Collection: Executive Secretariat, National Security Council: Country File
Folder Title:
USSR (12/28/1981)
Box: RAC Box 22

WITHDRAWAL SHEET

Ronald Reagan Library

Collection Name EXECUTIVE SECRETARIAT, NSC: COUNTRY FILE

Withdrawer
KDB 11/3/2015

File Folder USSR (12/28/81)

FOIA
F03-002/5
SKINNER
226

Box Number 22

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
170248	MEMO	N. BAILEY TO J. NANCE, R. PIPES AND A. LENZ RE DRAFT COMBINED PAPER (+ ATTACHMENT)	6	12/28/1981	B1
		R 4/8/2013 CREST NLR-748-22-8-1-4			
170457	MEMO	H. KOPP TO MR. BAILEY RE COST ESTIMATES	1	12/23/1981	B1
		R 4/8/2013 CREST NLR-748-22-8-2-3			
170458	MEMO	T. NILES TO MR. BAILEY RE ITEMS ON LIST	2	12/24/1981	B1
		R 4/8/2013 CREST NLR-748-22-8-3-2			
170459	REPORT	RE POLAND	4	ND	B1
		R 4/8/2013 CREST NLR-748-22-8-4-1			
170460	MEMO	R. WALDMAN TO N. BAILEY RE ECONOMIC COSTS OF USSR SANCTIONS	3	ND	B1
		R 4/8/2013 CREST NLR-748-22-8-5-0			
170461	REPORT	RE IMPACT OF TRADE EMBARGO (INCL. ATTACHMNETS)	8	12/28/1981	B1
		R 4/8/2013 CREST NLR-748-22-8-6-9			
170462	MEMO	COPY OF DOC #170248 (N. BAILEY TO J. NANCE, R. PIPES, AND A. LENZ RE DRAFT COMBINED PAPER + ATTACHMENT)	6	12/28/1981	B1
		R 4/8/2013 CREST NLR-748-22-8-1-4			

Freedom of Information Act - [5 U.S.C. 552(b)]

- B-1 National security classified information [(b)(1) of the FOIA]
- B-2 Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
- B-3 Release would violate a Federal statute [(b)(3) of the FOIA]
- B-4 Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
- B-6 Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
- B-7 Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
- B-8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
- B-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

WITHDRAWAL SHEET

Ronald Reagan Library

Collection Name EXECUTIVE SECRETARIAT, NSC: COUNTRY FILE

Withdrawer KDB 11/3/2015

File Folder USSR (12/28/81)

FOIA F03-002/5 SKINNER 226

Box Number 22

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
170463	MEMO	SAME AS DOC #170457 (H. KOPP TO MR. BAILEY RE COST ESTIMATES) ***R 4/8/2013 CREST NLR-748-22-8-2-3***	1	12/23/1981	B1
170465	MEMO	SAME AS DOC #170458 (T. NILES TO MR. BAILEY RE ITEMS ON LIST) ***R 4/8/2013 CREST NLR-748-22-8-3-2***	2	12/24/1981	B1
170469	REPORT	RE POLAND (SAME AS DOC # 170459 ***R 4/8/2013 CREST NLR-748-22-8-4-1***	4	ND	B1
170472	MEMO	SAME AS DOC # 170460 (R. WALDERMAN TO N. BAILEY RE ECONOMIC COSTS OF USSR SANCTIONS) ***R 4/8/2013 CREST NLR-748-22-8-5-0***	3	ND	B1
170473	REPORT	RE IMPACT OF TRADE EMBARGO (INCL. ATTACHMENTS) (SAME AS DOC #174061) ***R 4/8/2013 CREST NLR-748-22-8-6-9***		12/28/1981	B1
170475	MEMO	EDWIN MEESE TO REAGAN PROPOSED MEASURES TO BE TAKEN AGAINST SOVIET UNION ***R 4/8/2013 CREST NLR-748-22-8-7-8***	4	12/28/1981	B1
170477	MEMO	BUD NANCE TO CRAIG FULLER RE PROPOSED STATEMENT (INCL. ATTACHMENT) ***R 4/8/2013 CRST NLR-748-22-8-8-7***	3	12/28/1981	B1

1981

NSC/S PROFILE ~~SECRET~~ ID 8107373

UNCLASSIFIED UPON REMOVAL OF CLASSIFIED ENCLOSURE(S) RECEIVED 28 DEC 81 18

TO NANCE FROM BAILEY 11/3/15 CB DOCDATE 28 DEC 81

KEYWORDS. USSR ECONOMICS

SUBJECT: DRAFT COMBINED PAPER RE FINANCIAL COSTS OF POSSIBLE MEASURES AGAINST USSR

ACTION: FOR INFORMATION DUE: STATUS C FILES PA

FOR ACTION	FOR CONCURRENCE	FOR INFO
NANCE		PIPES
		LENZ

COMMENTS RECD WW 12/28 1822 HR

REF# LOG NSCIFID (B HW)

ACTION OFFICER (S)	ASSIGNED	ACTION REQUIRED	DUE	COPIES TO
	C 2/19	orig retd for file		

DISPATCH W/ATTCH FILE Pa (C)

2

2

81 ... P ... : 22

JANET COLSON ______

BUD NANCE ______

DICK ALLEN ______

IRENE DERUS ______

JANET COLSON ______

BUD NANCE ______

PETER ______

I
7373 1981

NSC/S close out

CY TO VP ______ SHOW CC ______

CY TO MEESE ______ SHOW CC ______

CY TO BAKER ______ SHOW CC ______

CY TO DEAVER ______ SHOW CC ______

CY TO BRADY ______ SHOW CC ______

Comments:

SECRET

3

MEMORANDUM

7373
092

NATIONAL SECURITY COUNCIL

170248

~~SECRET~~ ATTACHMENT

INFORMATION

December 28, 1981

DECLASSIFIED
NLRR 748-22-8-1-4
BY LCDR NARA DATE 6/3/15

MEMORANDUM FOR JAMES W. NANCE
RICHARD PIPES
ALLEN LENZ

FROM: NORMAN BAILEY nb

SUBJECT: Draft Combined Paper

Attached at Tab I is the preliminary paper resulting from the deliberations of the working group on financial costs of possible measures against the Soviet Union.

~~SECRET~~ ATTACHMENT

SECRET

Contemplated Measure	Estimated Cost to USG	Estimated Cost of US Economy	Remarks
Phase I			
1. Expel all Soviet commercial representatives, close their offices and close our commercial offices in the USSR.	Negligible	Impossible to estimate, but small	If the Soviets retaliate by expelling US private commercia representatives, loss of $10-15 million investmen and possible loss of some export sa
2. Reduce Soviet diplomatic representation in the US. Mandate that the Soviets can have no more diplomats in Washington than we do in Moscow. Reduce levels in both places.	None	None	Actually a small saving
3. Cancel all cultural, scientific and academic agreements with the Soviet Union.	None	None	A saving of some $1 million - $1.7 million
4. Suspend negotiations on a new Maritime Agreement and impose strict port access requirements when the present agreement expires on December 31.	None	Negligible	
5. Escalate radio broadcasting and anti-jamming activities toward the Soviet Union.	$1 million	None	
6. Seek condemnation of the Soviet Union in international organizations, e.g., UN, ILO, CSCE.	None	None	
7. Ban Soviet fishing in US waters.	None	$4 million	

Contemplated Measure	Estimated Cost to USG	Estimated Cost of US Economy	Remarks
8. Halt export of all oil and gas equipment and technology to the Soviet Union.	None	$210 million/year for at least 2 years	
9. Propose an early meeting between Secretary Haig and Mr. Gromyko. At present it is scheduled for January 26-28.	None	None	
10. Cancel Haig-Gromyko meeting scheduled for January 26-28.	None	None	
11. Do not issue Caterpillar pipelayer license.	None	$90 million year one $200 million future years	
12. Discourage tourist travel to the USSR.	None	Negligible	
13. Pressure US banks to suspend all credits to the USSR. Suspend negotiations on economic matters.	None	None	The funds would be least elsewhere
14. Delay or refuse to set new dates for talks on the "Long-Term Grain Agreement."	Impossible to estimate	Impossible to estimate	Would depend on eventual outcome
15. The four major grain suppliers to the USSR and the US, Canada, Australia and Argentina. Diplomatic action should be initiated to determine if we can get an agreementon a world-wide grain embargo.	None	None	

Contemplated Measure	Estimated Cost to USG	Estimated Cost of US Economy	Remarks
16. Begin talks immediately with our Allies to see if we can get the Siberian Pipeline Project cancelled.	None	Same as (8) if successful	
17. Call for an emergency CSCE meeting on Poland.	None	None	

Phase II

Contemplated Measure	Estimated Cost to USG	Estimated Cost of US Economy	Remarks
1. Suspend Aeroflot service.	None	None which can be definitely foreseen.	Pan Am may lose valuable over-flight rights.
2. Impose a total embargo on all high technology items to the Soviet Union.	None	Approximately $80 million in 1982	
3. Suspend all validated export licenses to the USSR for electronics, computers and other high technology categories, including International Harvester.	None	$300 million over a 5-year period for International Harvester plus (2) above	
4. Walk out of CSCE meeting in Madrid after denouncing the Soviets.	None	None	
5. Recall Ambassador Hartman.	None	None	
6. Discontinue INF talks.	None	None	Small saving
7. Conduct high-level, high profile consultations with the Chinese.	None	None	

Contemplated Measure	Estimatec Cost to USG	Estimated Cost of US Economy	Remarks
Phase III			
1. Announce we consider the Helsinki Final Act null and void.	None	None	
2. Pull out of the MBFR negotiations.	None	None	Small saving
3. Impose a total trade embargo on the USSR.	$1-4 billion in agricultural price supports in 1982 (Commerce) $6-8 billion in 1982/83 (USTR)	$4.7-5.7 billion in 1982 (Commerce) $10 billion in 1982/83 (USTR)	See Notes (1) ar (2) below
4. Ask Amb. Dobrynin be recalled to the USSR along with the return of Amb. Hartman.	None	None	
5. Close US ports to Soviet ships.	None	Negligible	

Notes

1. To some extent grains are fungible. Thus some of the export sales to the USSR we would lose would presumably be made up by sales to traditional markets of other grain exporting countries to whom the Soviets would turn.

2. Our highest dependency on the USSR for imports is in chromite, palladium and titanium sponge. The disruptions would affect catalytic converters for cars and specialty steel production. Higher cost alternates could be arranged in 3-9 months.

Measures vis-a-vis Poland

It has been suggested that as a carrot we may wish to offer Poland substantial assistance should the Martial Law measures be reversed. Our best estimate is that such a program would cost us at least $2,420 million through FY 1985 and more likely $5-6 billion. This on the assumption of a 20% share in program costs (the other 80% to be borne by our allies).

Attachments

A. State Paper
B. Treasury Papers
C. Commerce Paper
D. USTR Paper

9

DEPARTMENT OF STATE

Washington, D.C. 20520

170457

SECRET

December 23, 1981

DECLASSIFIED
NLRR 748-22-82-3
BY GDB NARA DATE 11/4/18

TO: NSC - Mr. Bailey

Norm -

Here is a quick estimate of costs on some of the items on the list:

-- Ban Soviet fishing: Soviet fishing was banned after Afghanistan and has not been allowed to resume. Soviet factory ships operate in U.S. waters to process U.S.-caught fish in a U.S.-Soviet joint venture based in Bellingham, Washington. Soviet purchases of U.S. fish under this arrangement were $4 million in 1980. Loss of those sales would be borne by Pacific Coast fishing interests. There would be no cost to the USG. Pacific Coast Congressmen have strongly supported the joint venture, which was exempted from action after Afghanistan. Soviet permits to operate in U.S. waters expire December 31. (The National Marine Fisheries Service (NMFS) has been asked not to renew the permits without further instruction.)

-- Let the Maritime Agreement lapse: The agreement expires December 31. Its expiry would impose no costs on the USG and negligible costs on the U.S. economy.

-- Suspend Aeroflot landing rights: No costs to USG. Pan Am (which dropped service to Moscow in 1978) would probably lose valuable overflight rights. Two U.S. firms (Gen Air and Capitol) that are seeking authority to serve Moscow would see their prospects disappear.

HK

Harry Kopp
State/EB/TDC

~~SECRET~~
RDS-2 12/23/2001

10

DEPARTMENT OF STATE

Washington D.C. 20520

170458

December 24, 1981

SECRET

TO: NSC - Mr. Bailey

The following is an estimate of dollar costs of items 6 and 7 on the list:

Cancel All Academic, Cultural and Scientific Exchanges

-- Cultural and Academic Exchanges: The only existing cultural exchange is the reciprocal distribution of Amerika Illustrated in the USSR and Soviet Life in the USA. This exchange is greatly to our benefit. We spend $1.7 million on this exchange. Cancelling would result in a net saving of money, but would involve a distinct loss in USG access to the Soviet population.

The USG puts about $1.7 million annually into academic exchanges with the USSR. If these were cancelled immediately, the USG might have to spend several hundred thousand dollars to relocate the US students now in the USSR. If the program is allowed to continue until the summer and then lapse, it would cost us nothing in financial terms (we would of course lose a great deal in terms of our knowledge of the USSR).

-- Scientific and Technical Exchanges: Cancelling these agreements would technically place us in violation of our legal obligations since the agreements do not contain provisions for unilateral abrogation.

We could, however, announce suspension of further activities under the agreements without indicating that we were cancelling the agreements themselves.

If we did actually abrogate the agreements, the USG conceivably could stand to lose around $9 million, which is the value of equipment now in the USSR. Of this sum, $8 million represents the superconducting magnet used in the magnetohydrodynamics (MHD) project.

Suspension of activities without cancellation of agreements should cost nothing.

SECRET
RDS-2 12/24/2001

In many cases, we obtain valuable information from these agreements that would be costly -- and in some instances impossible -- to duplicate (NASA, for example, says it would cost us some 100 million dollars to get data on primate experiments the Soviets are conducting and sharing with us.

Escalate Radio Liberty and VOA Activities, and Increase Anti-Jamming

-- Voice of America: VOA informs us that it would cost approximately $1 million to expand broadcasting time in Armenian, Georgian, Tartar/Bashkir, Kazakh, and Byelorussian. This expansion could be implemented almost immediately. VOA currently broadcasts 17 hours in Russian and 14 hours in Ukrainian per day; they believe that an increase in broadcasting time in these langauges would be of marginal utility.

In order to circumvent jamming, VOA would be able to redirect some transmitters currently providing service to other countries and regions and direct them toward the USSR. This could be done quickly and at no cost.

-- Radio Liberty: The Board for International Broadcasting tell us that there is little that Radio Liberty can do in the short term to increase effective broadcasting to the USSR or to overcome jamming.

Thomas M. T. Niles
State/EUR

12

170459

"MARSHALL PLAN" FOR POLAND

A Cost Analysis

Introduction

This analysis of the costs of significant economic assistance to Poland follows the convenient pattern of (1) establishing a Base-Line, or minimal, program which would aim to stabilize the Polish economy at more or less its present depressed level, then (2) considering an increment to the base-line program that could put the Polish economy on a path of renewed growth and recovering standards of living. The Base-Line program does no more than cover the hard-currency financial gaps which the Poles themselves have projected as needed to support their economy in a decidedly lackluster condition, at least for the next year or two.

The analysis assumes adequate burdensharing by the Allies. In a total aid package, U.S. shares ranging from 10% to 30% can be justified, depending on the formula used. This analysis uses a figure of 20% as a reasonable compromise between these extremes, regarding which there are inter-agency differences of view.

The analysis focusses on the incremental costs of any new program. Thus, it assumes that debt rescheduling along the lines already agreed to by official creditors for 1981 (90% of principal and interest) will take place in any event (whether by agreement or by Polish default) and therefore represents "sunk" costs independent of any new assistance program. Rescheduling by the private banks (95% of principal only) is handled similarly.

The Base-Line Program

Poland's most recently projected financial gaps for 1981 and 1982 amount to $0.8 billion and $3.8 billion, respectively. At least $350 million of the former figure has to be seen as a potential bail-out of the banks (mostly European) for interest payments due in 1981.

Classified by R. A. Cornell
☐ Declassify ☒ Review for
Declassification on 12/24/87

After 1982, the gap is expected to decline to about $2 billion by 1985. Because debt rescheduled in 1981 will start falling due after 1985, Poland's financial gap will increase again in 1986 and beyond, unless there is then a rescheduling of previously rescheduled debt. Leaving the years after 1985 out of consideration, the costs of a Base-Line or minimal assistance program for Poland over the medium term, by calendar year through 1985, can be estimated as follows:

New Money Beyond Costs of Debt Rescheduling ($ Millions)	1981	1982	1983	1984	1985	Total
Total Program	800	3,800	3,000	2,500	2,000	12,100
U.S. Share (20%)	160*	760*	600	500	400	2,420

* Likely to be concentrated in FY 1982, for a total of $920 million.

The Incremental Program

There has been no definitive analysis of what Poland's requirements might be, should the Western allies decide to go beyond the basic balance of payments support envisioned in the Base-Line sort of program outlined above. In its current depressed state, however, the Polish economy has considerable absorptive capacity for (1) inputs to agricultural production, (2) raw materials and intermediate goods for manufacturing, (3) spare parts and equipment to replace capital facilities damaged or run down over the past year, and (4) carefully selected new investment. Thus, an incremental program of $3 billion to $5 billion annually through 1985 likely would not be constrained by Poland's absorptive capacity and would stimulate the economy powerfully. Perhaps 10 percent of the total should be allocated to administrative costs, as effective economic management will be essential for a successful program; the Poles have demonstrated in the past that they do not possess such management capability. The U.S. share of the program, at 20%, would be $600 million to $1 billion annually.

Combined Costs

With the Base-Line and Incremental programs combined, costs to the USG, by fiscal years, through 1985, would be as follows:

($ Billions)

1982	1983	1984	1985	TOTAL
1.52-1.92	1.2-1.6	1.1-1.5	1.0-1.4	4.82-6.42

Other Key Considerations

-- A highly publicized Western program, especially one of the incremental variety, could well induce the Soviets to reduce or cease their support of the Polish economy, which amounts to $2 billion to $3 billion annually in terms of real resource transfers. This would leave the West with all its costs and few if any of the expected benefits of Polish economic resurgence; the West would simply be assuming costs previously borne by the USSR.

-- Without institutional reform of the Polish economy, by the Poles themselves and with Western managerial and organizational help, any assistance effort by the Allies would be largely wasted. It would simply prop up Polish per capita incomes for a few years, leading to new crises when the program ended. This is, in effect, what happened to Poland in the 1970's, when skyrocketing borrowing provided analogous income tranfers from the West.

-- All US assistance could and should be tied to U.S. exports, but the Allies are likely to do the same, so that there will be no feedback demand for US exports from Allied assistance.

-- Some "bail-out" of private creditors cannot be avoided, especially initially.

-- A coordinated Allied program, especially at the incremental level, could well restore the confidence of private lenders and lead to a resumption of private credits to the Poles. This could reduce the need for official assistance. Quantification of the extent of possible new private lending would be sheer guesswork. Confidence will return only over time.

-- Any assistance under either the Base-Line or the Incremental program should be highly concessional. Poland would be hurt rather than helped by new short- or medium-term debt. From a cost analysis perspective, this implies heavy current budget outlays that would not be recouped for many years.

-- A resurgence of the Polish economy implies increased exports to the West. Western countries will need to be prepared to maintain open markets for Polish goods, which implies policy-level resistance to the inevitable charges of dumping and market disruption that the US and other governments will face.

Classified by R. A. Cornell
☐ Declassify ☒ Review for
Declassification on 12/24/87

SECRET

UNITED STATES DEPARTMENT OF COMMERCE
The Under Secretary for International Trade
Washington, D.C. 20230

16

MEMORANDUM FOR: Dr. Norman Bailey
Director of Planning
National Security Council

170460

DECLASSIFIED
NLRR 748-22-8-5-0
BY CDO NARA DATE 11/3/15

FROM: Raymond J. Waldmann
Acting Under Secretary
for International Trade

SUBJECT: Economic Costs of U.S.S.R. Sanctions

You requested an estimate of the economic cost to the U.S. Government and economy of possible sanctions taken with respect to the U.S.S.R. as a result of the events in Poland. The following presents Commerce's analysis of economic costs; also included are comments on effects on the U.S.S.R. The estimated costs are yearly costs with no accounting for inflation, interest lost, etc. The costs reflect lost sales (exports) by U.S. Industry without taking into account downstream effects.

1. Expulsion of Soviet Commercial Officers in the U.S. and Recalling U.S. Commercial Officers in Moscow.

The direct cost to the U.S. Government is small. Retaliation against 28 U.S. company offices in Moscow--if offices closed down, loss of perhaps $10-15 million investment, and some administrative costs, plus loss off future business generated by offices. The indirect costs to the U.S. Government are difficult to estimate. The major indirect cost is tax revenues on export sales.

The cost to the U.S. economy is equally difficult to estimate. The commercial offices do generate trade but estimates vary from 1% to 10% of U.S./U.S.S.R. two way trade.

2. Halt Exporting of Oil and Gas Equipment.

The cost to the U.S. Government of halting the export of oil and gas equipment and technology is small (tax revenues on sales).

The cost to the U.S. economy would be approximately $210 million per year. In 1981 we approved approximately $90 million with $120 million still pending. The pending figure includes the Caterpillar license for 200 pipelayers. Another $80 million worth of oil and gas technology cases were denied in 1981 for the USSR. This $80 million is not included in the $210 million since it is unlikely that we would approve technology in the near future.

SECRET

The effect of halting shipments to the U.S.S.R. will have a significant short term impact. The U.S. sells the best equipment, which the Soviets prefer. For certain applications--corrosive and high pressure environment--the U.S. has unique capabilities. The Soviets will have some problems to compensate for the losses. Most of the equipment can be purchased outside the U.S. (pipelayers, larger diameter pipe, pumps, etc.).

3. Rescinding International Harvester License.

Cancellation of the IH license will cost $300 million over a five year period. It will result in a loss of about 300 jobs and affect the financial standing of IH. The technology is available from Klaus in West Germany. Little cost to U.S. Government.

4. Impose Embargo on All High Technology.

Embargo of all high technology will cost the U.S economy approximately $80 million in 1982. We approve approximately $200 million per year in validated licenses but only $100 million is classified as "high technology." The rest is oil and gas equipment.

The Soviet Union will be affected by this move, especially if supported by our Allies. A multi-lateral embargo would slow down their economy. Most of the equipment can be acquired from non-U.S. sources; multi-lateral cooperation is imperative.

5. Total Embargo of Exports and Imports (1982).

Cost to U.S. Government approximately $1 billion to $4 billion because of price supports for agricultural programs.

Cost to U.S. economy is projected at $3.7 billion in export sales plus $1 billion to $2 billion in governmental outlays.

Exports are divided into $2.5 billion in agricultural commodities and $1.2 billion in non-agricultural commodities.

The import embargo costs are difficult to estimate since this could result in liabilities due to broken contracts. The U.S. imports approximately $450 million from the U.S.S.R., mostly in raw materials. Firms requiring these commodities must find alternate suppliers, especially in strategic minerals.

The top ten U.S. imports from the USSR are:

1980

Commodity	Value (Millions)
Ammonia	95
Gold Bullion	86
Palladium	55
Uranium flourides	35
Nickel	35
Metal coins	18
Palladium bars	12
Naphtha	10
Uranium compounds	9
Platinum bars	7
	453

Our dependency on the U.S.S.R. for the critical minerals whether among top 10 or not was in 1980:

Chromite	28%
Graphite	6%
Nickel	3%
Platinum	1%
Palladium	26%
Titanium	11%

The highest dependency is in chromite, palladium and titanium sponge. U.S. suppliers would have to seek supplies from South Africa, the Phillipines (chromite) to make up for the disruptions at premium prices. The disruptions would affect catalytic converters for cars and specialty steel production, but supplies can be compensated from within 3 to 9 months. The other dependencies are small and can be compensated from within 3 months.

170461 19

Impact of Trade Embargo with USSR on U.S. Economy

Background

The balance of trade with USSR is heavily in the U.S. favor -- with exports at least 3-4 times greater than imports consistently over the last four years.

United States exports to the USSR (which are dominated by agricultural products) declined sharply in 1980 due to the sanctions imposed by the Carter Administration following the Soviet invasion of Afghanistan. In 1981, exports rose sharply, mainly as a result of the lifting of the grain embargo. In the absence of USG restraints, it is expected that exports (particularly grains) would expand further, by a large amount in 1982. In the manufacturing sector, exports are concentrated in a few product categories (e.g. tractors, phosphate fertilizer, pressure sensitive tape), and a few U.S. companies (e.g. Occidential, International Harvester, Caterpillar).

The patterns of U.S. exports to the USSR contrasts sharply with those of our major Western allies -- for whom steel and machinery are the major export items. Thus, our allies are a much more important source of manufactures for the USSR and their manufacturing sectors have a much larger stake in the Soviet market.

United States imports from the USSR have been primarily minerals and metals, although in recent years ammonia and refined petroleum products have accounted for a substantially larger share. Imports have dropped significantly in volume in 1980 and 1981 largely due to a decline in gold purchases.

The attached tables provide data on recent U.S. trade with the USSR.

Impact of Total Embargo

The impact of an embargo on trade with the USSR is summarized by sector on the attached chart.

In total, we estimate that about $10 billion in export sales would be lost in 1982-83, with an accompanying loss of about 160,000 jobs. The impact on certain companies (e.g. Occidental and International Harvester) would be quite substantial.

Federal budget outlays for existing agricultural programs would increase by at least $6-8 billion and there would be pressure for additional or enhanced programs. Federal budget outlays and revenues would also be adversely affected by higher levels of unemployment. The Export-Import Bank would probably suffer a $180 million loss due to default on the Occidential contract.

Over the longer term, an embargo would cause loss of significant potential sales to the Soviet Union and to other countries and would encourage the spread of long term supply agreements in agricultural trade.

The attached paper by USDA describes the effects of an embargo in agriculture in detail.

Attachments

/

U.S. EXPORTS TO USSR
(Million dollars)

	1978	1979	1980	First Half 1981
Agricultural				
Yellow corn	1,053	1,402	602	387
Unmilled wheat	356	812	336	334
Inedible tallow	19	58	28	40
Soybeans	200	489	45	NA
Shelled almonds	NA	8	17	15
Sugar beets or cane	NA	NA	NA	11
Hops	NA	5	10	10
Subtotal of above	1,628	2,774	1,038	797
(as % of total)	72%	77%	69%	75%
Mineral				
Alumina	NA	NA	NA	8
Molybdenum ore	26	41	NA	8
Petroelum coke, calcined	18	14	20	21
Manufactures				
Tracklaying tractors & parts	NA	43	90	58
Other tractor parts	NA	2	10	15
Phosphoric acid	NA	93	17	14
Pressure sensitive tape	37	50	42	13
Parts for oil/gas drilling	28	28	NA	NA
Metal working machines, gear	NA	NA	NA	8
Belting & belts for machines	NA	2	13	8
Subtotal of above	65	218	172	116
(as % of total)	3%	6%	11%	11%
Total Exports	2,249	3,604	1,510	1,066
(above items as % of total)	77%	85%	81%	89%

U.S. IMPORTS FROM USSR
(Million dollars)

	1978	1979	1980	First Half 1981
Agricultural				
Sable furskins	8	9	6	3
Vodka	NA	NA	NA	3
Minerals/Metals				
Gold	286	548	86	18
Nickel	16	29	21	34
Palladium	28	62	54	18
Platinum metals	3	16	6	1
Chrome ore	7	11	4	2
Rhodium	8	9	6	2
Aluminum scrap	30	9	2	2
Metal coins	6	25	18	NA
Subtotal of above	384	709	197	77
(as % of total)	72%	81%	46%	35%
Manufactures				
Ammonia	27	56	95	40
Light fuel oils	NA	NA	NA	50
Napthas	NA	--	5	17
Total Imports	530	873	430	219
(above items as % of total)	79%	89%	70%	87%

SUMMARY OF IMPACT OF USSR TRADE EMBARGO
ON U.S. ECONOMY

SECTOR	IMPACT IN 1982-1983	LONGER TERM IMPACT
AGRICULTURE 1/	1 - Loss of $7 billion in export sales. 2 - Loss of over 100,000 jobs (and associated increased costs and revenue loss in federal budget). 3 - Increase in U.S. agricultural budget outlays by $6-8 billion. 4 - Higher costs for ammonia fertilizer, lower for phosphates. 5 - Depressed commodity price levels (to or below loan levels).	1 - Spread of long term trade arrangements. 2 - Foreign buyers will diversify away from U.S. sources due to loss of credibility of U.S. as supplier.
MANUFACTURES	1 - Loss of $3 billion in export sales and 60,000 jobs (and associated increased costs and revenue loss in federal budget). 2 - May well cause International Harvester to go bankrupt. 3 - Caterpillar would lose $200 million in sales and 1,000 jobs. 4 - Occidental would lose 1,600 jobs in phosphate industry and write off of possibly $60 million. 5 - Cut off of imports of mineral would cause increased costs to consuming industries (e.g. auto, specialty steel) seeking alternative supplies. 6 - Positive impact on U.S. ammonia industry. 7 - Loss to Export-Import Bank of $180 million (Occidental deal).	1 - Loss of substantial potential business (e.(pipelayers. 2 - Loss of reliability of U.S. as supplier would discourage other purchasers. 3 - Loss of $400 million/year for remaining 15 years of Occidental market.
SERVICES	1 - Loss of $50-80 million in revenues to shippers. 2 - Potential adverse effect of U.S. banks holding credits to Soviets.	

1/ Assumes embargo would apply to Eastern Europe and USSR and no new government programs to aid farmers (which could add several billion dollars in budget outlays).

~~SECRET~~

23

SECRET

Summary

The potential gains to be derived from a trade embargo with the Soviet Union and the Eastern Bloc countries appear small relative to the costs the United States would suffer. Such efforts in the past have not influenced Soviet foreign policy, but have hurt our agricultural trade, disrupted commodity markets, depressed commodity prices, and cost the Treasury large sums. A trade embargo with the Soviet/Bloc countries should not even be considered without first imposing a full embargo on credit from the West.

While in years of poor harvests the Soviets account for a large share of the world's wheat and coarse grain imports (nearly a fifth in 1981/82), their overall imports (nonagricultural and agricultural) make up only 3.3 percent of their GNP. Because half the Soviet's overall imports come from the Eastern European countries, any trade embargo action taken by the United States and its allies would have to also include Eastern Europe to prevent transshipment. Such an action would depress prices for farm commodities in this country because over 70 percent of our exports to the Soviet Union and Eastern Europe are agricultural products.

Our agricultural export sales to the USSR and Eastern Europe are projected to total about $4.8 billion in 1981/82. If the action were imposed immediately and across the board, agricultural export earnings would fall by over $2 billion in fiscal 1982, further aggravating the U.S. trade deficit and the position of the dollar internationally. We estimate it would cost the federal government $2-3 billion for 1981/82 to absorb the commodities that would otherwise have been exported. The reduction in exports would also mean the loss of over 100,000 jobs throughout the economy. In addition to making commodity loans to farmers, we would have to subsidize their storage and interest costs. Thus, the export-based underpinning of American farm income would be seriously weakened by an embargo. To compensate, it would cost the U.S. government more in price support and related outlays than the value of the exports lost due to the embargo. The whole structure of farm prices--including agricultural commodities not now exported to the Soviet Union and the Eastern Bloc--would shift downward.

The impact of continuing an embargo into 1982/83 is even more damaging to agriculture and related industries. We project agricultural exports would decline by over $5 billion in 1982/83. Commodity prices would fall at or below loan levels, increasing deficiency payments for grains and raising loan and reserve outlays sharply. Budget outlays for grains alone in 1982/83 would total $4-5 billion above levels expected in the absence of an embargo.

To limit taxpayer sacrifices in continuing to absorb the surpluses, the U.S. government would be forced into massive and costly acreage reduction programs. These programs would disrupt markets and impact on nearly all sectors of the U.S. economy: employment in industries supplying farm inputs would fall; rural communities would suffer as the volume of U.S. farm output declined; and gross farm income would fall. The longer the embargo were to continue, the more severe would become the dislocations.

U.S. agriculture's ability to produce would also be impaired by a total trade embargo. The Soviet Union and Eastern Europe account for 30 percent of

SECRET

the world's nitrogen fertilizer production capacity. In 1980/81, the Soviet Union alone supplied the United States with half of its imported ammonia. 25

Coverage

If an embargo of only agricultural products were imposed, the Agriculture and Food Act of 1981 would require that the Secretary take steps to assure farmers of 100 percent of parity. It is important to note that in addition to grains, the U.S. also exports oilseeds, tallow, sugar, cattle hides, meats, animals, tobacco, etc. to the USSR and Bloc countries. Hence, there would be tremendous economic disruptions.

Implementation

In order to minimize disruptions to farm commodity markets, we recommend that exporters be allowed to deliver on contracts already written for shipment in 1981/82. Thus, about half of the grain and other agricultural products projected to be exported to the USSR and EE would still move. This would still imply about a 10-15 percent reduction in total U.S. grain exports for 1981/82.

Impacts on Agriculture and the Budget

With farm prices and incomes already depressed, an embargo would have a devastating effect in agriculture and related industries. The reduction in exports would mean the loss of over 100,000 jobs throughout the economy. The embargo would eliminate any opportunity for price strengthening in 1981/82 and would lead to a tremendous increase in loan and inventory outlays as well as a significant buildup in reserves. Unless offsetting actions were taken, corn prices would drop and average for the season near loan rate levels, about 10-15 cents per bushel below earlier expectations. Wheat prices would also be pushed near loan rate levels, about 50 to 60 cents per bushel below earlier projections. This would result in large additional movements of grain under government loan and into the farmer-owned reserve with additional budget outlays around $2 billion for these commodities alone.

A continuation of the embargo into 1982/83 would mean a reduction of nearly 25 percent in grain exports, with farm prices for grain averaging at or below the reserve loan rates. Soybean exports and prices would be similarly affected. Movement of this volume of grain into loan and reserve programs would result in twice as much grain in the reserve than earlier expected and budget outlays of about $4 to $5 billion. These increased outlays do not include the costs of any additional offsetting actions, such as contract purchases, direct grain purchases, paid land diversion programs, or higher support rates designed to minimize impacts on the sector as a whole.

Effectiveness of an Embargo

It is very difficult to get exporters to cooperate in a trade embargo. It would be particularly difficult in this case because of the linkage between Western Europe and the Eastern Bloc countries. West Germany is a major supplier, particularly of credit, to the Bloc. Moreover, our experience in managing embargoes has not been good. Mechanisms do not exist for making such actions effective. Reports by GAO and USDA's Inspector General conclude that the 1980 embargo with the USSR was virtually ineffective.

Longer Term Impacts

The longer an embargo is allowed to stay in effect, the greater the problems that would emerge. Pressure for the government to take compensating actions on agricultural commodity prices would rise. Even then, any further actions to help farmers would have to be coordinated with the other supplying nations. The longer the embargo remains in effect, the more the exporters would be tempted to circumvent the embargo and thereby undermine the intent of the action. Irrespective of the duration of the embargo, the United States would find its foreign markets seriously eroded. Other suppliers and the Soviets would attempt to write bilateral agreements in order to tie up future trade to their advantage. Other importing countries, including our major trading partners, would also try to tie up and diversify the sources of their future requirements in formal agreements. Following the 1980 embargo, roughly 30 percent of the world's grain trade was estimated to be locked up by other exporting countries in the form of bilateral agreements, a sharp increase from the pre-embargo level.

MEMORANDUM

SECRET

170462

7373

27

NATIONAL SECURITY COUNCIL

~~SECRET~~ ATTACHMENT

INFORMATION

December 28, 1981

MEMORANDUM FOR JAMES W. NANCE
RICHARD PIPES
ALLEN LENZ

DECLASSIFIED
NLRR 748-22-8-1-4
BY CDJ NARA DATE 11/3/15

FROM: NORMAN BAILEY NB

SUBJECT: Draft Combined Paper

Attached at Tab I is the preliminary paper resulting from the deliberations of the working group on financial costs of possible measures against the Soviet Union.

~~SECRET~~ ATTACHMENT

SECRET

Contemplated Measure	Estimated Cost to USG	Estimated Cost of US Economy	Remarks
Phase I			
1. Expel all Soviet commercial representatives, close their offices and close our commercial offices in the USSR.	Negligible	Impossible to estimate, but small	If the Soviets retaliate by expelling US private commercia representatives, loss of $10-15 million investmen and possible loss of some export sa
2. Reduce Soviet diplomatic representation in the US. Mandate that the Soviets can have no more diplomats in Washington than we do in Moscow. Reduce levels in both places.	None	None	Actually a small saving
3. Cancel all cultural, scientific and academic agreements with the Soviet Union.	None	None	A saving of some $1 million - $1.7 million
4. Suspend negotiations on a new Maritime Agreement and impose strict port access requirements when the present agreement expires on December 31.	None	Negligible	
5. Escalate radio broadcasting and anti-jamming activities toward the Soviet Union.	$1 million	None	
6. Seek condemnation of the Soviet Union in international organizations, e.g., UN, ILO, CSCE.	None	None	
7. Ban Soviet fishing in US waters.	None	$4 million	

Contemplated Measure	Estimated Cost to USG	Estimated Cost of US Economy	Remarks
8. Halt export of all oil and gas equipment and technology to the Soviet Union.	None	$210 million/year for at least 2 years	
9. Propose an early meeting between Secretary Haig and Mr. Gromyko. At present it is scheduled for January 26-28.	None	None	
10. Cancel Haig-Gromyko meeting scheduled for Jan(ry 26-28.	None	None	
11. Do not issue Caterpillar pipelayer license.	None	$90 million year one $200 million future years	
12. Discourage tourist travel to the USSR.	None	Negligible	
13. Pressure US banks to suspend all credits to the USSR. Suspend negotiations on economic matters.	None	None	The funds would be least elsewhere
14. Delay or refuse to set new dates for talks on the "Long-Term Grain Agreement."	Impossible to estimate	Impossible to estimate	Would depend on eventual outcome
15. The four major grain suppliers to the USSR and the US, Canada, Australia and Argentina. Diplomatic action should be initiated to determine if we can get an agreementon a world-wide grain embargo.	None	None	

Contemplated Measure	Estimated Cost to USG	Estimated Cost of US Economy	Remarks
16. Begin talks immediately with our Allies to see if we can get the Siberian Pipeline Project cancelled.	None	Same as (8) if successful	
17. Call for an emergency CSCE meeting on Poland.	None	None	
Phase II			
1. Suspend Aeroflot service.	None	None which can be definitely foreseen.	Pan Am may lose valuable overflight rights.
2. Impose a total embargo on all high technology items to the Soviet Union.	None	Approximately $80 million in 1982	
3. Suspend all validated export licenses to the USSR for electronics, computers and other high technology categories, including International Harvester.	None	$300 million over a 5-year period for International Harvester plus (2) above	
4. Walk out of CSCE meeting in Madrid after denouncing the Soviets.	None	None	
5. Recall Ambassador Hartman.	None	None	
6. Discontinue INF talks.	None	None	Small saving
7. Conduct high-level, high profile consultations with the Chinese.	None	None	

Contemplated Measure	Estimatec Cost to USG	Estimated Cost of US Economy	Remarks
Phase III			
1. Announce we consider the Helsinki Final Act null and void.	None	None	
2. Pull out of the MBFR negotiations.	None	None	Small saving
3. Impose a total trade embargo on the USSR.	$1-4 billion in agricultural price supports in 1982 (Commerce) $6-8 billion in 1982/83 (USTR)	$4.7-5.7 billion in 1982 (Commerce) $10 billion in 1982/83 (USTR)	See Notes (1) an (2) below
4. Ask Amb. Dobrynin be recalled to the USSR along with the return of Amb. Hartman.	None	None	
5. Close US ports to Soviet ships.	None	Negligible	

Notes

1. To some extent grains are fungible. Thus some of the export sales to the USSR we would lose would presumably be made up by sales to traditional markets of other grain exporting countries to whom the Soviets would turn.

2. Our highest dependency on the USSR for imports is in chromite, palladium and titanium sponge. The disruptions would affect catalytic converters for cars and specialty steel production. Higher cost alternates could be arranged in 3-9 months.

Measures vis-a-vis Poland

It has been suggested that as a carrot we may wish to offer Poland substantial assistance should the Martial Law measures be reversed. Our best estimate is that such a program would cost us at least $2,420 million through FY 1985 and more likely $5-6 billion. This on the assumption of a 20% share in program costs (the other 80% to be borne by our allies).

Attachments

A. State Paper
B. Treasury Papers
C. Commerce Paper
D. USTR Paper

33

DEPARTMENT OF STATE

Washington, D.C. 20520

170344

~~SECRET~~

December 23, 1981

DECLASSIFIED
NLRR 748-22-4-2-3
BY CN/3 NARA DATE 11/4/15

TO: NSC - Mr. Bailey

Norm -

Here is a quick estimate of costs on some of the items on the list:

-- Ban Soviet fishing: Soviet fishing was banned after Afghanistan and has not been allowed to resume. Soviet factory ships operate in U.S. waters to process U.S.-caught fish in a U.S.-Soviet joint venture based in Bellingham, Washington. Soviet purchases of U.S. fish under this arrangement were $4 million in 1980. Loss of those sales would be borne by Pacific Coast fishing interests. There would be no cost to the USG. Pacific Coast Congressmen have strongly supported the joint venture, which was exempted from action after Afghanistan. Soviet permits to operate in U.S. waters expire December 31. (The National Marine Fisheries Service (NMFS) has been asked not to renew the permits without further instruction.)

-- Let the Maritime Agreement lapse: The agreement expires December 31. Its expiry would impose no costs on the USG and negligible costs on the U.S. economy.

-- Suspend Aeroflot landing rights: No costs to USG. Pan Am (which dropped service to Moscow in 1978) would probably lose valuable overflight rights. Two U.S. firms (Gen Air and Capitol) that are seeking authority to serve Moscow would see their prospects disappear.

HK

Harry Kopp
State/EB/TDC

~~SECRET~~
RDS-2 ~~12/23/2001~~

34

DEPARTMENT OF STATE

Washington D.C. 20520

170465

DECLASSIFIED

NLRR 748-22-8-3-2

BY LWB NARA DATE 11/3/15

December 24, 1981

SECRET

TO: NSC - Mr. Bailey

The following is an estimate of dollar costs of items 6 and 7 on the list:

Cancel All Academic, Cultural and Scientific Exchanges

-- Cultural and Academic Exchanges: The only existing cultural exchange is the reciprocal distribution of Amerika Illustrated in the USSR and Soviet Life in the USA. This exchange is greatly to our benefit. We spend $1.7 million on this exchange. Cancelling would result in a net saving of money, but would involve a distinct loss in USG access to the Soviet population.

The USG puts about $1.7 million annually into academic exchanges with the USSR. If these were cancelled immediately, the USG might have to spend several hundred thousand dollars to relocate the US students now in the USSR. If the program is allowed to continue until the summer and then lapse, it would cost us nothing in financial terms (we would of course lose a great deal in terms of our knowledge of the USSR).

-- Scientific and Technical Exchanges: Cancelling these agreements would technically place us in violation of our legal obligations since the agreements do not contain provisions for unilateral abrogation.

We could, however, announce suspension of further activities under the agreements without indicating that we were cancelling the agreements themselves.

If we did actually abrogate the agreements, the USG conceivably could stand to lose around $9 million, which is the value of equipment now in the USSR. Of this sum, $8 million represents the superconducting magnet used in the magnetohydrodynamics (MHD) project.

Suspension of activities without cancellation of agreements should cost nothing.

SECRET

RDS-2 12/24/2001

35

In many cases, we obtain valuable information from these agreements that would be costly -- and in some instances impossible -- to duplicate (NASA, for example, says it would cost us some 100 million dollars to get data on primate experiments the Soviets are conducting and sharing with us.

Escalate Radio Liberty and VOA Activities, and Increase Anti-Jamming

-- Voice of America: VOA informs us that it would cost approximately $1 million to expand broadcasting time in Armenian, Georgian, Tartar/Bashkir, Kazakh, and Byelorussian. This expansion could be implemented almost immediately. VOA currently broadcasts 17 hours in Russian and 14 hours in Ukrainian per day; they believe that an increase in broadcasting time in these langauges would be of marginal utility.

In order to circumvent jamming, VOA would be able to redirect some transmitters currently providing service to other countries and regions and direct them toward the USSR. This could be done quickly and at no cost.

-- Radio Liberty: The Board for International Broadcasting tell us that there is little that Radio Liberty can do in the short term to increase effective broadcasting to the USSR or to overcome jamming.

Thomas M. T. Niles
State/EUR

CONFIDENTIAL

36

170469

"MARSHALL PLAN" FOR POLAND

A Cost Analysis

Introduction

This analysis of the costs of significant economic assistance to Poland follows the convenient pattern of (1) establishing a Base-Line, or minimal, program which would aim to stabilize the Polish economy at more or less its present depressed level, then (2) considering an increment to the base-line program that could put the Polish economy on a path of renewed growth and recovering standards of living. The Base-Line program does no more than cover the hard-currency financial gaps which the Poles themselves have projected as needed to support their economy in a decidedly lackluster condition, at least for the next year or two.

The analysis assumes adequate burdensharing by the Allies. In a total aid package, U.S. shares ranging from 10% to 30% can be justified, depending on the formula used. This analysis uses a figure of 20% as a reasonable compromise between these extremes, regarding which there are inter-agency differences of view.

The analysis focusses on the incremental costs of any new program. Thus, it assumes that debt rescheduling along the lines already agreed to by official creditors for 1981 (90% of principal and interest) will take place in any event (whether by agreement or by Polish default) and therefore represents "sunk" costs independent of any new assistance program. Rescheduling by the private banks (95% of principal only) is handled similarly.

The Base-Line Program

Poland's most recently projected financial gaps for 1981 and 1982 amount to $0.8 billion and $3.8 billion, respectively. At least $350 million of the former figure has to be seen as a potential bail-out of the banks (mostly European) for interest payments due in 1981.

Classified by R. A. Cornell
☐ Declassify ☒ Review for
Declassification on 12/24/87

CONFIDENTIAL

After 1982, the gap is expected to decline to about $2 billion by 1985. Because debt rescheduled in 1981 will start falling due after 1985, Poland's financial gap will increase again in 1986 and beyond, unless there is then a rescheduling of previously rescheduled debt. Leaving the years after 1985 out of consideration, the costs of a Base-Line or minimal assistance program for Poland over the medium term, by calendar year through 1985, can be estimated as follows:

($ Millions)

New Money Beyond Costs of Debt Rescheduling	1981	1982	1983	1984	1985	Total
Total Program	800	3,800	3,000	2,500	2,000	12,100
U.S. Share (20%)	160*	760*	600	500	400	2,420

* Likely to be concentrated in FY 1982, for a total of $920 million.

The Incremental Program

There has been no definitive analysis of what Poland's requirements might be, should the Western allies decide to go beyond the basic balance of payments support envisioned in the Base-Line sort of program outlined above. In its current depressed state, however, the Polish economy has considerable absorptive capacity for (1) inputs to agricultural production, (2) raw materials and intermediate goods for manufacturing, (3) spare parts and equipment to replace capital facilities damaged or run down over the past year, and (4) carefully selected new investment. Thus, an incremental program of $3 billion to $5 billion annually through 1985 likely would not be constrained by Poland's absorptive capacity and would stimulate the economy powerfully. Perhaps 10 percent of the total should be allocated to administrative costs, as effective economic management will be essential for a successful program; the Poles have demonstrated in the past that they do not possess such management capability. The U.S. share of the program, at 20%, would be $600 million to $1 billion annually.

Combined Costs

With the Base-Line and Incremental programs combined, costs to the USG, by fiscal years, through 1985, would be as follows:

($ Billions)

1982	1983	1984	1985	TOTAL
1.52-1.92	1.2-1.6	1.1-1.5	1.0-1.4	4.82-6.42

Other Key Considerations

-- A highly publicized Western program, especially one of the incremental variety, could well induce the Soviets to reduce or cease their support of the Polish economy, which amounts to $2 billion to $3 billion annually in terms of real resource transfers. This would leave the West with all its costs and few if any of the expected benefits of Polish economic resurgence; the West would simply be assuming costs previously borne by the USSR.

-- Without institutional reform of the Polish economy, by the Poles themselves and with Western managerial and organizational help, any assistance effort by the Allies would be largely wasted. It would simply prop up Polish per capita incomes for a few years, leading to new crises when the program ended. This is, in effect, what happened to Poland in the 1970's, when skyrocketing borrowing provided analogous income tranfers from the West.

-- All US assistance could and should be tied to U.S. exports, but the Allies are likely to do the same, so that there will be no feedback demand for US exports from Allied assistance.

-- Some "bail-out" of private creditors cannot be avoided, especially initially.

-- A coordinated Allied program, especially at the incremental level, could well restore the confidence of private lenders and lead to a resumption of private credits to the Poles. This could reduce the need for official assistance. Quantification of the extent of possible new private lending would be sheer guesswork. Confidence will return only over time.

-- Any assistance under either the Base-Line or the Incremental program should be highly concessional. Poland would be hurt rather than helped by new short- or medium-term debt. From a cost analysis perspective, this implies heavy current budget outlays that would not be recouped for many years.

-- A resurgence of the Polish economy implies increased exports to the West. Western countries will need to be prepared to maintain open markets for Polish goods, which implies policy-level resistance to the inevitable charges of dumping and market disruption that the US and other governments will face.

Classified by R. A. Cornell
☐ Declassify ☒ Review for
Declassification on 12/24/87

SECRET

UNITED STAT... DEPARTMENT OF COMMERCE
The Under Secretary for International Trade
Washington, D.C. 20230

40

170472

MEMORANDUM FOR: Dr. Norman Bailey
Director of Planning
National Security Council

DECLASSIFIED
NLRR 748-22-8-5-0
BY COD NARA DATE 11/3/15

FROM: Raymond J. Waldmann
Acting Under Secretary
for International Trade

SUBJECT: Economic Costs of U.S.S.R. Sanctions

You requested an estimate of the economic cost to the U.S. Government and economy of possible sanctions taken with respect to the U.S.S.R. as a result of the events in Poland. The following presents Commerce's analysis of economic costs; also included are comments on effects on the U.S.S.R. The estimated costs are yearly costs with no accounting for inflation, interest lost, etc. The costs reflect lost sales (exports) by U.S. Industry without taking into account downstream effects.

1. Expulsion of Soviet Commercial Officers in the U.S. and Recalling U.S. Commercial Officers in Moscow.

The direct cost to the U.S. Government is small. Retaliation against 28 U.S. company offices in Moscow--if offices closed down, loss of perhaps $10-15 million investment, and some administrative costs, plus loss off future business generated by offices. The indirect costs to the U.S. Government are difficult to estimate. The major indirect cost is tax revenues on export sales.

The cost to the U.S. economy is equally difficult to estimate. The commercial offices do generate trade but estimates vary from 1% to 10% of U.S./U.S.S.R. two way trade.

2. Halt Exporting of Oil and Gas Equipment.

The cost to the U.S. Government of halting the export of oil and gas equipment and technology is small (tax revenues on sales).

The cost to the U.S. economy would be approximately $210 million per year. In 1981 we approved approximately $90 million with $120 million still pending. The pending figure includes the Caterpillar license for 200 pipelayers. Another $80 million worth of oil and gas technology cases were denied in 1981 for the USSR. This $80 million is not included in the $210 million since it is unlikely that we would approve technology in the near future.

SECRET

The effect of halting shipments to the U.S.S.R. will have a significant short term impact. The U.S. sells the best equipment, which the Soviets prefer. For certain applications--corrosive and high pressure environment--the U.S. has unique capabilities. The Soviets will have some problems to compensate for the losses. Most of the equipment can be purchased outside the U.S. (pipelayers, larger diameter pipe, pumps, etc.).

3. <u>Rescinding International Harvester License</u>.

Cancellation of the IH license will cost $300 million over a five year period. It will result in a loss of about 300 jobs and affect the financial standing of IH. The technology is available from Klaus in West Germany. Little cost to U.S. Government.

4. <u>Impose Embargo on All High Technology</u>.

Embargo of all high technology will cost the U.S economy approximately $80 million in 1982. We approve approximately $200 million per year in validated licenses but only $100 million is classified as "high technology." The rest is oil and gas equipment.

The Soviet Union will be affected by this move, especially if supported by our Allies. A multi-lateral embargo would slow down their economy. Most of the equipment can be acquired from non-U.S. sources; multi-lateral cooperation is imperative.

5. <u>Total Embargo of Exports and Imports (1982)</u>.

Cost to U.S. Government approximately $1 billion to $4 billion because of price supports for agricultural programs.

Cost to U.S. economy is projected at $3.7 billion in export sales plus $1 billion to $2 billion in governmental outlays.

Exports are divided into $2.5 billion in agricultural commodities and $1.2 billion in non-agricultural commodities.

The import embargo costs are difficult to estimate since this could result in liabilities due to broken contracts. The U.S. imports approximately $450 million from the U.S.S.R., mostly in raw materials. Firms requiring these commodities must find alternate suppliers, especially in strategic minerals.

42

The top ten U.S. imports from the USSR are:

1980

Commodity	Value (Millions)
Ammonia	95
Gold Bullion	86
Palladium	55
Uranium flourides	35
Nickel	35
Metal coins	18
Palladium bars	12
Naphtha	10
Uranium compounds	9
Platinum bars	7
	453

Our dependency on the U.S.S.R. for the critical minerals whether among top 10 or not was in 1980:

Chromite	28%
Graphite	6%
Nickel	3%
Platinum	1%
Palladium	26%
Titanium	11%

The highest dependency is in chromite, palladium and titanium sponge. U.S. suppliers would have to seek supplies from South Africa, the Phillipines (chromite) to make up for the disruptions at premium prices. The disruptions would affect catalytic converters for cars and specialty steel production, but supplies can be compensated from within 3 to 9 months. The other dependencies are small and can be compensated from within 3 months.

170473

43

Impact of Trade Embargo with USSR
on U.S. Economy

Background

The balance of trade with USSR is heavily in the U.S. favor -- with exports at least 3-4 times greater than imports consistently over the last four years.

United States exports to the USSR (which are dominated by agricultural products) declined sharply in 1980 due to the sanctions imposed by the Carter Administration following the Soviet invasion of Afghanistan. In 1981, exports rose sharply, mainly as a result of the lifting of the grain embargo. In the absence of USG restraints, it is expected that exports (particularly grains) would expand further, by a large amount in 1982. In the manufacturing sector, exports are concentrated in a few product categories (e.g. tractors, phosphate fertilizer, pressure sensitive tape), and a few U.S. companies (e.g. Occidential, International Harvester, Caterpillar).

The patterns of U.S. exports to the USSR contrasts sharply with those of our major Western allies -- for whom steel and machinery are the major export items. Thus, our allies are a much more important source of manufactures for the USSR and their manufacturing sectors have a much larger stake in the Soviet market.

United States imports from the USSR have been primarily minerals and metals, although in recent years ammonia and refined petroleum products have accounted for a substantially larger share. Imports have dropped significantly in volume in 1980 and 1981 largely due to a decline in gold purchases.

The attached tables provide data on recent U.S. trade with the USSR.

Impact of Total Embargo

The impact of an embargo on trade with the USSR is summarized by sector on the attached chart.

In total, we estimate that about $10 billion in export sales would be lost in 1982-83, with an accompanying loss of about 160,000 jobs. The impact on certain companies (e.g. Occidental and International Harvester) would be quite substantial.

Federal budget outlays for existing agricultural programs would increase by at least $6-8 billion and there would be pressure for additional or enhanced programs. Federal budget outlays and revenues would also be adversely affected by higher levels of unemployment. The Export-Import Bank would probably suffer a $180 million loss due to default on the Occidential contract.

Over the longer term, an embargo would cause loss of significant potential sales to the Soviet Union and to other countries and would encourage the spread of long term supply agreements in agricultural trade.

The attached paper by USDA describes the effects of an embargo in agriculture in detail.

Attachments

U.S. EXPORTS TO USSR
(Million dollars)

	1978	1979	1980	First Half 1981
Agricultural				
Yellow corn	1,053	1,402	602	387
Unmilled wheat	356	812	336	334
Inedible tallow	19	58	28	40
Soybeans	200	489	45	NA
Shelled almonds	NA	8	17	15
Sugar beets or cane	NA	NA	NA	11
Hops	NA	5	10	10
Subtotal of above	1,628	2,774	1,038	797
(as % of total)	72%	77%	69%	75%
Mineral				
Alumina	NA	NA	NA	8
Molybdenum ore	26	41	NA	8
Petroelum coke, calcined	18	14	20	21
Manufactures				
Tracklaying tractors & parts	NA	43	90	58
Other tractor parts	NA	2	10	15
Phosphoric acid	NA	93	17	14
Pressure sensitive tape	37	50	42	13
Parts for oil/gas drilling	28	28	NA	NA
Metal working machines, gear	NA	NA	NA	8
Belting & belts for machines	NA	2	13	8
Subtotal of above	65	218	172	116
(as % of total)	3%	6%	11%	11%
Total Exports	2,249	3,604	1,510	1,066
(above items as % of total)	77%	85%	81%	89%

U.S. IMPORTS FROM USSR
(Million dollars)

	1978	1979	1980	First Half 1981
Agricultural				
Sable furskins	8	9	6	3
Vodka	NA	NA	NA	3
Minerals/Metals				
Gold	286	548	86	18
Nickel	16	29	21	34
Palladium	28	62	54	18
Platinum metals	3	16	6	1
Chrome ore	7	11	4	2
Rhodium	8	9	6	2
Aluminum scrap	30	9	2	2
Metal coins	6	25	18	NA
Subtotal of above	384	709	197	77
(as % of total)	72%	81%	46%	35%
Manufactures				
Ammonia	27	56	95	40
Light fuel oils	NA	NA	NA	50
Napthas	NA	--	5	17
Total Imports	530	873	430	219
(above items as % of total)	79%	89%	70%	87%

SUMMARY OF IMPACT OF USSR TRADE EMBARGO
ON U.S. ECONOMY

SECTOR	IMPACT IN 1982-1983	LONGER TERM IMPACT
AGRICULTURE 1/	1 - Loss of $7 billion in export sales. 2 - Loss of over 100,000 jobs (and associated increased costs and revenue loss in federal budget). 3 - Increase in U.S. agricultural budget outlays by $6-8 billion. 4 - Higher costs for ammonia fertilizer, lower for phosphates. 5 - Depressed commodity price levels (to or below loan levels).	1 - Spread of long term trade arrangements. 2 - Foreign buyers will diversify away from U.S. sources due to loss of credibility of U.S. as supplier.
MANUFACTURES	1 - Loss of $3 billion in export sales and 60,000 jobs (and associated increased costs and revenue loss in federal budget). 2 - May well cause International Harvester to go bankrupt. 3 - Caterpillar would lose $200 million in sales and 1,000 jobs. 4 - Occidental would lose 1,600 jobs in phosphate industry and write off of possibly $60 million. 5 - Cut off of imports of mineral would cause increased costs to consuming industries (e.g. auto, specialty steel) seeking alternative supplies. 6 - Positive impact on U.S. ammonia industry. 7 - Loss to Export-Import Bank of $180 million (Occidental deal).	1 - Loss of substantial potential business (e.g. pipelayers. 2 - Loss of reliability of U.S. as supplier would discourage other purchasers. 3 - Loss of $400 million/year for remaining 15 years of Occidental market.
SERVICES	1 - Loss of $50-80 million in revenues to shippers. 2 - Potential adverse effect of U.S. banks holding credits to Soviets.	

1/ Assumes embargo would apply to Eastern Europe and USSR and no new government programs to aid farmers (which could add several billion dollars in budget outlays).

~~SECRET~~

47

SOVIET/E[illegible]ERN BLOC EMBARGO - ISSUES AN[illegible]MPACTS

48

Summary

The potential gains to be derived from a trade embargo with the Soviet Union and the Eastern Bloc countries appear small relative to the costs the United States would suffer. Such efforts in the past have not influenced Soviet foreign policy, but have hurt our agricultural trade, disrupted commodity markets, depressed commodity prices, and cost the Treasury large sums. A trade embargo with the Soviet/Bloc countries should not even be considered without first imposing a full embargo on credit from the West.

While in years of poor harvests the Soviets account for a large share of the world's wheat and coarse grain imports (nearly a fifth in 1981/82), their overall imports (nonagricultural and agricultural) make up only 3.3 percent of their GNP. Because half the Soviet's overall imports come from the Eastern European countries, any trade embargo action taken by the United States and its allies would have to also include Eastern Europe to prevent transshipment. Such an action would depress prices for farm commodities in this country because over 70 percent of our exports to the Soviet Union and Eastern Europe are agricultural products.

Our agricultural export sales to the USSR and Eastern Europe are projected to total about $4.8 billion in 1981/82. If the action were imposed immediately and across the board, agricultural export earnings would fall by over $2 billion in fiscal 1982, further aggravating the U.S. trade deficit and the position of the dollar internationally. We estimate it would cost the federal government $2-3 billion for 1981/82 to absorb the commodities that would otherwise have been exported. The reduction in exports would also mean the loss of over 100,000 jobs throughout the economy. In addition to making commodity loans to farmers, we would have to subsidize their storage and interest costs. Thus, the export-based underpinning of American farm income would be seriously weakened by an embargo. To compensate, it would cost the U.S. government more in price support and related outlays than the value of the exports lost due to the embargo. The whole structure of farm prices—including agricultural commodities not now exported to the Soviet Union and the Eastern Bloc—would shift downward.

The impact of continuing an embargo into 1982/83 is even more damaging to agriculture and related industries. We project agricultural exports would decline by over $5 billion in 1982/83. Commodity prices would fall at or below loan levels, increasing deficiency payments for grains and raising loan and reserve outlays sharply. Budget outlays for grains alone in 1982/83 would total $4-5 billion above levels expected in the absence of an embargo.

To limit taxpayer sacrifices in continuing to absorb the surpluses, the U.S. government would be forced into massive and costly acreage reduction programs. These programs would disrupt markets and impact on nearly all sectors of the U.S. economy: employment in industries supplying farm inputs would fall; rural communities would suffer as the volume of U.S. farm output declined; and gross farm income would fall. The longer the embargo were to continue, the more severe would become the dislocations.

U.S. agriculture's ability to produce would also be impaired by a total trade embargo. The Soviet Union and Eastern Europe account for 30 percent of

the world's nitrogen fer[illegible]lizer production capacity. In 1980/81, the Soviet Union alone supplied the United States with half of its imported ammonia.

47

Coverage

If an embargo of only agricultural products were imposed, the Agriculture and Food Act of 1981 would require that the Secretary take steps to assure farmers of 100 percent of parity. It is important to note that in addition to grains, the U.S. also exports oilseeds, tallow, sugar, cattle hides, meats, animals, tobacco, etc. to the USSR and Bloc countries. Hence, there would be tremendous economic disruptions.

Implementation

In order to minimize disruptions to farm commodity markets, we recommend that exporters be allowed to deliver on contracts already written for shipment in 1981/82. Thus, about half of the grain and other agricultural products projected to be exported to the USSR and EE would still move. This would still imply about a 10-15 percent reduction in total U.S. grain exports for 1981/82.

Impacts on Agriculture and the Budget

With farm prices and incomes already depressed, an embargo would have a devastating effect in agriculture and related industries. The reduction in exports would mean the loss of over 100,000 jobs throughout the economy. The embargo would eliminate any opportunity for price strengthening in 1981/82 and would lead to a tremendous increase in loan and inventory outlays as well as a significant buildup in reserves. Unless offsetting actions were taken, corn prices would drop and average for the season near loan rate levels, about 10-15 cents per bushel below earlier expectations. Wheat prices would also be pushed near loan rate levels, about 50 to 60 cents per bushel below earlier projections. This would result in large additional movements of grain under government loan and into the farmer-owned reserve with additional budget outlays around $2 billion for these commodities alone.

A continuation of the embargo into 1982/83 would mean a reduction of nearly 25 percent in grain exports, with farm prices for grain averaging at or below the reserve loan rates. Soybean exports and prices would be similarly affected. Movement of this volume of grain into loan and reserve programs would result in twice as much grain in the reserve than earlier expected and budget outlays of about $4 to $5 billion. These increased outlays do not include the costs of any additional offsetting actions, such as contract purchases, direct grain purchases, paid land diversion programs, or higher support rates designed to minimize impacts on the sector as a whole.

Effectiveness of an Embargo

It is very difficult to get exporters to cooperate in a trade embargo. It would be particularly difficult in this case because of the linkage between Western Europe and the Eastern Bloc countries. West Germany is a major supplier, particularly of credit, to the Bloc. Moreover, our experience in managing embargoes has not been good. Mechanisms do not exist for making such actions effective. Reports by GAO and USDA's Inspector General conclude that the 1980 embargo with the USSR was virtually ineffective.

Longer Term Impacts

The longer an embargo is allowed to stay in effect, the greater the problems that would emerge. Pressure for the government to take compensating actions on agricultural commodity prices would rise. Even then, any further actions to help farmers would have to be coordinated with the other supplying nations. The longer the embargo remains in effect, the more the exporters would be tempted to circumvent the embargo and thereby undermine the intent of the action. Irrespective of the duration of the embargo, the United States would find its foreign markets seriously eroded. Other suppliers and the Soviets would attempt to write bilateral agreements in order to tie up future trade to their advantage. Other importing countries, including our major trading partners, would also try to tie up and diversify the sources of their future requirements in formal agreements. Following the 1980 embargo, roughly 30 percent of the world's grain trade was estimated to be locked up by other exporting countries in the form of bilateral agreements, a sharp increase from the pre-embargo level.

NSC/S PROFILE — SECRET — ID 8107373

51

UNCLASSIFIED UPON REMOVAL OF CLASSIFIED ENCLOSURE(S) RECEIVED 28 DEC 81 18

TO NANCE FROM BAILEY U/3/15 KDB DOCDATE 28 DEC 81

KEYWORDS: USSR ECONOMICS

SUBJECT: DRAFT COMBINED PAPER RE FINANCIAL COSTS OF POSSIBLE MEASURES AGAINST USSR

ACTION: FOR INFORMATION DUE: STATUS IX FILES

FOR ACTION	FOR CONCURRENCE	FOR INFO
NANCE		PIPES
		LENZ

COMMENTS

REF# LOG NSCIFID (B /)

ACTION OFFICER (S)	ASSIGNED	ACTION REQUIRED	DUE	COPIES TO
	C 2/5	Original not returned		

DISPATCH W/ATTCH FILE PA (C) U

~~SECRET~~ SENSITIVE

MEMORANDUM

The President has seen ____ 52

THE WHITE HOUSE

WASHINGTON

170475

~~SECRET/SENSITIVE~~ December 28, 1981

INFORMATION

DECLASSIFIED
NLRR 748-22-8-7-8
BY GDB NARA DATE 11/3/15

MEMORANDUM FOR THE PRESIDENT

FROM: EDWIN MEESE III

SUBJECT: Proposed Measures To Be Taken Against the Soviet Union

The Vice President chaired a meeting of the SSG in the Situation Room of the White House today. Present were Haig, Weinberger, Regan, Inman, Kirkpatrick, Brock, General Jones, Stoessel, Carlucci, Olmer, (Commerce), Lyng (Agriculture), Nance and Meese. The proposed list of options previously provided you by Bud Nance was discussed. The following recommendations are made:

I. A. Expel all Soviet commercial representatives, close their offices and close our commercial offices in the USSR.

Recommendation: Expel those associated with the Kama River Purchasing Commission only. Delay others.

B. Reduce Soviet diplomatic representation in the United States. Mandate that the Soviets can have no more diplomats in Washington than we do in Moscow. Reduce levels in both places.

Recommendation: Delay

C. Cancel all cultural, scientific and academic agreements with the Soviet Union.

Recommendation: Modified to notify the Soviets we will not renew specific scientific, technology and energy agreements as their renewal dates become due.

D. Suspend negotiations on new Maritime Agreement and impose strict port access requirements when the present agreement expires on December 31.

Recommendation: Concur

~~SECRET/SENSITIVE~~
~~Review 12/28/87~~

~~SECRET~~ SENSITIVE

E. Escalate radio broadcasting and anti-jamming activities toward the Soviet Union.

Recommendation: Concur. Modified to concentrate more transmitters, as feasible, beamed at Poland.

F. Seek condemnation of the Soviet Union in international organizations, e.g., UN, ILO, CSCE.

Recommendation: Delay UN action. Call for emergency meeting of CSCE and seek condemnation of Poland and Soviet Union in the ILO.

G. Ban Soviet fishing in U.S. waters.

Recommendation: Continue policy established after Afghanistan invasion of no fishing allocations to the Soviet Union.

H. Halt the export of all oil ad gas equipment and technology to the Soviet Union.

Recommendation: Suspend issuances of licenses for equipment that is on the foreign policy control list. Add oil and gas equipment to foreign policy control list. (Cap Weinberger would like to see oil and gas equipment on national security control list. Al Haig does not agree. Technically, an item can be on both lists.)

I. Propose an early meeting between Secretary Haig and Mr. Gromyko. At present it is scheduled for January 26-28.

Recommendation: Delay. State Department to review. No public statement.

J. Cancel the Haig-Gromyko meeting scheduled for January 26-28.

Recommendation: Delay. State Department to review. No public statement.

K. Do not issue the Caterpillar pipelayer license. (The Economic Minister of the Japanese Embassy has informally indicated to NSC personnel the Japanese Government would be inclined to take the same step if the U.S. denied sales of pipelayers to Russia.)

Recommendation: Concur. (This is for the 200 pipelayers for which the license has not yet been delivered. We will attempt to get the Japanese to follow. We will attempt to assist Caterpillar in selling the pipelayers without the U. S. Government incurring any legal liabilities.)

L. Discourage tourist travel to the USSR.

Recommendation: Delay

M. Pressure U.S. banks to suspend all credits to the USSR. Suspend negotiations on economic matters.

Recommendation: Delay. Don Regan will talk informally to the central banks. Will not be made public.

N. Delay or refuse to set new dates for talks on the "Long Term Grain Agreement."

Recommendation: Change wording to "Postpone setting dates of new meetings on the 'Long Term Grain Agreement'."

O. The four major grain suppliers to the USSR and the U.S., Canada, Australia and Argentina. Diplomatic action should be initiated to determine if we can get an agreement on a world-wide grain embargo.

Recommendation: Delay. However, State is informally talking to the big four grain exporters now.

P. Begin talks immediately with our Allies to see if we can get the Siberian Pipeline Project cancelled. (Ambassador Rabb indicates he feels the time is excellent right now to take this action. Italians appear eager to cancel. However, Rabb says, "Given enough time, Western Euorpeans will slide back into doing business as usual with the USSR.")

Recommendation: Delay, but have the Economic Working Group study default of the Polish debt as a means of leverage on getting the Europeans to cancel pipeline participation.

Q. Call for an emergency CSCE meeting on Poland.

Recommendation: Concur

II. A. Suspend Aeroflot service.

Recommendation: Concur and move to Phase I.

B. Impose a total embargo on all high technology items to the Soviet Union.

Recommendation: Delay. CIA to develop an inventory of items that Soviets need most and things that would damage them most by embargoing.

C. Suspend all validated export licenses to the USSR for electronics, computers and other high technology categories.

Recommendation: Concur. Modify wording to "Suspend issuances or renewal of export licenses to the USSR for electronics, computers and other high technology categories.

D. Walk out of CSCE meeting in Madrid after denouncing the Soviets.

Recommendation: Delay

E. Recall Ambassador Hartman.

Recommendation: Delay

F. Announce U.S. refusal to set a date for the start of START negotiations.

Recommendation: Delay

G. Continue INF talks.

Recommendation: Concur

H. Conduct high-level, high-profile consultations with the Chinese.

Recommendation: Concur, except delete "high-level," "high-profile." Will not be made public.

All items under Phase III are delayed.

Al and Cap desire to revoke the license and stop shipment of International Harvester combines. Brock and Olmer strongly oppose.

Attempts will be made to have Allies to join us in each step.

Any actions not recommended at this time will be considered during later phases.

We will make a secure conference call to you at 1300 PST today.

7451

SECRET

28,56
20

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

170477

~~SECRET/SENSITIVE~~

December 28, 1981

DECLASSIFIED

NLRR 748-22-8-8-7

BY KDB NARA DATE 11/3/15

MEMORANDUM FOR CRAIG FULLER

FROM: BUD NANCE Bud

SUBJECT: Statement on Measures To Be Taken Against the Soviet Union

Attached is a draft repeat draft proposed Presidential statement on measures to be taken against the Soviet Union. We will rework this paper and have a final recommended version for you early tomorrow. You may want to show this draft to the President and Larry Speakes for their information.

~~SECRET/SENSITIVE~~
~~Review 12/28/87~~

SECRET

Presidential Statement

Poland -- The Soviet Responsibility and the American Response

December 29, 1981

The Soviet Union bears a heavy and direct responsibility for the repression in Poland. For many months the Soviets publicly and privately demanded such a crackdown. They brought major pressures to bear through now-public letters to the Polish leadership, military maneuvers, and other forms of intimidation. They now openly endorse the suppression which has ensued.

Last week I announced that I had sent a letter to President Brezhnev urging him to permit the restoration of basic human rights in Poland as provided for in the Helsinki Final Act. I also informed him that, if the repression continued, the United States would have no choice but to take further concrete political and economic measures affecting our relationship.

The repression in Poland continues, and President Brezhnev has responded in a manner which makes it clear the Soviet Union does not understand the seriousness of our concern, and its obligations under both the Helsinki Final Act and the U.N. Charter. I have, therefore, decided to take the following immediate measures with regard to the Soviet Union:

- All Aeroflot service to the United States will be suspended.
- The Soviet Purchasing Commission is being closed.
- The issuance or renewal of licenses for the export to the USSR of electronic equipment, computers and other high-technology materials is being suspended.
- Negotiations on a new long-term grains agreement are being postponed.
- Negotiations on a new US-Soviet maritime agreement are being suspended, and a new regime of port-access

58

controls will be put into effect for all Soviet ships when the current agreement expires on December 31.

-- Licenses will be required for export to the Soviet Union for an expanded list of oil and gas equipment. Issuance of such licenses will be suspended. This includes pipelayers.

-- US-Soviet exchange agreements coming up for renewal in the near future, including the agreements on energy and science and technology, will not be renewed. There will be a complete review of all other US-Soviet exchange agreements.

The United States wants a constructive and mutually beneficial relationship with the Soviet Union. We intend to maintain a high-level dialogue. But we are prepared to proceed in whatever direction the Soviet Union decides upon -- towards greater mutual restraint and cooperation, or further down a harsh and less rewarding path. We will watch events in Poland closely in coming days and weeks. Further steps may be necessary and I will be prepared to take them. American decisions will be determined by Soviet actions.

Secretary Haig has been in communication with our friends and Allies about the measures we are taking and explained why we believe such steps are essential at this time.

Once again I call upon the Soviet Union to recognize the clear desire of the overwhelming majority of the Polish people for a process of national reconciliation, renewal and reform.

Department of State

NSC/S PROFILE SECRET ID 8107451 59

UNCLASSIFIED UPON REMOVAL OF CLASSIFIED ENCLOSURE 11/3/15 KDB

RECEIVED 30 DEC 81 15

TO FULLER, C FROM NANCE DOCDATE 28 DEC 81

KEYWORDS: POLAND USSR

MEDIA SPEECHES

SUBJECT: STATEMENT ON MEASURES TO BE TAKEN AGAINST SOVIET UNION

ACTION: DACOMED TO PRES DUE: STATUS C FILES PA

FOR ACTION	FOR CONCURRENCE	FOR INFO
NONE		PIPES
		STEARMAN
		LENZ

COMMENTS

REF# LOG NSCIFID (D / D)

ACTION OFFICER (S)	ASSIGNED	ACTION REQUIRED	DUE	COPIES TO

DISPATCH ______ W/ATTCH FILE ____ (C)