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INTERDEPARTMENTAL COORDINATING GROUP

ON

GERMANY AND BERLIN

Documents Prepared in Response

to

NSC Action Memorandum No. 59 of July 14, 1961

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July 18, 1961

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ANNEX D (con'd)

Timetable for Course (b)  
Table 2

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Table 3

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Appendix A - Early Negotiations  
Appendix B - Later Negotiations  
Appendix C - Solution "C"  
London Working  
Group Report

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MEMORANDUM FOR THE PRESIDENT

Subject: Supplementary Studies Regarding Berlin Prepared in Response to National Security Council Action Memorandum No. 59 of July 14, 1961.

The Interdepartmental Coordinating Group on Germany and Berlin submits the following annexes in response to National Security Council Action Memorandum No. 59 of July 14, 1961:

ANNEX A - Report evaluating two alternative courses of action.

ANNEX B --Report on economic sanctions.

ANNEX C - Department of Defense submission. This Annex includes the military components of responses to paragraphs 1 and 3 of the NSC Memorandum. It also includes Department of State Evaluation of the Likelihood of Allied Military Contributions of Magnitude Indicated by Department of Defense.

ANNEX D - Political timetables for three alternative courses of action.

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Alternative Courses

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ANNEX A-I

SUPPLEMENTARY NOTE  
TO  
"EFFECTS OF ALTERNATIVE COURSES OF U.S. ACTION  
ON  
SOVIET INTENTIONS AND ALLIED UNITY"

After the attached paper was reproduced, it was learned that the Department of Defense had indicated that a figure of \$3.0 billion would be preferable to the lower figure of \$1.0 to \$1.5 billion for a program not involving a massive and early mobilization of reserves. It is not clear what, if any, percentage of the larger total would relate to measures constituting a permanent increase in the strength of the U.S. defense establishment.

It is believed that the comments in the attached paper on Course B would, in general, be applicable to the \$3 billion program.

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ANNEX A-I

EFFECTS OF ALTERNATIVE COURSES OF U.S. ACTION  
ON  
SOVIET INTENTIONS AND ALLIED UNITY

PURPOSE

The purpose of this paper is to estimate the effects on Soviet intentions and Allied unity of:

- A. a request, about 2-3 weeks hence, for \$4-5 billion, with necessary taxes, stand-by controls, other legislation, and Declaration of National Emergency; and
- B. an immediate request for \$1-1.5 billion, without controls, taxes, etc., and a further request later, if necessary.

A discussion is also included of a third possible course of action, as well as the tactics vis-a-vis our Allies that would be appropriate to each of these courses.

SUMMARY

Soviet Intentions

Without convincing the Soviets of the existence of a genuine danger of general war, Course A might make their negotiating position more rigid and arouse hope of further eroding Western cohesion. It would make the U.S. more vulnerable to charges of stepping up the arms race and thus -- in the opinion of some -- increasing the danger of general war.

Course B would also convey to the Soviets at an early stage concrete evidence of U.S. intention to resort to force if need be. But, in addition, it would better enable the West to bring political pressures to bear against the Soviets and would leave the door open for a possible defusing of the Soviet threat.

Allied Unity

The effects of the alternative courses of U.S. action on Allied unity would be of the same basic quality -- either would produce strains -- but the degree of strain would vary directly with the scale of the U.S. program and the corresponding buildup expected from our Allies.

Thus Course B would maximize the strengthening of NATO's cohesion in the face of an impending crisis and produce the comforting sense that the U.S. had taken the lead without shocking our Allies to the point of public disunity and an early, precipitate dash toward negotiations and appeasement.

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A Third Possible Course

A third possible course involving an early request for a sizeable increase in expenditures directed toward a permanent increase in the size of the U.S. defense establishment rather than a rapid, massive manpower buildup would have the essential advantages of Course B, as well as provide both structural benefits for the defense establishment and the basis for a strong additional deterrent against Soviet unilateral action on Berlin. It would serve as both a demonstration of will and a warning of worse to come if Soviet provocation increased.

Tactics vis-a-vis Our Allies

The effects produced by any of the courses can be greatly affected by the tactics used with our Allies. Here the essential elements are a clear U.S. view of what it wants to accomplish and a rational plan of how it intends to go about it plus the earliest and fullest possible consultation with our Allies.

SOVIET INTENTIONS

In attempting to assess the impact on Soviet intentions toward Berlin of various courses of U.S. action, it is important to remember that so far several factors have probably deterred the Soviets from taking decisive unilateral action against Berlin. These include Moscow's belief that it would stand to gain more by a series of phased negotiated agreements on Berlin and Germany than by attempting to force the West to accommodate itself to unilateral action; Moscow's concern that the military situation might get out of hand following the transfer of access controls to the East Germans; and the Soviets' belief that a crisis approach to a Berlin "solution" might incur political liabilities for the USSR by galvanizing the West and undercutting the Soviet "peace posture" in the neutralist countries. The military deterrent will increase in importance as the Berlin situation assumes crisis proportions. It would become virtually all-important in the case of a showdown. However, in the recent past, it seems to have been a factor of declining importance. Nevertheless, it is necessary to evaluate courses designed to enhance the credibility of our military pledges for their total effect on the deterrents we can bring to bear -- both military and political.

It is evident that, if we are to deter the Soviets from taking action, we must lend credibility to our pledges to defend our rights by some concrete preparatory moves undertaken prior to the decisive occasions, i.e. prior to negotiations, or prior to the turnover of access controls.

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At the same time, military preparations should be undertaken on a scale, and at a time, appropriate to the occasion, and the pledge to resort to force should be related to an appropriately direct challenge by the other side. Moving too fast and being too rigid could destroy the credibility we seek by causing Western disunity and even possibly a Western backdown.

Finally, Khrushchev has considerable leeway in deciding what would be an acceptable (from the Soviet point of view) negotiated settlement and in deciding how to play his cards following the possible conclusion of a "separate peace treaty." Also, it is likely that a fair amount of time would elapse between the USSR's initial steps toward a treaty and the actual implementation of the treaty.

#### Course A

The "A" course of action, the later, greater request, would not cause the Soviets to call off their Berlin campaign. They would be confident of obtaining the goal of renewed negotiations, and, if negotiations failed, Moscow would feel it had considerable room for maneuver in the timing and in the manner of executing a "separate peace treaty." The Soviets would probably still be convinced that the West would not resort to nuclear war in response to "GDR" control of Allied access. They would also not be inclined to form definitive judgments on the basis of this early move, undertaken at a time of preliminary diplomatic maneuvering; they would want to wait and see how the Allies behaved under greater pressure.

At the other extreme, this action would not impel the Soviet Union to launch a preemptive nuclear attack.

A move of this magnitude would probably impress the Soviet leaders, more than ever before, that the U.S. was determined to go to considerable lengths to resist a major transgression on its rights regarding Berlin. If this impression were the only result of this action, the Soviets would probably be inclined to accept considerably less in an agreement or to act with considerably greater circumspection in executing a "separate peace treaty" than would otherwise have been the case.

In reality, however, this course of action might have other consequences, such as promoting greater Allied disunity, tending to offset the positive effects of this demonstration of U.S. determination.

In assessing a reaction of this sort, the Soviet leaders would probably not believe that the resulting NATO discord was sufficient to constitute fresh incentive to press harder on the Berlin issue. However, the Soviet leaders would probably consider it additional evidence to support the judgment

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that most NATO governments would be reluctant, in a showdown, to support extreme military measures, and hence all the more anxious to get the U.S. and the USSR into negotiations.

Moscow would undoubtedly also draw some encouragement from the effects of this action on the Soviet posture before the world. By presenting their "peace treaty" proposal as a peaceful move designed to lessen international tensions and eliminate "hotbeds" of war, the Soviets have taken great pains to attempt to obscure the fact that they are the ones disturbing the peace by threatening the status quo in Berlin. They would probably try to exploit the U.S. action to obscure this fact further, particularly in the eyes of neutralist governments.

In addition, because of its timing, magnitude, and overt nature, this action would be likely to circumscribe Khrushchev's maneuverability in future negotiations. There is probably considerable flexibility in the Soviet negotiating position at the present time. In the face of an open challenge from the U.S. which had a "war or capitulate" ring to it, it would be extremely difficult for the USSR to agree to a relatively innocuous settlement without suffering a severe blow to its prestige.

Another obvious disadvantage is the ability of the Soviets to counter any early U.S. military moves by similar, and probably more impressive, Soviet moves with possibly serious effects on public opinion.

#### Course B

The "B" course of action, the immediate, lesser request, would have a less dramatic initial impact than Course A as a demonstration of U.S. determination to honor its pledges on Berlin; in particular, it would lack the element of psychological preparation of the U.S. public for a possible war.

At the same time, the Soviets would probably not conclude that the U.S. was responding weakly to the possibility of a showdown over Berlin. Given the timing and circumstances of the move, the Soviets would probably believe that this was the sort of initial action the U.S. would be likely to take if it were seriously preparing to face a possible showdown following a separate treaty. This action would thus carry weight with the Soviets. But, as in the case of Course A, they would attach more importance to U.S./ Allied actions taken at a later, more critical stage of the Berlin crisis.

This course would have fewer adverse consequences than Course A. There would be more support among NATO Governments and less criticism in the West European press; it is doubtful that this reaction would affect the Soviet judgment of NATO solidarity, one way or another. The West would be

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in a better position to muster free world opposition to the Soviet demands. And, it would not have the effect of making the Soviet position more rigid by boxing Khrushchev in.

### Conclusions

From the standpoint of Soviet intentions, Course B, the immediate, lesser request, would probably be the better approach. (It is assumed that this initial action would be followed by additional preparatory steps as the crisis deepened.) It would have the advantage of conveying to the Soviets at an early stage concrete evidence of U.S. intention to resort to force if need be; it would better enable the West to bring political pressures to bear against the Soviets; and it would leave the door open for a possible defusing of the Soviet threat.

The message implicit in an early, limited, but real move which bore the potential of additional steps at a later date would be clear. It would convey the impression of a progressively deepening crisis atmosphere in which the U.S. would be likely to make further significant budgetary shifts, and in which its European Allies might make some shifts in the same direction.

A relatively modest beginning of this sort would, moreover, avoid two dangers which might be involved in the more ambitious or flamboyant approach. First, it would avoid that open and direct challenge to the Soviet leaders which might increase the political compulsion upon them to persist in their announced determination to get the West to abandon the rights in Berlin. Secondly, a modest beginning would keep the U.S. relatively immune to charges that it was the one stepping up the arms race and thus, according to some ways of thinking, increasing the danger of general war.

The greatest drawback of Course A, the later, greater request, would be its effect of prematurely forcing Khrushchev's hand. Under optimum conditions, this course would be the most effective. But it is doubtful that these optimum conditions would prevail. Indeed, the adverse consequences of this course of action might outweigh the potential gains.

Large-scale U.S. preparations at this time are not likely to convince the Soviets that a genuine danger of general war exists. They would more likely make the Soviet negotiating position more rigid and arouse Soviet hopes of further eroding Western cohesion. From the standpoint of their effect on Soviet intentions, measures of this sort might be more useful at a later stage in the crisis when they could be of basic importance in implanting in the Soviets minds the necessary "reasonable doubt" that they would be safe in carrying out their announced intentions with regard to Berlin.

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In discussing Course A and Course B, no particular differentiation has been made between the impact on Soviet intentions of U.S. actions that offer an increase in immediate military strength and steps that signal shifts in our long-range military, diplomatic, and economic effort but which would not affect actual military capabilities until some time in the future well beyond the immediately critical period. However, the Soviet leaders would also pay attention to concrete steps in the latter category, and even to credible possibilities of such shifts, and would have to do so from the outset of the program.

#### ALLIED UNITY

Despite an atmosphere of some foreboding and considerable uneasiness in Europe, particularly among the various Foreign Offices, there seems little doubt that the present atmosphere of concern and intensive activity over Berlin which prevails in Washington is considerably ahead of anything to be found in the other NATO countries. The Germans are in the midst of an electoral campaign, and the European vacation season is in full swing. As a matter of fact, there have been certain murmurings among both French and German officials that the U.S. seems to be working itself up into a lather somewhat prematurely, and generating its own crisis atmosphere in the process. However, Khrushchev's fusillade of almost daily statements on the subject may be having some counteracting effect.

In any event, it seems likely that disclosure to the European countries of even a minimal program will come as a considerable jolt. The Embassies in Washington will, of course, have reported press leaks about certain aspects of the alleged Acheson recommendations, but this is something different from being presented with an actual coherent program involving real, rather than speculative, action. If the scale of the action proposed by the U.S. should be in the higher range, accompanied by a request to our Allies for proportional military and other contributions, the degree of shock will be correspondingly greater, but the basic quality of the reaction will probably be much the same to any kind of program involving substantial U.S. and NATO preparations beginning in the near future.

Although there would probably be a strengthening of NATO's cohesion in the face of an impending crisis and a sense of relief that the U.S. was exercising leadership, there would be an undercurrent of misgiving from the start, and if Western measures failed to produce a visibly sobering effect on the USSR, this feeling would grow. At this point, demands for an exhaustive attempt at negotiations would rapidly pick up strength. The chances are good that the NATO members would cooperate in joint planning for contingency actions, but if tensions continued to increase, indications would probably arise that some of the members would be unwilling, in the final analysis, to resort to military action.

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The reactions of the individual NATO countries will vary considerably from country to country. A few like Turkey, Portugal, and perhaps Greece can be counted on to applaud without qualification. Certain others such as Norway, Denmark, and -- in a more sophisticated sense -- the U.K. can be expected to have grave doubts about the advisability of such a program. The other NATO countries are likely to fall somewhere in between.

Much will depend on the reactions of the Federal Republic, France, and the U.K.

#### Federal Republic

The Federal Government would be quick to support in principle and cooperate in a NATO-wide comprehensive program of preparation. They will be in much better position to act after their elections on September 17. The German authorities would feel committed to follow the U.S. lead on military preparations fearing that their failure to accept the same risks as the U.S. would discredit the Federal Republic within the Alliance and have far-reaching adverse effects on German interests in Berlin. The Germans are keenly aware of the existence of reservations concerning Berlin in the U.K. and other NATO countries, and they would react to various proposals with an eye to strengthening the hand of those in NATO who are urging a more militant policy on Berlin.

The West German public would probably, by and large, follow the lead of the Government. The political opposition and a sizeable segment of the press would probably accept measures of preparedness but would urge, with increasing vigor as the crisis deepened, that another round of negotiations be tried and that political and economic measures be employed before military moves were undertaken.

#### France

As long as General de Gaulle remains in office, France will almost certainly maintain a posture of unequivocal firmness on the Berlin question. De Gaulle's long historical perspective and his personal experiences in international diplomacy have convinced him that resoluteness is the best weapon in dealing with an opponent. He is already emphasizing the primary importance of France's European obligations; he has announced the withdrawal of one division from Algeria and has indicated that additional forces, including some air units, will be on the way shortly. As the crisis sharpened he would probably be under growing public pressure to soften the French position on Berlin, but his views would probably continue to dominate French foreign policy. And he could be expected to continue to lend his support to a set of comprehensive preparatory measures.

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United Kingdom

While the U.K. has recently shown itself relatively content to follow U.S. initiative in contingency planning for the Berlin problem, current British firmness in the face of Soviet bluster may be designed mainly to prepare the way for a new attempt at negotiation. The major considerations guiding British policy will be: the credibility of the U.S. deterrent; the U.K.'s vulnerability; the adequacy of NATO's conventional capabilities; and the sensitivity of the British public to any moves that might bring on a hot war.

Public apprehension over the possibility that the U.K. might become engaged in a nuclear war would rise sharply as U.S. preparatory actions gave unmistakable evidence of the seriousness of U.S. determination. Further, British officials would almost certainly judge that there was insufficient time to strengthen their conventional forces on the Continent to the point where those forces could provide a high threshold before the introduction of tactical nuclear weapons. The British field commanders already regard NATO capabilities to fight without nuclear weapons as extremely low. Accordingly, the U.K. would seek to insure against a situation arising in which it lost to the U.S. all initiative in the determination of strategy. With this end in view, it would almost certainly demand an opening of negotiations with the Soviets before agreeing to participate fully in the proposed measures, and would actively solicit the support of other NATO members in this endeavor. At the same time, the U.K. will continue to give support to U.S. contingency planning. However, formal U.K. support for an Allied policy of firmness in Berlin would probably be undercut by evidences of a British desire to negotiate so strong as to diminish the credibility of the U.K.'s resoluteness in Soviet eyes.

Canada

The Canadian Government would almost certainly be more favorably inclined toward Course B than Course A. In his latest public statements, Prime Minister Diefenbaker reiterated what he told the President privately on May 17, 1961, that is, that the West could not afford a setback on Berlin. The USSR must not be permitted to underestimate the determination of the West to preserve the freedom of the people of West Berlin or to lull itself into the belief that the West is divided, decadent, and lacking in common purpose. At the same time, he asserted that the West should avoid unreasonable rigidity and maintain calm judgment so that no avenues which might contribute to peace would be overlooked. Hence, action at this time (Course B) allowing for further measures later would be more acceptable to the Canadian Government, since it carries a greater implication that a way open to ultimate negotiations would be maintained. Anything that might be construed as an irrevocable step or rigid position (which Course A might indicate) would arouse anxiety in the Canadian Government.

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Other NATO Members

The other European NATO countries, including Italy, would generally tend to take their cues from the U.S., U.K., France, and Germany, as long as the four were acting in unison. By and large, they regard the Alliance as their best guarantee of national survival and would accept the implementation of a specific program of preparatory measures, designed to stiffen the resolve of the Alliance as a whole. However, some member Governments, notably the Scandinavians, are faced with strong public attitudes on nuclear warfare and would probably advise against steps which they felt might lead to nuclear war. Nevertheless, in the end, they would probably accept NATO decisions, although they would try to minimize their own direct participation in the proposed measures.

Conclusions

The effects of the alternative courses of U.S. action on Allied unity would be of the same basic quality -- either would produce strains -- but the degree of strain would vary directly with the scale of the U.S. program.

Therefore, from the point of view of maintaining the greatest possible Allied unity, Course B, the immediate, lesser request, would be more desirable. It would maximize the strengthening of NATO's cohesion in the face of an impending crisis and produce the comforting sense that the U.S. had taken the lead without shocking our Allies to the point of public disunity and an early, precipitate dash toward negotiations and appeasement.

It goes almost without saying that the effects produced can be greatly affected by the tactics used with our Allies (see discussion below).

A THIRD POSSIBLE COURSE

A third possible course of action not set forth in paragraph 1 of National Security Action Memorandum No. 59 would also involve an early request for a sizeable increase in U.S. defense expenditures amounting to approximately the same total as in paragraph 1(a) of the Directive. This would be directed, however, not at a rapid and massive manpower buildup to be obtained by calling up reserves after a declaration of limited national emergency, but at a permanent increase in the size of the U.S. defense establishment. (Paragraph 2 of the NSC Memorandum No. 58 called for "recommendations as to the magnitude and character of a permanent increase in the size of the U.S. defense establishment which might be executed in the event Soviet actions regarding Berlin appeared to foreshadow a long period of greatly heightened tensions", but the Department of Defense has not yet submitted its report on the subject.)

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The course of action suggested would permit the additional expenditures called for in paragraph 1(b) and those military preparatory measures which can be executed without a massive mobilization of reserve units. It would call for a pause, however, in the same sense as paragraph 1(b) before commitment is made to a course of action directed specifically at maximizing the capability of the United States to mount a large-scale military action on the ground on the main road access route to Berlin.

Given the probable Allied attitudes noted above, such a course of action would have the essential advantages of the program contemplated in paragraph 1(b) and, at the same time, provide both structural benefits for the U.S. defense establishment and the basis for a strong additional deterrent against Soviet unilateral action on Berlin. The argument on this latter point is essentially this:

a. The Soviets may be deterred from a series of Koreaes less by fear of direct U.S. attack than by the probability that in response to such crises the U.S. and its Allies will greatly increase both their military strength and their resolve.

b. The United States has a known capability for increasing its strength very rapidly whenever the other side provokes it. Thus the Korean War led to a quadrupling of the U.S. defense budget.

c. The Soviets have a smaller capability for rapid expansion and, given the state of their economic development and commitment of resources to programs of economic expansion, might be reluctant to enter into a competition of this type.

d. An increase of U.S. defense expenditures of the scale indicated would, therefore, serve both as an indication of will and a warning of worse to come if Soviet provocation increases.

e. This warning might be made explicit and pointed by informing the Soviets at an appropriate time and level that continuation of their threat to Berlin will inevitably bring the kind of massive mobilization of American resources for defense of which they know we are capable, but which neither we nor they basically desire.

TACTICS VIS-A-VIS OUR ALLIES

As to tactics, the essential elements are a clear U.S. view of what it wants to accomplish and a rational plan of how it intends to go about it, plus the earliest and fullest possible consultation with our Allies.

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From the above discussion, it is quite clear that since all the NATO countries will tend to follow the U.S., U.K., France, and Germany as long as the four are acting together, and since no real problems of principle in this early stage are likely to develop with France and Germany, our primary attention should be directed toward the U.K.

Once the U.S. has reached its decisions, there will be a natural haste to push ahead with consultations and to obtain complementary Allied decisions without delay. This sense of urgency will be both realistic and appropriate. Consultation with our Allies must, however, follow a certain rhythmical progression, allowing enough time for governmental decisions along the way, if we are to avoid giving the impression that we are jettisoning established patterns of consultation in an effort to stampede them into hasty acceptance of programs which they will consider to be of fundamental importance.

If the decision is for Course B, the immediate, lesser request, the Secretary of State might call in the British, French, and German Ambassadors to explain in general terms what the U.S. has in mind and to ask the full support of their Governments. This might be followed as soon as possible by an intensive session of the Four Power Working Group on Germany and Berlin with experts attending from the various Foreign Offices. (During the visit to Washington some weeks ago of Sir Evelyn Shuckburgh, Deputy Under Secretary of State in the U.K. Foreign Office, and Jean Laloy, Director of European Political Affairs in the French Foreign Office, there was general agreement that such an intensive session might appropriately take place in late July or early August.) In addition to providing a mechanism for fuller exposition of U.S. views, the Working Group could also discuss Allied diplomatic, political, economic, and propaganda tactics for the months to follow. If, as the U.S. hopes, British and French agreement can be obtained to full German participation in Allied contingency planning for Berlin, such a Working Group session might also be used to launch discussion of any changes in existing contingency plans which the U.S. might wish to propose as a result of the present NSC revision of Berlin policy. As in the past, the Working Group would be expected to make a report to the North Atlantic Council. This could serve to initiate NATO consultation on the U.S. proposed program. If it were decided that a meeting of the Four Foreign Ministers should take place early in August, the Working Group could convene at an agreed capital a week earlier to prepare for such a Ministerial Meeting, which could be followed by a Ministerial report directly to the North Atlantic Council.

If the decision were to be for Course A, the later, greater request, somewhat the same timetable could be maintained. The Ministerial Meeting

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in Paris, followed by the appearance of the Four Ministers before the North Atlantic Council, should, if possible, precede the declaration of a Limited National Emergency.

The third course of action discussed above could be handled in much the same way as Course B.

Although all of this should partake of the nature of consultation, it would be essential for the U.S. to convey the impression that after careful, sober consideration it had definitely decided that it was essential that it launch the U.S. program chosen, but that it would need the full support and cooperation of all of its NATO Allies to maximize the possibilities of success.

It would be essential to convince the NATO Governments -- especially the U.K. -- that the course chosen was the one best designed to protect the interests of the Alliance and the entire free world without resort to war, while also insuring the best possible posture should war be the only alternative to surrender.

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ANNEX A-II

RELATION OF BERLIN PROPOSAL TO FOREIGN AID BILL

Timing: The aid authorization bill will probably move as follows:

Week of July 17: Complete Foreign Relations Committee mark-up.  
24: Complete Foreign Affairs Committee mark-up.  
Senate Floor action commence and could finish.  
31: House Floor action commence and could finish.  
August 7: Conference action probably completed.

The aid appropriations hearings have been put off by Chm. Passman until the authorization bill is completed "unless I change my mind." He says he wants 4-5 weeks of hearings. Completed action on the appropriations bill (in the absence of some unusual impetus) therefore does not seem likely before the week after Labor Day.

Effect of the Proposal on the Aid bill. We do not believe the effect of submitting the proposal before final action on the authorizing bill can be predicted with assurance. It will depend on the balance of two major opposing factors:

(1) The automatic reaction will, of course, be for economy. Its proponents will argue that we cannot afford so much for foreign aid when we must pay so much for defense. A more specific argument will be directed at the long-term authorization: if we are in an emergency situation, then why try to plan ahead, why not just authorize appropriations for one year.

(2) On the other side, dramatic action will generate strong emotions of patriotism, unity, and for support of national security. The new proposals and the Aid proposal can be presented together as two equally vital parts -- short-term and long-term, defensive and offensive -- of a single plan for national defense and for preservation of the free world from Communist domination by either military aggression or economic penetration. This approach is factual, and it is quite possible that, determinedly pursued, it could offset the more obvious reactions of economy and even provide support for the Aid bill.

From the standpoint of the Aid bill alone, we conclude it might be wiser to wait until the authorization is completed. This conclusion would be weakened or washed out if, as generally happens, the planning for the new proposal leaks to any considerable degree. The Congress will then anticipate some new expense and an uncertain future, and the Aid bill will suffer all the disadvantages of (1) above without the advantages of (2).

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Our general conclusion is, therefore, that if any material national advantage would be gained by moving earlier with the new proposal, we cannot say the danger to the Aid authorization would be great enough to require delay -- if the new proposal is put forward in relation to the Aid authorization in a dramatic fashion and in the context suggested in (2) above.

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Economic Sanctions

Economic Sanctions

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**THE USE OF ECONOMIC COUNTERMEASURES  
IN THE BERLIN CRISIS**

Recommendation

(1) That, as an integral part of the U.S. Berlin proposals to our Allies along with the various elements of the political, military and psychological program, the Secretary of State seek agreement from the United Kingdom, France and West Germany, and thereafter the entire NATO group, to a severance of economic relations with the Sino-Soviet Bloc if access to Berlin is blocked. The specific sanctions to be imposed in such event are set forth on page 2 of Annex B.

(2) That the Secretary of State concurrently seek Allied agreement to expedite the work of the Four-Power Working Group to develop specific economic sanctions on the lines of and in coordination with military, political and psychological measures in the event of harassment or interference with access to Berlin prior to blockage.

(3) That the U.S. press its Allies immediately to take the necessary legislative and administrative dispositions required to enable them to act promptly on the measures foreseen in paragraphs (1) and (2) above.

(4) That the Secretary of State, in cooperation with appropriate U.S. agencies, institute studies of the problems involved in the sharing of burdens which might arise in connection with economic countermeasures.

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THE USE OF ECONOMIC COUNTER-MEASURES  
IN THE BERLIN CRISIS

Recommendation

(1) That, as an integral part of the U.S. Berlin proposals to our Allies along with the various elements of the political, military and psychological program, the Secretary of State seek agreement from the United Kingdom, France and West Germany, and thereafter the entire NATO group, to a severance of economic relations with the Sino-Soviet Bloc if access to Berlin is blocked. The specific sanctions to be imposed in such event are set forth on page 2 of Annex B.

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(3) That the US press its Allies immediately to take the necessary legislative and administrative dispositions required to enable them to act promptly on the measures foreseen in paragraphs (1) and (2) above.

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ANNEX B

THE USE OF ECONOMIC COUNTER-MEASURES  
IN THE BERLIN CRISIS

Summary

1. The Soviet Union and its Eastern European satellites are relatively self-sufficient. Essentially trade and shipping embargoes would only somewhat slow down current rates of growth particularly as relates to the chemical and petro-chemical industry and to the installation of pipelines. The principal vulnerabilities in the bloc are in the GDR on one edge and Communist China on the other. In the case of the East German regime, marked economic dislocation would result from a trade embargo requiring revamping of current economic plans and readjustments which would seriously injure East German production for a period of some months. In the case of Communist China the main vulnerability is in food, particularly supplies of wheat contracted with Canada and Australia. Embargoes on these two might indirectly create some serious problems for Moscow (see CIA report for details).

2. To be effective economic counter-measures will require closely coordinated action by all members of NATO, and probably agreement to parallel action by certain others such as Sweden, Austria, Switzerland and Japan.

3. If used as a primary weapon, economic counter-measures will be regarded by the USSR not as a convincing expression of will to resist Soviet designs with respect to Germany and Berlin, but as evasive action, indicating unwillingness to face the prospect of defending our interests by force; Khrushchev has made this clear to FRG Ambassador Kroll. It is accordingly essential that planning for the use of economic counter-measures be developed in close and appropriate relationship with measures in the military, diplomatic and psychological fields.

4. Economic counter-measures will be hard to sell to our Allies (and others). It will be argued that such steps penalize Western countries more than the Soviets, especially in view of possibilities of evasion of controls and of Soviet development of alternate sources of supply. Even more important, the burden of economic sanctions against the Soviet bloc will fall very unevenly. The effect on the United States would be negligible, for example, while the UK, already in precarious circumstances, would be hard hit, as would the Italians. Iceland would present a special problem; so would Hong Kong and Japan, if the economic counter-measures included Communist China. Agreement to counter-measures is therefore unlikely to be obtained, short of actual or imminent military conflict, unless accompanied at a minimum by an arrangement for effective burden-sharing among NATO members. No estimates have been made but the cost of such arrangements to the United States would probably run to some hundreds of millions of dollars per annum, at least initially.

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Economic Sanctions the US should ask its Allies to be ready to apply of access to Berlin is blocked.

Blockage of access would create a situation in which the outbreak of hostilities would be imminent and the economic embargo to be imposed would be total, including among other things:

(a) The prohibition of the use of all financial facilities of the NATO countries to carry on current transactions with the USSR, East Germany, the other Sino-Soviet Bloc members and their Nationals.

(b) The expulsion of all Sino-Soviet Bloc technical experts and foreign trade officials without diplomatic immunity from the NATO countries.

(c) The freezing of all assets of the members of the Sino-Soviet Bloc under jurisdiction of the NATO powers.

(d) Termination of trade agreements involving Sino-Soviet Bloc countries.

(e) The denials of all exports/Sino-Soviet countries.

(f) The stoppage of all imports from Sino-Soviet countries to NATO countries.

(g) The closure of NATO ports to Sino-Soviet shipping and planes and Bloc chartership.

(h) The prohibition of calling at Sino-Soviet Bloc ports of vessels and planes of the NATO countries.

Other Economic Countermeasures which may be warranted

In the event of situations which in varying degree fall short of blockage of access, we and our allies should be prepared to apply appropriate countermeasures, e.g.:

1. Harassment of or interference with military traffic to Berlin.

(a) Close Soviet bloc trade missions, including Amtorg offices.

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(b) Refuse to enter into new contracts to charter shipping to Soviet bloc countries and suspend existing contracts.

(c) Expand export control measures against the Soviet bloc, including selective embargo.

(d) Refuse ship's servicing (bunkering, lightering, provisioning, naval stores) to Soviet bloc shipping.

(e) Initiate measures to prevent Soviet bloc aircraft from landing or exercising commercial rights at Western airports and from making transit overflights and technical stops.

2. Harassment of or interference with civilian traffic to Berlin.

(a) Regulate movement of Soviet bloc vessels in Allied ports.

(b) Initiate harassments concerning documentation, inspections, delay, or technical requirements of Soviet bloc shipping at Allied ports.

(c) Delay ship's servicing (bunkering, lightering, provisioning, naval stores) to Soviet bloc shipping.

3. Signing of a Soviet-GDR Treaty.

(a) Cut off selected types of industrial and technical exchanges in which Soviets are most interested and ban export of published and unpublished technical and scientific information.

(b) Arrange for slowdown in issuance of export licenses for shipments to Soviet bloc.

(c) Cancel arrangements for Soviet participation in exhibitions, trade fairs, scientific conferences, and other international meetings scheduled in Western countries (NATO).

(d) Cancel arrangements for Western (NATO) participation in exhibitions, trade fairs, scientific conferences, and other international meetings scheduled in Soviet bloc countries.

4. Prior to signing of a Soviet-GDR Treaty.

(a) Prepare and implement countermeasures against USSR and "GDR" in form of tripartite controls over transport on basis equivalent to any Soviet or GDR harassments.

(b) Restrict economic negotiations with USSR to essential matters.

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Tactics in seeking Allied agreement

Quadripartite studies (UK, France, Fed. Rep. and US) in Bonn on possible countermeasures against the East German regime have been in process for almost a year. A tripartite working group (UK, France and US) meeting in Washington for over a year has been examining possible non-military countermeasures against the USSR and its satellites, excluding Communist China. These basic studies should now be considered first by the UK, France and Fed. Rep. and then within NATO, looking to agreement on:

1. Countermeasures which, in the absence of legal or administrative problems, could be implemented promptly, provided necessary preliminary preparations are now made on a stand-by basis; and
2. Countermeasures on which existing legal and administrative obstacles to implementation should now be removed.

The order of consultation could be as follows:

1. Notify the British, French and German Ambassadors of the US objectives on countermeasures;
2. Convene the Four Power Working Group on Germany and Berlin and their experts for intensive discussion of Allied contingency planning;
3. Meeting of the Four Foreign Ministers and (a) Ministerial report to North Atlantic Council or (b) presentation to the Council by the Secretary of State;
4. Consultation within NATO;
5. Consultation with Japan and European neutral countries.

Likelihood and conditions of Acceptance by other countries.

Short of actual or imminent military conflict, our Allies are not likely to agree to a total embargo of the Sino-Soviet bloc in the event that our access to Berlin is blocked. Efforts to reach early agreement on equitable burden sharing arrangements among the NATO (and other) countries participating in such an embargo may reduce their reluctance in part. But even then, their sense of urgency at any given stage of the crisis may be expected to lag behind ours.

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The work of the tripartite working group on non-military countermeasures demonstrates this. The British in particular have envisaged an escalation of non-military countermeasures which are as nearly as possible the equivalent in kind and severity of the original harassment. Basic to this attitude is the conviction 1) that countermeasures not closely related to the Soviet or GDR misconduct will inflict greater injury on the Allies (at least in terms of world opinion) than on the Soviets; and 2) that the cohesion of the Soviet bloc will be strengthened if the satellites are equated with the USSR at too early a stage in the application of sanctions. From this follows the conception of a progressive application of non-military sanctions against the GDR, the GDR and the USSR, and finally the Soviet bloc. The British have not accepted as a premise the imposition of sanctions against the entire Sino-Soviet bloc. In this context, resort to a total trade embargo against the Soviet bloc is, in the British view, an extreme retaliatory measure to be invoked at an advanced state of the crisis (e.g. after the Allied decision to use force to restore freedom of passage has been reached, but before the decision has been implemented.) The French too have in general favored the retention of maximum flexibility but have recently stressed the need to apply all possible types of economic sanctions before any use of force is contemplated in the Berlin situation.

It may be anticipated that Allied receptivity to our approach will be enhanced once the first real stresses of crisis are upon us. In his recent Washington discussion, German Defense Minister Strauss spoke of the Berlin crisis, beginning with the blocking of access, in terms of Phase I -- a period of diplomatic activity (notes, protests, possible reference of the issue to the UN) as well as of the early activation of an airlift; Phase II -- a period devoted to measures of "economic warfare"; and Phase III -- resort to a graduated system of military measures. Minister Strauss urged a vigorous resort to non-military countermeasures during Phase II because, in his view, these measures would not inexorably set into motion (as he believes resort to Phase III military measures will) a course of events which is no longer susceptible to Allied control. Our other Allies undoubtedly share this conviction that resort to Phase III military measures must be considered as in extremis measures. Accordingly, as the crisis develops, they (including the British) will increasingly come to see in non-military countermeasures of great severity and widespread application the major hope for the avoidance of thermonuclear war.

Burden sharing.

Allied acceptance of increasingly severe countermeasures may be hastened by considering promptly cooperative Allied measures to spread more equitably the incidence of the burden involved in the imposition of sanctions. Inevitably, certain of the Allies will be harder hit than others. This will be readily apparent where the Allied (and other)

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participation in applying sanctions is less than complete and the sacrifices of the participants represent opportunities for gain to the non-participants -- not to mention the frustration of the objectives of the sanctions imposed. But it will be no less true if full participation and complete success is achieved in imposing sanctions.

The detailed country-by-country studies of trade dependence (attachment) assuming an embargo of exports and imports, summarize the total and commodity impact of an interdiction on trade under the three situations: embargo against 1) East Germany, 2) the USSR and European satellites, and 3) the Sino-Soviet bloc.

An analysis of this information suggests that two levels of impact may be identified. The first is of major significance and includes the situation of Iceland which "would be faced with economic disaster as a result of an embargo on trade with the European Soviet bloc", and the case of Hong Kong which would be placed in a highly vulnerable position as a result of an embargo on trade with the Sino-Soviet bloc. A secondary level of impact involves particular areas of the economy within additional countries which would be adversely affected by a loss of trade. In the latter category would fall Canadian exports of wheat to Communist China, the shipbuilding industry in Denmark and Italy, Norwegian exports of fish, exports of citrus, bauxite and raw cotton from Greece, and Turkish exports of tobacco. For a number of countries some adjustment would be necessary in compensating for losses of Soviet-supplied oil and timber products and of Soviet bloc markets for iron and steel products.

In dealing with the problem of compensatory measures to minimize the impact of a trade embargo, certain principles are suggested which should underlie a multilateral approach to these problems, e.g.: 1. Whatever burden is imposed as a result of a trade embargo should fall equitably on the countries participating in the action. 2. To the extent such burdens fall inequitably, it should be recognized as a group responsibility to provide such relief as is possible through multilateral action. 3. The country-by-country analysis suggests that on a prima facie basis and with the exception of Iceland and the special problem of Hong Kong, countries which accept the responsibility for joining in common embargo action should be willing to accept the loss in trade which would inevitably result. However, it is unlikely that the UK and Italy, to cite important examples, would willingly accept the disproportionate losses this would involve for them.

The problems of adjustment which would warrant multilateral attention would concern means of supplying particular countries with essential imports normally available from the Soviet bloc. As a general rule, the compensation for loss of export markets to Western countries would not seem to warrant joint action.

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The problem of Iceland could be dealt with through excluding Iceland from participation in the embargo action. Iceland is not now, for example, a member of the COCOM multilateral group which normally collaborates on trade control matters. Any alternative measures to compensate for losses of Soviet bloc suppliers for essential Icelandic imports would unquestionably be very complex to work out within the NATO framework.

The special problem of Hong Kong would become critical only at the time when the embargo action is extended to Communist China. The same observation would apply to the special problem of Japanese trade relations with Communist China. If it should be decided to take action only with respect to the European Soviet bloc, obviously these special problems could be avoided.

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ATTACHMENT TO  
ANNEX B

ECONOMIC CONSEQUENCES FOR THE EMBARGOING COUNTRIES OF A TOTAL  
TRADE EMBARGO IMPOSED AGAINST 1) EAST GERMANY; or 2) THE  
SOVIET BLOC; or 3) THE SINO-SOVIET BLOC

This paper undertakes to estimate the economic significance for the embargoing countries of a total trade embargo imposed against East Germany alone, against the Soviet Bloc or against the Sino-Soviet Bloc. This paper is concerned only with a stoppage of the flow of goods, not with financial or other restrictions that might be imposed.

The main body of the paper is divided into the following sections: assumptions; general conclusions; and summary of country breakdowns.

Assumptions

It is assumed that the political and economic setting in which any one of these degrees of embargo might be imposed would be much as at present -- that is, no radical changes in political attitudes would have occurred to cause dramatic shifts by leading nations towards or away from their present international alignments or neutral positions.

It is also assumed that any trade embargo imposed, if it were to be effective, would have to be announced as being of indefinite duration or as lasting until the area embargoed met specified conditions.

It is further assumed that the United States, as the initiator of any of the three degrees of embargo, would be able to induce its major allies to cooperate in the venture.

General conclusions

The conclusions to be reached from the preliminary country by country examination (see below) of economic consequences to embargoing countries of an embargo imposed against 1) East Germany 2) the Soviet Bloc (USSR and European satellites) or 3) the entire Sino-Soviet Bloc are:

- 1) An embargo of East Germany would have relatively few economic consequences. Exceptions would be West Germany's exports; Iceland's exports and imports; Norway's exports of fish and pyrites.

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\* This paper is classified SECRET because of the nature of the overall subject. The published statistical data used are in themselves UNCLASSIFIED though in most cases the discussion in connection with them is classified.

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- 2) An embargo which included Communist China would have relatively few economic consequences for most embargoing countries in terms of their trade with Communist China. Exceptions would be West German copper exports; Danish pharmaceutical and chemical exports; Canadian grains; Belgian (Bleu) exports; Pakistan raw jute and raw cotton exports; Australian wheat and wool exports.
- 3) An embargo of the Soviet Bloc (USSR and all European satellites including East German) would by and large have fairly limited to negligible effects in terms of imports from the Bloc except where the embargoing country imports from the Bloc in order to find an outlet for its own exports as, for example, Iceland.
- 4) Certain countries would find an embargo of the Soviet Bloc (USSR and all European satellites including East Germany) would have considerable to very serious repercussions for their exports. Iceland is the prime example. A stoppage of Iceland's exports to the Bloc would cause economic chaos (unless extensive, enormous and anticipatory steps to prevent such chaos were taken by Western countries). Certain UK industries such as those exporting nonferrous metals, nonelectrical machinery, iron and steel, and chemicals would be hurt to a noticeable degree. The situation for numerous branches of West German export industry would be further aggravated if an embargo were extended from East Germany to the Soviet Bloc. Italy's steel and shipbuilding industries would suffer. Danish exports (shipbuilding) would suffer as would Norwegian fisheries. Pakistan's exports of raw jute would suffer. Northern Iran's exporting sectors (wool, raw cotton, lead ore) would have difficulties. Greece's citrus exports to the Bloc and other raw product exports would face problems.
- 5) Even though the UK and Portugal might cooperate fully in the imposition of an embargo against the sino-Soviet Bloc, they would risk the loss of or starvation of Hong Kong and Macao if no exception were made for these two dependencies.
- 6) While no overall "final" figure can be given as to total dislocation of trade for embargoing countries, it is indicative of the size of the problem to note that in 1959 NATO countries (excluding the US) exported \$1.7 billion to the Sino-Soviet Bloc and imported \$1.8 billion worth of goods. These figures do not take into account the exports and imports of Pakistan and Far Eastern countries which might conceivably participate in an embargo.

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### Summary for Major Countries

There follows a summary for the major countries. It should be noted that there is no comment on South and Central American countries as it is assumed that they would not be willing (for both political and in some cases economic reasons) to participate in any of the three types of blockade. Fullest treatment is accorded the NATO countries since the degree of trade involved is larger and the significance for the US consequently greater. Discussion of the African area is brief because of the relative insignificance of African trade with the Bloc and lack of available reliable data. It is also assumed that the more important new African nations would not cooperate in imposing an embargo.

#### NATO Area -- General

As a point of departure it is useful to consider the degree of trade that takes place between the blockading country and East Germany, the Soviet Bloc and the Sino-Soviet Bloc. Total figures for a given country give a fair indication of the maximum effect that the imposition of an embargo might have upon the country in question. In 1959 European NATO imported 0.8% of total imports from East Germany, 3.9% from the Soviet Bloc (including East Germany) and 0.6% from Communist China -- a total of 4.5%. Exports in 1959 were nearly the same with 0.9% to East Germany, 3.6% to the Soviet Bloc (including East Germany) and 0.9% to Communist China -- also a total of 4.5%.

While these totals are small, individual countries may have a far greater degree of trade as e.g., Iceland with total imports and exports for the Sino-Soviet Bloc of 30.7% and 33.7% respectively. The situation may be particularly difficult if the embargoing country is highly dependent upon Bloc purchases of a single type of export such as Iceland's fish.

Although the overall economic consequences for an embargoing country may be relatively small, economic consequences for individual industries and firms may be considerable, e.g., Norway's fish industry.

In situations where the Bloc has been paying for imports from a potential embargoing country in convertible currencies, there could be some balance-of-payments implications, e.g., the United Kingdom. These would generally not be of major significance, however.

#### United Kingdom

UK imports from the whole Sino-Soviet Bloc in 1960 accounted for 3.6% of all British imports; UK exports to the Bloc, 3.1% of all British exports. UK trade with East Germany alone played a very minor role

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in overall UK trade. British trade with the European Soviet Bloc as a whole was considerably more important, comprising 3.1% of all UK imports and 3.5% of all exports and re-exports. UK trade with Communist China, while somewhat greater than that with East Germany, amounted to only 0.5% of all British imports, 0.9% of exports and re-exports.

The principal UK imports from the various Communist areas were: from East Germany, chemicals; from the Soviet Bloc, wood and wood manufactures, fur skins, meat and dairy products, pulp and waste paper, and chemicals; and from Communist China, bristles and silver, platinum, and jewelry. Of these commodities, only the deprivation of wood and wood manufactures, of which the Soviet Bloc furnished about 17% of all British imports of that commodity, would have a serious effect on the UK economy.

The chief UK exports from the Communist areas were: to East Germany, nonferrous metals and iron and steel; to Soviet Bloc, nonferrous metals, iron and steel, nonelectrical machinery, and chemicals; and to Communist China, nonferrous metals, iron and steel, and wool and animal hair. The loss of its Sino-Soviet Bloc markets for nonferrous metals, iron and steel, and nonelectrical machinery would have a serious effect on the UK economy. Over 17% of all UK exports of nonferrous metals, 7.6% of all iron and steel exports, 4.4% of all chemical exports, and 4.3% of all nonelectrical machinery exports went to the Sino-Soviet Bloc in 1960. Moreover, 67.5% of all UK re-exports of raw rubber went to the Bloc.

Consequently, although the imposition of an embargo on trade with the Soviet Bloc, or the Sino-Soviet Bloc, would not pose insuperable problems for the UK, it would create severe hardships for certain industries.

#### West Germany

West Germany's exports in 1959 to the Sino-Soviet Bloc amounted to 7% of total German exports; imports to 6.9%. West German exports to East Germany of iron and steel products especially, as well as machinery and transportation equipment industries would suffer. Embargo of West German exports to the European Soviet Bloc would add to the problem and an embargo on Communist China as well would hit the copper industry particularly. On the import side West Germany relies on Sino-Soviet sources for manganese ore, certain fuels and chemicals, wood, platinum tin and antimony. Cessation of imports from East Germany would not be serious and could have some stimulating effect upon native industries. No insuperable problems for West Germany.

#### Italy

Italy's exports to the Sino-Soviet Bloc in 1959 amounted to 5.3% of total exports; imports to 5%. An embargo in East Germany would

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have practically no adverse effect on Italy because the degree of trade is so small. An embargo on the European Soviet Bloc would adversely affect certain exporting industries such as the steel industry and the shipbuilding industry. Trade with Communist China is small but Italy has sought to expand it. Imports from the Sino-Soviet Bloc consist largely of crude petroleum, fuel oil, lumber and pig iron and could easily be replaced by sources outside the Bloc. Imposition of an embargo upon the European Soviet Bloc would be disruptive to certain branches of Italian industry exporting to the Bloc but would not pose an insuperable problem for Italy.

France

For France, trade with the Sino-Soviet Bloc does not bulk large in total trade with exports to the Sino-Soviet Bloc 4% of total exports and with imports from the bloc 2.7% of total imports. French trade with the Sino-Soviet Bloc is important mainly because of its exports, which have been growing rapidly and produce a substantial contribution to France's balance of payments surplus. Trade with East Germany forms a very minor part of France's total trade with the Sino-Soviet Bloc. Trade with Communist China is about 20% of total Sino-Soviet Bloc trade on the export side; 14% on the import side. The character of French trade with the Sino-Soviet Bloc is such that its suspension might well have some effect on the overall French economic situation.

Iceland

Iceland's exports to the Bloc in 1959 totalled \$21.8 million or 33.7% of global Icelandic exports; imports from the bloc in 1959 totalled \$29 million or 31% of Iceland's global imports. Iceland's trade with Communist China is negligible. An embargo on trade with East Germany, however, would have serious impact and outside assistance would be necessary. Icelandic exports to East Germany in 1959 amounted to 5% of Iceland's total exports (\$5.1 million), and 7% of total imports (\$6.6 million). Alternate markets for Icelandic fish would be hard to find quickly while important imports from East Germany of motor ships, metal and electrical machinery would have to be made from western sources, thus placing a serious strain on an already precarious balance of payments position.

Iceland would be faced with economic disaster as a result of an embargo on trade with the European Soviet Bloc which supplies essential raw materials for its industrialization and livelihood in return for fish for which Iceland has been unable to find sufficient markets in the West. Mounting balance of payments problems prevent Iceland from replacing present Soviet Bloc imports by imports from the West. The Soviet Bloc buys about 50% of Iceland's fish exports (Iceland's total fish exports constitute 40% of Iceland's GNP). Fisheries and fish processing industries account for 13% of Iceland's GNP, and are major sources of employment. Over two-thirds of all fuels (including mineral) imported into Iceland

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come from the Bloc, which also provides 49% of all iron and steel bar, sheets, wire, pipes, tubes, etc. The Soviet Bloc shares of Icelandic imports of industrial machinery range from 49 to 67%.

In sum, a disaster for Iceland.

Denmark

Denmark's exports to the Sino-Soviet Bloc in 1959 amounted to 4.6% of total exports; imports to 5.6%. An embargo on trade with East Germany would not have any serious economic consequences since Denmark's trade with East Germany is minimal. An embargo on the European Soviet Bloc would have serious repercussions for the shipbuilding sector and possibly for the agricultural sector (if the latter's problems vis-a-vis EEC are not satisfactorily settled). On the import side Denmark takes 12% (by value) of its mineral fuels from the Soviet Bloc (Poland and the USSR). Trade with Communist China is very small but even so the Danish chemical and pharmaceutical export industries would suffer to some degree if an embargo were imposed on Communist China. Some difficulties, especially on the exporting side, for Denmark.

Canada

Canada's export trade with the Sino-Soviet Bloc in 1959 amounted to 0.7% of total exports; imports to 0.3%. An embargo on trade with East Germany would have virtually no effect on the Canadian economy. Imposition of an embargo on the European Soviet Bloc would affect certain industries, in particular those exporting barley and wheat, synthetic rubber, nickel and aluminum. During 1961 Canada hopes to export \$61 million, mostly wheat, to the European Soviet Bloc (over 1% of total Canadian exports). Vis-a-vis Communist China barley and wheat exports would be even more hurt by an embargo. Canadian imports from the Sino-Soviet Bloc are of small importance. In sum, certain exports would suffer very considerably, especially grains, from an embargo on the European or Sino-Soviet Blocs but even so this would not impose an insuperable problem for the economy as a whole.

Norway

Norwegian exports to the Sino-Soviet Bloc in 1960 amounted to 4.8% of her total exports; imports to 3.4%. An embargo on trade with East Germany would have economic consequences since Norway's exports to East Germany cover products difficult to market elsewhere, such as pyrites and fish. In return, Norway imports sugar, textiles and cereals from East Germany, which is Norway's largest Communist trading partner, next to the USSR.

An embargo on trade with the Soviet Bloc (USSR plus European satellites) would have serious repercussions on Norway's large fisheries. The Soviet Bloc's imports of 10% of Norway's exports of fish and fish products are important because the present trade split in Western Europe causes difficulties for Norway's fish exports to traditional markets

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now within the EEC. About 5% of the active population is engaged in fishing. Exports of this industry account for 12.6% of all Norwegian exports. Furthermore, the effects would be felt in Norway's most sensitive areas of less developed Northern Norway. The government has for political and economic reasons concentrated on industrialization of that area since World War II, with particular emphasis on fisheries and fish processing plants. Norwegian construction of an industrial Soviet plant across the North Norwegian border at Boris Gleb would also be affected.

The larger portion of commodities involved in Norwegian Soviet Bloc trade go on Norwegian ships which also carry goods from other nations trading with the Soviet Bloc. This may have some effect on the Norwegian shipping industry which contributes 14% of Norway's GNP. Other important Norwegian industries would not be seriously affected by an embargo since only minor percentages of base metals, paper and pulp products, and chemicals go to Soviet Bloc countries.

It is not believed that embargo on imports of such products as petroleum (9% of total requirements) from the European Soviet Bloc countries would cause unmanageable problems.

Cessation of trade with Communist China would have little impact on Norwegian economy.

Some difficulties in already troubled sectors such as fisheries and shipping, for Norway.

Belgium-Luxembourg (BLEU)

BLEU imports from the whole Sino-Soviet Bloc in 1960 accounted for 2.2% of all BLEU imports; BLEU exports to the Bloc 3.7% of all BLEU exports. BLEU trade with East Germany alone played a very minor role in overall BLEU trade. BLEU trade with the European Soviet Bloc as a whole was more important, comprising 2% of all BLEU imports and 2.5% of all exports. In terms of value, Communist China was the leading Communist Bloc customer for BLEU exports, followed by Czechoslovakia and the USSR.

The principal BLEU imports included base metals, metal ores, and food products from all countries; wood and wood products from Poland and the USSR; gas oil and diesel oil from Rumania and the USSR; and machinery from Czechoslovakia and East Germany. BLEU exports to the Sino-Soviet Bloc were primarily iron and steel products and artificial fertilizer.

In the face of the loss of many of its markets in Africa and the Arab world, Belgium has actively sought to enlarge its exports to the

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Sino-Soviet Bloc and it will increasingly feel the need to do so. The loss of its Sino-Soviet market would not constitute a serious blow to the economies of BLEU, but it would have an undesirable effect on certain industries, particularly iron and steel products; exports of some of these items make up a significant percentage of total BLEU exports in this field.

#### The Netherlands

Netherlands imports from the whole Sino-Soviet Bloc in 1959 accounted for 3.4% of all Dutch imports; the Netherlands exports to the Bloc only 1.9% of all its exports. Netherlands trade with East Germany alone played a very minor role in overall Dutch trade, although trade with the GDR increased by 27% in 1960. Dutch trade with the European Soviet Bloc as a whole was somewhat more important, comprising 2.9% of all Dutch imports, and 1.6% of all Dutch exports. Netherlands trade with Communist China was minimal and at the same level as its trade with East Germany.

The principal Dutch imports include wheat, tin, and semi-finished lumber from the USSR and unfinished cotton cloth from Communist China. The principal Dutch exports include textiles and ships, installations for road construction, chemical products, machinery, glass, and iron pipes.

The imposition of a trade embargo with the Sino-Soviet Bloc would probably have little effect on the Dutch economy. It should be noted that the main Dutch problem in trading with the Sino-Soviet Bloc, and particularly with the USSR, has been the preponderance of imports over exports of Dutch industry would be adversely affected by an embargo, and a tight labor market precludes the problem of unemployment.

#### Greece

Greek trade with East Germany is of minor importance; with Communist China, insignificant; but with the Soviet Bloc (USSR and European satellites), of considerable importance, especially in certain fields. In the first 11 months of 1960, Greece's imports from the Soviet Bloc amounted to 7.7% of total Greek imports; exports, to nearly 21%.

With respect to certain imports and exports, significant quantities are involved in Greek-Soviet Bloc trade. In 1959, Greece imported from the Bloc about 50% of its imports of refined petroleum products, 50% of its coal, and 40% of its wood. It exported to the Bloc about 89% of its exports of lemons, 45% of its oranges, 49% of its bauxite, 27% of its raw cotton and 22% of its hides and skins. While the commodities that Greece now imports from the Bloc could in most cases probably be replaced from Free World sources without excessive difficulty, the effects of a cessation of trade would inflict severe hardships on the producers of the exports noted above.

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Other Areas

Pakistan

In 1959-60 Pakistan imports from the Sino-Soviet Bloc were 2.4% of total imports; 6.4% of total exports. Pakistan's trade with East Germany is negligible. Export trade with the European Soviet Bloc would suffer with regard to jute. The addition of Communist China to an embargo would cause difficulties for Pakistan's raw cotton exports. In the latter half of 1960 Communist China took 44% of Pakistan's raw cotton exports. (Raw cotton in 1959 accounted for nearly 16% of Pakistan's total exports). Loss of trade with the Sino-Soviet Bloc would cause no real problem with imports. In sum, a problem for exports of raw jute and raw cotton.

Iran

In the first nine months of 1960, Iranian exports to the Sino-Soviet Bloc accounted for 31.3% of total exports; imports for 5.8%. Trade with East Germany and Communist China is insignificant. The Soviet Union is the most convenient source of some Iranian imports and the best market for some of Iran's exports. Exports to the bloc in order of value were wool, raw cotton, lead ore, goat and sheep skins, fish and fish products. Imports were iron and steel, cotton textiles, timber, weaving and mining machinery, and paper and paper products. In sum, a problem with exports, especially for Northern Iran.

Turkey

Turkey in 1960 exported 12.2% of total exports to the Sino-Soviet bloc; imported 9.1% of total imports from the Bloc. East Germany accounted for less than 2% of Turkey's total trade and there is no recorded trade with Communist China. Exports to the European Soviet Bloc (USSR plus European satellites) accounted for 24% of Turkey's tobacco exports in 1959, Turkey's principal export commodity. Fruits, nuts, vegetables and cotton are also significant exports to the Bloc. In sum, a problem for Turkish tobacco exports.

Japan

Japan's imports in 1959 from the Soviet Bloc were 1.4% of total imports and exports to the Bloc 1.2% of total exports. Japanese trade with East Germany and Communist China is negligible. The principal effect of an embargo on trade with the Sino-Soviet Bloc would be to close to Japan avenues of potential increases in her international trade. No significant problems for Japan.

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Australia

Australia's imports from the Sino-Soviet Bloc were in 1959-60 less than 1% of total imports and exports to the Bloc 5.2% of total exports. Communist China has been assuming a more important role recently in purchases of Australian wheat and wool.

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