22.8	116.7	27.8	3.9	.6

n. a. Not available.
(*a*) Less than $50,000.
(*b*) Less than 0.05 percent.
(*c*) Less than $500.
(*d*) China data, as far as possible, refer to Mainland (Communist) China, including Manchuria and Inner Mongolia.

NOTE.—Figures unadjusted for price changes. No reliable price index available.

Source: Official trade statistics of free world countries, compiled by U. S. Dept. of Commerce.

TABLE 3.—*Exports of free countries to Soviet bloc (including Communist China), 1947–52, expressed as a percentage of their total exports to the world*

[NATO countries in capital letters]

Country	1947	1948	1949	1950	1951	1952
	Percent	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*
Argentina	1.4	3.0	3.2	3.5	3.0	1.7
Austria	18.3	15.1	18.6	17.8	13.3	12.7
BELGIUM-LUXEMBOURG	3.5	4.2	5.5	4.1	2.4	2.5
Brazil	4.3	1.9	1.5	.9	.5	.5
CANADA	2.5	1.6	.7	.2	(*)	(*)
Ceylon	(*)	.2	.2	(*)	2.1	9.2
Chile	2.2	2.3	.8	.3	(*)	(*)
DENMARK	14.3	8.2	6.1	3.3	4.8	4.0
Egypt	6.2	12.1	11.2	9.3	19.4	17.5
Finland	31.1	31.8	32.8	20.7	17.1	25.6
FRANCE	2.3	1.8	2.5	1.2	1.0	1.0
Germany, Federal Republic	n. a.	[a] 1.5	[a] 3.7	8.0	2.9	2.2
GREECE	5.8	9.0	.8	.5	.4	.3
Hong Kong	22.3	18.7	24.1	39.3	36.2	17.9
ICELAND	25.8	11.9	7.6	11.4	7.9	6.9
India	4.6	3.5	2.2	.9	1.9	1.0
Indonesia	1.0	.8	.2	.1	.2	1.1
Iran	5.0	1.2	.5	.4	3.8	16.8
Ireland	.2	.3	.1	.1	(*)	(*)
ITALY	4.9	4.5	5.3	5.2	4.0	4.2
Japan	5.9	3.3	2.1	2.5	.4	.1
Malaya	3.4	7.7	5.9	7.2	4.7	2.4
Mexico	2.2	2.9	4.2	.2	.1	.1
NETHERLANDS	4.5	4.6	4.8	2.7	2.0	1.7
NORWAY	10.9	16.4	15.4	9.3	4.7	5.3
Pakistan	4.4	9.5	8.4	5.9	9.7	22.5
PORTUGAL	1.6	1.1	1.7	1.5	1.8	3.0
Spain	.1	.1	.1	.1	.1	.1
Sweden	8.5	9.2	8.9	7.6	7.1	7.6
Switzerland	9.2	7.0	8.6	8.6	7.9	5.2
TURKEY	7.2	9.5	11.8	6.9	7.9	5.6
UNITED KINGDOM	4.2	2.3	2.1	1.5	1.6	2.1
UNITED STATES	4.5	3.1	1.2	.7	(*)	(*)
Yugoslavia	51.8	51.8	14.7	none	none	none

*Less than 0.05 percent.
[a] Excludes trade with Soviet Zone of Germany.
n. a.—Not available.

NOTE.—Exports include reexports for Ceylon, Egypt, Hong Kong, India, Ireland, Japan (1950–52), Malaya, Mexico, Pakistan, United Kingdom, and United States.

Source: Official trade statistics of free world countries, compiled by U. S. Dept. of Commerce.

TABLE 4.—*Imports of free countries from Soviet bloc (including Communist China), 1947–52, expressed as a percentage of their total imports from the world*

[NATO countries in capital letters]

Country	1947	1948	1949	1950	1951	1952
	Percent	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*
Argentina	1.2	1.2	1.9	3.0	2.8	0.5
Austria	22.8	25.6	14.4	14.8	11.0	11.2
BELGIUM-LUXEMBOURG	2.8	4.3	2.3	2.3	2.3	1.5
Brazil	.6	1.1	1.4	.8	.5	.3
CANADA	.2	.3	.4	.4	.2	.2
Ceylon	.5	.4	.4	.6	.7	2.2
Chile	.1	.1	.1	.1	.5	.2
DENMARK	8.8	11.8	9.0	6.1	7.0	4.1
Egypt	4.0	8.9	2.6	5.3	5.4	7.4
Finland	14.3	19.0	19.5	18.0	16.0	19.4
FRANCE	1.7	2.2	2.3	1.3	1.5	1.4
Germany, Federal Republic	n. a.	[a] 1.9	[a] 4.2	6.6	3.7	2.4
GREECE	3.5	2.1	.6	.3	.1	.2
Hong Kong	24.9	20.8	22.4	23.1	18.2	22.2
ICELAND	6.9	8.6	8.5	9.6	6.8	6.6
India	1.2	1.2	2.2	1.0	2.2	2.3
Indonesia	4.8	3.3	2.9	1.1	.8	.6
Iran	13.0	3.5	3.1	6.3	9.5	16.6
Ireland	1.2	.5	.5	1.3	1.4	.5
ITALY	3.4	3.1	5.3	4.2	3.8	3.7
Japan	1.3	4.0	4.1	4.5	1.2	.9
Malaya	9.3	6.7	4.7	3.7	3.0	3.4
Mexico	.3	.3	.2	.2	.3	.2
NETHERLANDS	4.0	4.3	5.6	3.1	2.6	2.6
NORWAY	5.1	9.0	8.2	5.8	3.3	4.1
Pakistan	.5	6.8	6.0	8.3	4.7	1.4
PORTUGAL	.4	.4	.8	.8	.5	.2
Spain	.3	.2	.2	.2	.1	(*)
Sweden	8.0	11.1	9.0	7.1	7.7	6.5
Switzerland	8.6	6.2	5.6	5.8	4.2	3.6
TURKEY	6.4	8.7	11.9	7.9	5.0	3.7
UNITED KINGDOM	1.4	2.9	1.9	2.8	2.6	2.5
UNITED STATES	3.9	3.3	2.6	2.6	1.0	.6
Yugoslavia	56.0	45.9	14.9	none	none	none

* Less than 0.05 percent.
[a] Excludes trade with Soviet Zone of Germany.
n. a. Not available.

Source: Official trade statistics of free world countries, compiled by U. S. Dept. of Commerce.

TABLE 5.—*Exports of western European countries to the Soviet bloc (including Communist China) 1947, 1950, 1952, and early 1953*

[In millions of U. S. dollars, unadjusted for price changes]

Country	1947	1950	1952	Jan.–May 1953
Austria	$15.4	$57.9	$64.4	$23.9
Belgium-Luxembourg	49.8	67.6	60.1	29.8
Denmark	68.9	21.9	33.9	11.0
France	42.9	38.0	42.1	28.7
Germany, Federal Republic	n. a.	165.4	87.9	42.1
Greece	4.5	.5	.4	3.5
Iceland	11.6	3.5	2.7	1.9
Ireland (*a*)	.3	.2	(*b*)	(*b*)
Italy	36.3	62.7	58.4	24.6
Netherlands	31.5	37.1	36.4	15.0
Norway	40.0	25.8	29.9	10.5
Portugal	2.8	2.8	7.1	3.5
Sweden	76.3	83.6	119.0	24.3
Switzerland	70.0	78.1	57.0	24.0
Trieste	n. a.	.3	(*c*)	(*c*)
Turkey	16.1	18.1	20.3	11.2
United Kingdom (*a*)	201.8	97.0	155.7	42.1

n. a. Not available.
(*a*) Includes reexports.
(*b*) Less than $50,000.
(*c*) Included in Italy's trade figures

Source: U. S. Dept. of Commerce.

TABLE 6.—*Imports of western European countries from the Soviet bloc (including Communist China) 1947, 1950, 1952, and early 1953*

[In millions of U. S. dollars, unadjusted for price changes]

Country	1947	1950	1952	Jan.-May 1953
Austria	$27.1	$67.2	$73.6	$26.5
Belgium-Luxembourg	55.2	44.4	37.4	14.9
Denmark	56.9	52.0	39.2	17.6
France	57.1	38.9	64.2	26.6
Germany, Federal Republic	n. a.	185.8	93.9	51.3
Greece	6.5	1.3	.6	.7
Iceland	5.5	3.7	3.7	1.5
Ireland	6.3	5.9	2.3	.7
Italy	51.0	60.0	86.3	25.5
Netherlands	64.6	63.2	59.1	22.8
Norway	39.4	39.4	35.4	12.4
Portugal	1.4	2.2	.7	.5
Sweden	116.5	83.1	113.1	21.6
Switzerland	96.9	60.6	44.1	17.5
Trieste	n. a.	1.9	(*a*)	(*a*)
Turkey	15.6	22.4	20.6	10.5
United Kingdom	100.6	205.6	243.3	69.6

n. a. Not available.
(*a*) Included in Italy's trade figures.

Source: U. S. Dept. of Commerce.

TABLE 7.—*Exports of selected Far Eastern countries to the Soviet bloc (including Communist China) 1947, 1950, 1952, and early 1953*

[In millions of U. S. dollars, unadjusted for price changes]

Country	1947	1950		1952	Jan.-May 1953 (Except where otherwise indicated)	
Australia (*a*)	$18.9		$60.7	$8.9	Jan.-Apr.	$8.0
Burma (*a*)	10.5		1.4	n. a.	Jan.-Mar.	.1
Ceylon (*a*)	(*a*)		.1	28.9		23.0
Hong Kong (*a*)	68.4		255.8	91.0		59.4
India (*a*)	54.0		10.6	12.7	Jan.-Mar.	3.2
Indochina	1.6		.3	(*a*)		n. a.
Indonesia	1.3		.4	9.8		1.5
Japan (*a*)	10.3		20.4	.7		.4
Malaya (*a*)	20.5		92.9	30.3		7.2
Pakistan (*a*)	6.5	Apr.-Dec.	18.8	119.6	Jan.-Apr.	9.3

n. a. Not available.
(*a*) Includes reexports, except Japan in 1947.

Source: U. S. Dept. of Commerce.

TABLE 8.—*Imports of selected Far Eastern countries from the Soviet bloc (including Communist China) 1947, 1950, 1952, and early 1953*

[In millions of U. S. dollars, unadjusted for price changes]

Country	1947	1950		1952	Jan.-May 1953 (Except where otherwise indicated)	
Australia	$7.9		$20.6	$14.0	Jan.-Apr.	$2.4
Burma	2.7		2.1	n. a.	Jan.-Mar.	.2
Ceylon	1.3		1.5	8.0		19.3
Hong Kong	97.1		153.0	146.6		71.6
India	13.5		12.3	38.8	Jan.-Mar.	1.6
Indochina	7.1		6.1	7.3		n. a.
Indonesia	14.6		4.6	5.3		2.1
Japan	7.0		44.0	17.9		14.0
Malaya	60.0		35.0	42.5		17.3
Pakistan	.2	Apr.-Dec.	23.9	8.3	Jan.-Apr.	1.3

n. a. Not available.

Source: U. S. Dept. of Commerce.

TABLE 9.—*United States imports of Chinese goods*

INTRODUCTION

[Prepared by Department of Commerce, June 1, 1953]

The data on U. S. imports from China published by the Department of Commerce are tabulated as part of a comprehensive breakdown of U. S. imports by country of origin. It is important to note that under this country-of-origin concept, which is the traditional basis for the geographic classifications of U. S. imports, goods are attributed—insofar as possible—to the country where they were originally produced, rather than to that from which they were finally shipped to the U. S. This feature of the statistics is one of the reasons for the continued reporting of imports from "China" after the institution in December 1950 of rigid controls over imports originating in that country. Goods coming out of inventories held either in the country of last transshipment or elsewhere outside China for considerable periods have continued to be listed under "China" in the customary breakdown of imports by country of origin.

Special attention should also be called to the fact that Outer Mongolia, although it is not regarded by the U. S. Government as part of Communist China, through 1952 was included for statistical purposes, in accordance with a long-established reporting practice, as a part of the area covered under the heading of "China" in the geographic breakdowns of U. S. foreign trade. Beginning with January 1953, imports of Outer Mongolian origin are reported separately.

The existing restrictions against imports of Chinese origin are exercised by the Treasury Department under the Foreign Assets Control Regulations issued on December 17, 1950. Under these regulations, the importation of Chinese goods is prohibited without the license of the Treasury Department, and it has been against the general policy of that Department to license the importation of such goods except for a few strategic commodities (bristles, feathers, silk waste, and tungsten) licensed at the request of the Defense Department and being stockpiled by the U. S. Government. In addition, licenses have been issued for relatively small amounts of goods involved in hardship cases, including American merchandise stranded in China under certain processing arrangements, as well as for some goods in which all Chinese interests had ceased prior to the effective date of the regulations. Early in 1952, the Treasury stopped licensing the importation of the strategic commodities indicated above, although actual imports of them continued on an appreciable scale for a few months beyond that time under licenses already outstanding.

As a result of the Foreign Assets Control Regulations outlined above, the reported value of U. S. imports of Chinese origin declined from about $147 million in 1950 to a little under $28 million in 1952. As shown by the accompanying table, over $22½ million of the latter total came in during the first half of last year, before the impact of the prohibitive licensing policy for strategic goods instituted early in the year was felt. The reported figures for the third and fourth quarters were only about $3 million and $2 million, respectively.

In accordance with the foregoing summary of both statistical reporting practices and Treasury licensing policies under the Foreign Assets Control Regulations, it is appropriate to recognize four categories of imports from "China" (on an origin basis) since the end of 1950, as follows:

1. Strategic materials, including those coming in on outstanding licenses after new licenses ceased to be issued in the early part of 1952. The table

shows that commodities in this category—bristles, feathers, silk waste, and tungsten—accounted for about $23½ million, or 85 percent, of the roughly $28 million worth of (general) imports of Chinese origin reported for 1952. Imports in this class, however, tapered off rapidly after the adoption of the more prohibitive licensing policy, and such imports were negligible in the first five months of 1953.

2. Merchandise licensed to avoid undue hardship to firms or individuals who had acquired it in good faith. The "handkerchiefs" item in the table may be cited as an example in this category. That item involved American-owned materials which had originally been shipped to China for embroidery and related work under an established trade practice, and which were permitted to enter the U. S. to avoid undue hardship to the owners. Certain gifts and tourist purchases of merchandise of Chinese origin have also been licensed for similar reasons.

3. Imports of Outer Mongolian origin. (The statistics also include goods from Tibet, although that area was not brought within the purview of the Treasury controls until early 1952, after the seizure of Tibetan political control by the Chinese Communists.) The two principal commodities in this category, "hair of the cashmere goat" and "marmot fur," accounted for $3 million of the $4.2 million worth of non-strategic imports from "China" recorded in 1952. For that year, an additional $355,000 consisted of "carpet wool and noils" of Tibetan or Outer Mongolian origin.

4. Imports of Chinese origin in which all Chinese interest had ceased prior to the effective date of the Foreign Assets Control Regulations (December 17, 1950). Such merchandise, although bought and shipped to the U. S. from some other country, appears under "China" in the conventional geographic breakdown of U. S. imports on a country-of-origin basis. The small residual of items in the table not falling into one of the three categories described above can be presumed to belong here. For an extreme example under this heading, attention may be called to the item designated "artistic antiquities and works of art produced prior to 1830," which amounted to $93,000 last year, and which may well have included articles leaving China a century or more ago. In this connection, further perspective may be gained by noting that there was no calendar year during World War II in which the traditional breakdown of U. S. imports by country of origin did not attribute at least a few thousand dollars worth of merchandise to Japan; as late as 1943, the second year after Pearl Harbor, this figure amounted to $61,000.

Statistics in the following tables show U. S. (general) imports of goods originating in China including Outer Mongolia in 1952, and imports from China and Outer Mongolia separately in January–May 1953.

A. United States imports from China, Manchuria, and Outer Mongolia, 1952

[Value in thousands of dollars]

Commodity	1952 Imports from China, including Manchuria and Outer Mongolia				
	Total	Quarterly			
		First	Second	Third	Fourth
GENERAL IMPORTS					
Total	27,725	14,880	7,699	3,101	2,046
Bristles, sorted, bunched or prepared	17,481	10,854	4,960	1,415	251
Feathers, crude	5,657	2,966	2,171	437	83
Silk waste	315	315	----------	----------	----------
Tungsten ore	170	87	40	----------	43
Marmot fur, undressed	700	----------	59	449	193
Hair of the cashmere goat	2,365	385	198	682	1,101
Carpet wool and noils	355	71	110	----------	[1] 174
Animal hair	49	----------	45	3	----------
Cassia oil and anise oil	70	42	----------	----------	29
Handkerchiefs, linen and cotton	167	50	29	40	47
Laces and ornamented fabrics of textile fiber	62	18	43	----------	----------
Hats, bonnets, hat braids, laces, etc. composed wholly or in chief value of straw, paper or grass	62	9	10	17	26
Other textiles	53	28	6	6	15
China ornaments, plates and figures, decorated and colored	8	(x)	----------	2	6
Table, household and kitchen articles of copper, brass and bronze	17	(x)	2	----------	15
Artistic antiquities and works of art produced prior to 1830	93	18	18	41	16
Other imports	100	37	8	9	47

[1] Includes noils from Tibet valued at $54,000.

(x) Less than $500.

B. United States imports from China, Manchuria, and Outer Mongolia, 1953

[Value in thousands of dollars]

Commodity	1953					
	Imports from China, including Manchuria			Imports from Outer Mongolia		
	1st quarter	April	May	1st quarter	April	May
GENERAL IMPORTS						
Total	103	12	25	1,964	1,185	474
Bristles, sorted, bunched or prepared	20	9	23			
Marmot fur, undressed				529	948	435
Hair of the cashmere goat				1,434	236	39
Animal hair	7					
Cassia oil and anise oil	[1] 11					
Handkerchiefs, linen and cotton	19					
Other textiles	3					
China ornaments, plates and figures, decorated and colored	(*x*)	(*x*)				
Artistic antiquities and works of art produced prior to 1830	20	2	1			
Other imports	[2] 23	1	1	1		

NOTE.—Data include revisions issued through June 1953.

[1] Includes cassia and cassia vera, unground, valued at $6,000.
[2] Include U. S. articles returned valued at $22,500.
(*x*) Less than $500.

Prepared in the Department of Commerce, by International Economic Analysis Division, Office of International Trade, from basic data of the Bureau of the Census, August 1953.

APPENDIX "D"

Text of the Battle Act

268641—53——7

APPENDIX D

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 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 materials 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 immediately 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.

U. S. GOVERNMENT PRINTING OFFICE: 1953