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WITHDRAWAL SHEET

Ronald Reagan Library

Collection Name MATLOCK, JACK: FILES

Withdrawer

JET 5/25/2005

File Folder SOVIET UNION: TRADE 2/5

FOIA

F06-114/11

Box Number 36

YARHI-MILO

3618

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
11684	MEMO	LENZ TO ALLEN RE HAIG'S MEMO ON CONTROLS ON EXPORTS TO THE SOVIET UNION <i>R 4/14/2011 F2006-114/11</i>	1	7/8/1981	B1
11686	MEMO	ALLEN TO PRESIDENT REAGAN RE HAIG'S MEMO ON CONTROLS ON EXPORTS TO THE SOVIET UNION <i>R 4/14/2011 F2006-114/11</i>	1	ND	B1
11702	MEMO	HAIG TO PRESIDENT REAGAN RE CONTROLS ON EXPORTS TO THE SOVIET UNION <i>R 4/14/2011 F2006-114/11</i>	4	7/8/1981	B1
11688	MEMO	PIPES TO LENZ RE COMMENTS: SECURITY CONTROLS ON EXPORTS TO USSR--- OUTGROWTH OF NSC MEETING JULY 9 <i>R 4/14/2011 F2006-114/11</i>	1	7/20/1981	B1
11703	MEMO	HAIG; WEINBERGER; BALDRIGE; BROCK TO PRESIDENT REAGAN RE SECURITY CONTROLS ON EXPORTS TO THE USSR <i>R 4/14/2011 F2006-114/11</i>	2	7/18/1981	B1
11690	REPORT	THE SOVIET DEBATE THE FUTURE OF EAST-WEST TRADE <i>R 4/14/2011 F2006-114/11</i>	1	8/2/1982	B1

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]

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WITHDRAWAL SHEET

Ronald Reagan Library

Collection Name MATLOCK, JACK: FILES

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JET 5/25/2005

File Folder SOVIET UNION: TRADE 2/5

FOIA

F06-114/11

Box Number 36

YARHI-MILO

3618

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
11691	MEMO	TO CLARK RE EFFECT OF HARD CURRENCY SHORTGAGES ON SOVIET BLOC FOREIGN ADVENTURES <i>R 4/14/2011 F2006-114/11</i>	1	4/13/1982	B1
11694	MEMO	CLARK TO PRESIDENT REAGAN RE EFFECT OF HARD CURRENCY SHORTGAGES ON SOVIET BLOC FOREIGN ADVENTURES <i>R 4/14/2011 F2006-114/11</i>	1	ND	B1
11695	MEMO	RE SOVIET BLOCK REASSESES FOREIGN AID AND TRADE <i>PAR 4/14/2011 F2006-114/11</i>	2	4/13/1982	B1 B3
11699	MEMO	MOORHEAD TO CLARK RE VERITY <i>PAR 7/15/2008 NLRRF06-114/11</i>	1	4/14/1982	B3
11700	MEMO	SAME TEXT AS DOC #11699 <i>PAR 7/15/2008 NLRRF06-114/11</i>	1	4/14/1982	B3

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MEMORANDUM

NATIONAL SECURITY COUNCIL

April 13, 1981

MEMORANDUM FOR RICHARD V. ALLEN

FROM: ALLEN J. LENZ

SUBJECT: Reading Material



The attached paper "Europe and the United States: Drifting Apart?" is worth reading.

cc: James Lilley
~~Richard Pipes~~ ✓
Henry Nau

1

KISER RESEARCH

**EUROPE AND THE UNITED STATES:
DRIFTING APART?**

By John W. Kiser

December 1980

EUROPE AND THE UNITED STATES:
DRIFTING APART?

In an era when the United States cannot effectively respond to unwelcome Soviet actions without strong European cooperation, U. S. inability to synchronize its views of the Soviet threat with European perceptions and interests poses a serious problem for foreign policy. It is a problem which is paralleled by an equally difficult challenge, namely, to define the Soviet threat in ways which will elicit the support of the U. S. electorate, yet satisfy foreign policy requirements for demonstrating "leadership".

Much ink has flowed since the Soviet invasion of Afghanistan about European foot dragging in support of the new U. S. get tough policy. Indeed, why do European governments seem less concerned, less outraged by Soviet actions in Afghanistan than the United States? Lack of confidence in President Carter's leadership, greater economic and political interests in preserving detente, different interpretations of the nature of the Soviet threat and how to deal with it are among the various reasons given to explain the "European attitude", one which increasingly refers to an attitude of independence. Part of the explanation may simply lie in a post war habit of letting America stand up to Russia. We're the other big boy on the block.

It is my belief that these current difficulties overlay more fundamental problems which may increasingly drive Western Europe into a politically accommodating posture vis-a-vis the Soviet Union. The problem areas which appear fundamental are those that

exist regardless of the administration that is in power. A skillful, strong administration can temporarily obscure these basic forces working against a close relationship with Europe, but not eliminate them. I would summarize the deep seated problems under the headings of: (1) U. S. domestic politics and institutional weaknesses and (2) different European attitudes toward Communism and the state in general.

Domestic Politics and Institutional Weakness

In the post World War II era, it has been easy to think of the NATO alliance and our foreign policy concern with Europe's destiny as being a part of the natural order of things. Historically, however, it has been America's often articulated desire to disassociate itself from the classridden, squabbling, tradition bound "Old World". America's first foreign policy pronouncement was "no entangling alliances". America had a destiny of its own to fulfill and didn't want to be dragged down by European involvements. This attitude of non-involvement was strong enough to keep the United States out of most of World War I, to disavow a League of Nations created out of the idealism of its own president and to force the desperate British to infiltrate agents into the U. S. during World War II to discredit isolationist political forces. It seems not without justification that Europeans have doubts about America's long term interests in its security.

The historical disdain for becoming involved with European problems gains strong support from the bare realities of U. S. geography. Not a trading nation, separate and secure from the

rest of the world by huge oceans, continental in its dimensions, the rest of the world doesn't really exist for the average American. Historically, the world has come to our shores, reinforcing our sense of mission and superiority as a nation.

Except for the New York Times, Washington Post and perhaps three or four other newspapers, Americans don't read much about foreign events except when there is a crisis or natural disaster. Almost any European who has spent time in the U. S. outside of New York and Washington will remark on this sense of total isolation from the rest of the world. Nor do Americans learn foreign languages. Why bother? The rest of the world speaks English. Beneath a thin layer of well travelled cosmopolitan Americans, our country is afflicted with a profound and historically conditioned parochialism which does not prepare us for world leadership. This may strike some as overstated in today's world, but concerns with resource dependence, balance of trade deficits, foreign imports, the declining dollar are all relatively very new to the average American.

The post Vietnam reemergence of a powerful historical parochialism and isolationist mentality goes hand in glove with the continuing breakdown of the post World War II anti-communist consensus embodied in the concept of "containment". The general discrediting of "containment" as a principle of U. S. foreign policy by the Vietnam fiasco has not led to a new consensus. This lack of consensus greatly exacerbates inherent institutional weaknesses in the American foreign policy process. Without a strong national

foreign policy consensus or a person of Kissinger's stature who can dominate by force of personality and intellect the foreign policy process, the U. S. has little institutional basis for implementing a consistent, predictable foreign policy. Frequent changes in administrations and personalities, which must also work with an undisciplined Congress possessing a very short term view of life, is a good recipe for unreliability and inconsistency. In addition, whatever foreign policy the U. S. does have must be supported by the military muscle needed to make it credible. Consistency of purpose and a commensurate military power must go hand in hand. These qualities in our foreign policy are necessary both to effectively lead our European allies as well as to meet whatever Soviet challenge we choose to see.

Though there is growing popular concern that the U. S. is no longer number one and an apparent readiness to support increased expenditures for defense after ten years of neglect, it is far from certain that this support is politically sustainable over a long enough period of time to make a difference. The great weakness of our system and probably of all political democracies is that it is very difficult to get support for a steady commitment to defense in the absence of a crisis atmosphere. Our inbred sense of security arising from a protected geographic position probably makes America even more reluctant than other, less secure countries to spend money for defense.

Europe vs. America - Attitudes Toward Socialism

For purposes of power politics, the UK, France and West

Germany could be said to constitute Europe. When talking about only these three countries, it is clear there are great differences in our attitudes and sense of affinity toward them and theirs toward the United States. Yet various U. S. foreign policy spokesmen and opinion leaders often talk of the shared values holding the West together as distinct from an alien "Eastern" Communism. East and West are put in stark opposition by many American commentators, forgetting that Marxism is a Western philosophy, if Germany can historically be considered Western. What is generally meant by "Western" is the idea of limited government and sanctity of individual rights. But this is only one strand in our European heritage of political thought - that associated with Locke and Bentham in Britain, Montesquieu in France, the founders of the 1848 Frankfurt Assembly in Germany, and, for that matter, the Kadets in pre-revolutionary Russia.

Sometimes it is forgotten that England also produced Hobbes and the Webbs. Rousseau, with his concept of the "general will" to which all citizens should bow, is regarded by many historians as one of the intellectual forefathers of the totalitarian state. Germany, until recently, has never been a source of much serious advocacy of limited government. Its commitment to democracy in the post World War I period was shown to be shallow and its commitment in the post World War II era has not been seriously tested. Germans from the time of Martin Luther through Hegel and Hitler have produced one of the strongest European traditions of statism and subordination of the individual to the group - often referred to in German literature as "organic" politics. There is a strong

historical element in German thought that sees Western, that is, English style political democracy and limited constitutional government as representing something divisive and alien to the German soul which has a preference for losing itself in the mystical unity of "Geist" and "Volk".¹ France remains a fundamentally authoritarian nation whose democracy masks a powerful statist tradition stretching back from DeGaulle to Napoleon and Louis the XIV. The periods in history when French political power has been greatest have almost always been associated with strong central power.

Communalism, or the sense that sharing equally and working together for common goals is preferable to competition and an everybody-for-himself philosophy, has a long historical tradition. It is in some respects an offshoot of the anti-commercial, anti-materialistic attitudes which are deeply rooted in Western Christian and feudal culture. Israeli Kibbutzes, Christian communalism, such as that practiced by the Hutterites of North Dakota, Robert Owen's experiment at New Harmony, the Paris Communards, 14th century English Diggers, all express in different ways an intellectual and emotional strain in our culture which stresses sharing and group interests over individual and competitive ones. Indeed, one of the shibboleths of American political culture,

1. This theme is a leitmotiv in Fritz Stern's new book, Gold and Iron, the story of Bismarck and his banker and confident, Bleichroeder. After an electoral defeat, Bismarck's brother, Herbert, expresses satisfaction because it rid him "of the filth which necessarily clings to parliamentarism".

equality of opportunity, can only be taken seriously if one is willing to accept a leveling of individual economic achievement. Marxism is only the most recent and systematized manifestation of a long intellectual tradition in Western culture which considers the reshaping of man's social environment the key to improving human behavior.

As a country founded by persons abused by the exercise of arbitrary state power and blessed with a secure geography unlike no other great power, the U. S. has been able to develop a political culture unique in its concern for the protection of individual rights and the institutional diffusion of the coercive power of the state. This is in stark contrast to the continental powers (England, like the U. S., has also benefited from the security of the sea) which owe their national existence to strong central government. In this sense, the "Great American Experiment" is aptly named, for experiments take place in laboratories, places that are characteristically unlike the real world.

Because of their own traditions of state paternalism and the existence of large powerful socialist and communist parties, European governments appear much less prone to view the East-West conflict in the stark Manichean terms to which Americans are accustomed. This disinclination to see the East-West conflict as a clear cut struggle between good and evil is given reinforcement not only by the greater ambiguity of their own political traditions, but by the relentless presence of forty well armed Soviet divisions in their backyard. Added to the psychological effect of a large

brooding military force so near is the pull of trade and economic ties. In 1979, West Germany's export bill to the Eastern bloc totalled \$8.7 billion, an amount equal to 75% of its exports to the United States. Over \$3.6 billion went to the Soviet Union alone. French and Italian exports to the Eastern bloc were \$2.9 and \$2.4 billion respectively.²

By establishing itself as a reliable, predictable trade partner, the Soviet Union is growing in importance as an energy and raw material supplier to Western Europe. Ruhrgas of West Germany will begin in the mid-1980s to distribute 40 billion cubic meters of West Siberian natural gas annually to France, Italy, Belgium, the Netherlands, and Denmark. Germany today receives 16% of its natural gas imports from the Soviet Union. As much as 25% of German's non-ferrous metal consumption comes from the USSR, according to Soviet estimates.³ While these trends are not unnoticed or undebated in Europe, Europe seems able to rationalize its creeping interdependence with the East bloc, especially as the Soviet Union is widely regarded by Western businessmen as a reliable trade partner. Indeed, economic necessity may leave no choice.

Changing the Trends

The question could be asked, so what if Western Europe is Finlandized? Finland has been Finlandized, and is that such a terrible thing for Finland? However, if America has an interest in continuing to play the role of leader of the NATO alliance, certain changes must occur if today's trends are going to be re-

² & ³ - Business Week, July 28, 1980. p. 57

versed. These are: (1) the revitalization of the U. S. economy, and (2) the creation of a new domestic and international consensus in dealing with the Soviet Union.

These challenges go hand in hand. Much of the loss of U. S. respect and prestige is simply a by-product of our own poor household management. How can we expect others to follow us when our own domestic economy is a mess. A rubbery dollar, U. S. soldiers on welfare, declining productivity and lagging competitiveness in world markets, high inflation, the lowest rates of saving and investment of any country in the industrial world all add up to a rather pitiable sight in the eyes of many Europeans who were accustomed (perhaps to exaggerate) to U. S. strength and can-do spirit. After putting a man on the moon, the inability to field six workable helicopters for the Iranian rescue mission was seen by some as a most telling indication that even America's vaunted technical superiority was in question.

To restore its position of political preeminence, the U. S. must restore not only the health of its economy, but define its relationship to the Soviet Union in a way that is regarded by our allies as sensible. Otherwise, they will make their own arrangements. Their interests and sense of political morality are too different from the U. S. to ignore if we want them standing at our side in a crisis.

The crucial country for the U. S. and the future of the NATO alliance is West Germany. Yet ominous questions are being asked in today's German press that would never have even been posed a few years ago. On June 4, 1980 Die Welt carried an article about

the results of a survey asking who Germans considered more trustworthy - the U. S. or Russia? The replies were overwhelmingly in America's favor, but that the question was considered worthy of asking should give U. S. politicians pause to think.

In a world where countries must choose sides, certain cultural and political affinities can perhaps be taken for granted, but they are few, and Germany would not be one I would list. As in domestic politics, so in international politics, strength attracts, weakness repels. America will always be a power to be reckoned with, if only because of the size of its economy. What is not clear is how much longer Germany and the other European countries will take their cues from the U. S. Leadership requires projecting a sense of purpose and having the means and will to support it. Yet as long as the U. S. productivity continues to decline and domestic social and political problems press to the forefront of our concerns, it is doubtful there will be sustained political support for funding of the muscle that must lie behind U. S. foreign policy, nor support for an active use of that muscle in far away places.

The great challenge of U. S. political leadership in the next four years is to articulate a post Vietnam modus vivendi with the Soviet Union that recognizes the hard reality of the essentially adversary nature of our relationship, yet also recognizes the universal desire to avoid a catastrophic confrontation. The Soviets are selling an ideological product which they would like to see drive ours off the market. Political, economic and military means are all used in this global marketing war. However, the Soviets

and other countries with recent memories of struggle for survival recognize something that often offends American sensibilities. "Power comes out of the barrel of a gun", as Mao once said. It is the ultimate marketing weapon. To meet Soviet challenges, or to counteract drift among the weak and semi-committed, the U. S. must demonstrate that it can match Soviet power when its, or its allies, interests are challenged. The will to use force, however, is influenced by its availability and quality.

Yet America, as do our allies and the Soviet Union, doesn't want war either. The allies and the Soviet Union have the strongest reason of all - they know first hand what the destruction of modern war is all about. The task of our leadership is to define the nature of the Soviet challenge in a way that has the prospect of attracting a broad base of domestic political support, yet neither exaggerates the threat, nor underestimates it. A realistic view of the Soviet challenge must recognize that in times of relative tranquility or in times of tension, the Soviet Union is going to pursue its ideological interests, just as we do. Assuming rules of restraint that the Soviets have never accepted and never will accept can only lead to unrealistic expectations and disappointment. This means forgetting any idea that the Soviet political leadership will cease to support left wing political movements around the world. It also means shedding naive notions that the Soviet political leadership is obligated to "behave more decently" toward its internal political opponents. But the openness and crudeness with which the Soviet Union supports its political allies in other

countries, or suppresses "enemies of the state" may be affected by the nature of the relationship with the U. S. The U. S. ability to influence the essential nature of Soviet society is no greater than Soviet ability to influence the basic nature of American society, which is very little.

Detente should be viewed as nothing more complex than an effort to control a dangerous and potentially explosive adversary relationship. Detente recognizes that the world is a bit safer when the super powers are not growling at each other. But to avoid recurring disappointments, detente must also be sold to the U. S. public with realistic expectations of Soviet behavior and a realistic appreciation of the role of military power in the battle for men's minds. ⁴

4 "If you've got them by the balls, their hearts and minds will follow". - Vietnam soldiers' saying

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MEMORANDUM

NATIONAL SECURITY COUNCIL



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ACTION

July 8, 1981

MEMORANDUM FOR RICHARD V. ALLEN

FROM: ALLEN J. LENZ *a9t*
SUBJECT: Secretary Haig's Memo on Controls on Exports
to the Soviet Union

The attached memo (Tab A) contains little that is new concerning our export control policy toward the USSR, except that one might detect some movement to develop a positive program that would scale down the pipeline and push more actively for safety net procedures. The response to your tasking memo providing the scenario for implementing his options choices, due this evening, should, however, be more revealing.

I recommend that you forward the memo to the President at Tab I immediately (Haig might ask the President at the Thursday NSC meeting if he has received it).

RECOMMENDATION

That you sign the forwarding memo at Tab I.

Approve _____ Disapprove _____

Attachments

Tab I Memo to the President
A Secretary Haig's Memo to the President

~~SECRET~~

Review July 8, 1981

DECLASSIFIED

NLRR F06-114/11 # 11684

BY KML NARA DATE 4/21/11

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MEMORANDUM

~~SECRET~~

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4081

THE WHITE HOUSE
WASHINGTON

~~SECRET~~

INFORMATION

MEMORANDUM FOR THE PRESIDENT

FROM: RICHARD V. ALLEN

SUBJECT: Secretary Haig's Memorandum on Controls on
Exports to the Soviet Union

Secretary Haig has written you (Tab A) indicating his deep concerns about the soon to be made decisions on controls on exports to the Soviet Union.

His memo reiterates the positions and arguments he stated at the July 6 NSC meeting and again emphasizes the need for and difficulties of obtaining Allied cooperation in the implementation of export controls.

Attachment

Tab A Memo from Secretary Haig

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Review July 8, 1981

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NLRR E06-114/11 #11686

BY KML NARA DATE 4/21/11

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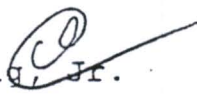
DECLASSIFIED

NLRR F06-114/11 # 11702

THE SECRETARY OF STATE
WASHINGTON~~SECRET~~BY KML NARA DATE 4/21/11

July 8, 1981

MEMORANDUM FOR: THE PRESIDENT

From: Alexander M. Haig, Jr. 

Subject: Controls on Exports to the Soviet Union

As you consider the issues discussed at Monday's NSC meeting on East/West trade, I wanted you to be aware of my deep concerns on the subject. Your decisions will have a profound effect on our Alliances and our relations with the Soviets for years to come. For that reason I want to convey an approach which in my judgment meets your desire for a consistent policy which weakens the Soviets' military capability without weakening our Alliance.

Like you I believe Western assistance to the Soviet energy sector in many respects runs contrary to our security interests. It relieves the Soviets of an important resource burden; it can provide them with equipment and technology with potential military applications; it may increase their leverage over our Allies; and the pipeline particularly would provide them with large sums of hard currency. If I had my preference, I would take an extremely restrictive approach to trade with the Soviets.

However, for any controls to work we need the cooperation of our Allies. For us to attempt to get straight across-the-board restrictions, which some of the more restrictive alternatives before you imply, or to press the Europeans with an approach which they will find completely unacceptable, and threaten to withhold licenses unless they comply, would make it virtually impossible to get their support for a reasonable set of controls. By pursuing our maximum objectives, we run the risk of coming away with very little, severely weakening the Alliance and isolating us from our Allies.

Our European Allies have legitimate and urgent interests in seeking additional and diversified sources of energy, and the decision, in the end, is theirs. Therefore, we must consider what we can realistically expect to achieve in limiting their involvement with the Soviet energy sector and at what cost. The cost that concerns me most is not lost business opportunities but rather the prospects of divisions within the Alliance. An overly rigid position could produce a confrontation with our Allies that would not only fail to produce any restraint on Soviet energy sales but would itself be an enormous positive gain for the Russians. We do not want to repeat, on a larger scale, the Carter Administration's disastrous confrontation with the Germans over the sale of German nuclear technology to Brazil.

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- 2 -

Therefore, my own position is shaped by weighing what I would like to achieve against what I believe we can actually accomplish. I think that one of our most important objectives is tightening up on technology transfers, including COCOM controls. The past record suggests that this task alone will be very difficult to accomplish. I therefore do not believe that we should be taking categorical negative positions on the sale of end-use equipment or striking a categorical opposition to the pipeline.

Whatever position you ultimately decide on, Mr. President, it is equally important to stipulate appropriate tactics and style with which to approach our Allies. We must, above all, not adopt a confrontational posture or an inflexible position. We must recognize that they have much more serious energy problems than we do, and that the sacrifices we are proposing would be borne much more heavily by them than by us.

If we are to have any chance of persuading them to modify their current positions (or at the very least to scale down the size of their proposed dependence on Soviet energy) we must take a stronger lead in evolving a better Energy Cooperation Package. This will require that the United States play a much more practical role than we have in the past in boosting Alaskan oil exports, increasing the pace of U.S. natural gas deregulation, increasing U.S. coal exports, providing a coal gasification program, addressing the major problem of nuclear wastes, pressing Holland and Norway to develop natural gas surge capacity and developing new initiatives. This may even involve increased resource commitments on our part. But if we expect our Allies to bear a burden we must be prepared to do so ourselves in the general interest of Western security. There is no free lunch.

The development of alternative energy sources is something which we should pursue urgently, whatever we do on the subject of Soviet energy development.

Attachment:

Tab A - The Issues

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- 1 -

ISSUE 1: Security related export controls - I continue to believe that restricting technology and equipment critical to defense priority industries which would significantly advance Soviet military capability would be a major step forward in weakening the Soviet industrial sector in those areas which provide important support to the Soviet military. To ensure that this option (#2) is pursued in a way which meets Cap Weinberger and Mac Baldrige's concerns, I propose to get together with them to flesh out the details of implementation and to prepare a strong presentation for you to take to Ottawa in support of this approach. The past record suggests that securing allied support for this approach will be very difficult--but in my judgment it should be our major objective.

ISSUE 2: Oil and gas equipment and technology - The central issue is whether to direct our ammunition at restricting technology or to attempt to restrict technology plus all end-use equipment (e.g. pipes and pipelayers). Allied support for restricted end-use equipment will be visibly impossible to obtain. If we press for it we will jeopardize our chances of their agreeing to restrict technology exports. A unified set of allied restrictions on technology which would give the Soviets an independent capability to improve oil and gas useage and infrastructure would be a major step forward. End-use products could be denied on a case by case basis as foreign policy concerns warrant. I genuinely believe that this flexibility in your hands can be extremely important in the pursuit of your foreign policy objective vis-a-vis the Soviet Union and our allies. And, adoption of this course of action--as Don Regan and Dave Stockman noted--will contribute to keeping the Soviets off the world energy market and reduce any incentive which future domestic energy shortages might provide for adventurism in the Middle East or other energy rich regions of the world.

ISSUE 3: The Siberian Gas Pipeline - I would like to find a way of convincing the Europeans not to build the pipeline. But strong arm-twisting and withholding export licenses is likely to be counterproductive. An approach which would lead Europe not to build the pipeline or perhaps encourage them to scale down its size, would be for the US, Europe and Japan to work out a strong Energy Cooperation Package.

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- 2 -

This would involve US Alaskan oil exports, faster US natural gas deregulation, increased US coal exports, and increased nuclear cooperation, a strong commitment to deal with oil shortfalls in the context of the International Energy Agency, plus additional efforts by Holland and Norway to develop surge capacity. Even if this approach failed to deter the Europeans from going ahead with, or scale down, the pipeline, it would substantially reduce their vulnerability to Soviet cut-offs if the pipeline were built and reduce levels of gas through the pipeline.

ISSUE 4: Caterpillar Licenses - I continue to believe the only real beneficiary of denying these licenses would be the Japanese. The Soviets already have roughly 1,400 pipelayers. The machines do not incorporate sophisticated technology and are not controlled by COCOM.

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MEMORANDUM

NATIONAL SECURITY COUNCIL

~~SECRET~~

11688 USSR/Trade 21
July 20, 1981

INFORMATION

MEMORANDUM FOR ALLEN J. LENZ

FROM: RICHARD PIPES

SUBJECT: COMMENTS: Security Controls on Exports to USSR --
Outgrowth of NSC Meeting July 9 (NSC Log 4336)

In a society which is as heavily mobilized and militarized as the Soviet one, it seems rather futile to attempt drawing a sharp distinction between "defense-related" industries and industries which are not so related. A distinction of this kind is a carry-over from our own experience and does not correspond to Communist reality. For this reason, an export policy based on such a distinction is unlikely to succeed. (S)

In my opinion, the meaningful question is whether we wish to help the Soviet Government out of its terrible economic predicament, due predominantly to its political system, or induce it to alter its economic system by conducting reforms. Seen from this perspective, automation, robots and all other labor-saving devices, for instance, are inimical to our interests whether they bear directly on Soviet military capabilities or not. The economy is the Achilles' heel of the Communist system and we ought not to strengthen it but allow internal forces to build up enough steam to force economic reforms with their inevitable political consequences. (S)

There exist sophisticated studies of technology transfer which draw more valid distinction than the military, non-military one. Victor Basiuk, for example, the author of a study of this subject, proposes the following categories of technology: Militarily Relevant Technology; Pivotal Technology; Project-critical Technology; and Socially Pluralizing Technology. This system of categories could be usefully taken into account in planning our policies should we decide to continue along the lines indicated in the Haig-Weinberger-Baldrige-Brock memo to the President. (S)

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Derivative from State
Review July 17, 1987.

DECLASSIFIED

NLRR F06-114/11 #11688

BY KML NARA DATE 4/21/11

RECEIVED 20 JUL 81 11

TO PRES

FROM HAIG, A

DOCDATE 18 JUL 81

WEINBERGER, C

18 JUL 81

BALDRIGE, M

18 JUL 81

DECLASSIFIED

White House Guidelines, August 28, 1997

By

NARA, Date

8/7/02

KEYWORDS: EXPORT CONTROLS

USSR

NSC

CCCOM

CM

SUBJECT: SECURITY CONTROLS ON EXPORTS TO USSR - OUTGROWTH OF NSC MTG

9 JUL

ACTION: PREPARE MEMO FOR ALLEN

DUE: 19 JUL 81 STATUS S FILES

FOR ACTION

FOR COMMENT

FOR INFO

BAILEY

HUBERMAN

LENZ

PIPES

STEARMAN

SCHWEITZER

NANCE * -

COLSON * -

POINDEXTER * -

COMMENTS 3 HR TURNAROUND. PLS CHECK TO SEE IF THIS ITEM SHOULD BE

IN OR OUT OF THE SYSTEM. THANKS L.

REF# 8121541

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(L /)

ACTION OFFICER (S) ASSIGNED ACTION REQUIRED DUE COPIES TO

DISPATCH _____ W/ATTCH FILE _____ (C)

THE WHITE HOUSE
WASHINGTON

Janet - original
agreed to RUA, Mance,
Paindyter + 12
J. Secretariat

Annex sit room

8:57 pm 18 July

~~SECRET~~

DECLASSIFIED

NLRR FOI-114/11 #11703

July 18, 1981

11703

BY KML NARA DATE 4/21/11

MEMORANDUM FOR: THE PRESIDENT

FROM : Alexander M. Haig, Jr. *AMH*
Secretary of State
Caspar W. Weinberger *CW*
Secretary of Defense
Malcolm Baldrige
Secretary of Commerce *MB*
William E. Brock *WEB*
U.S. Trade Representative

SUBJECT : Security Controls on Exports to the USSR

At last week's NSC meeting on this subject, you asked us to develop a proposal for controlling exports to the USSR that went beyond restricting technology and equipment critical to production in defense priority industries (Option II), but did not go so far as to restrict all items for use in these industries (Option III).

We recommend that our approach be to strengthen COCOM restrictions on exports to the USSR by controlling (1) equipment and technology critical to production in defense priority industries as defined in Option II*, and (2) technology for production in these industries without regard to whether the Soviets already have such technology data (i.e., without the "criticality" condition).

In our own licensing policy, we will pursue such an approach while attempting to obtain Allied support. We would reexamine our position in the fall, after we have obtained Allied reactions. We would avoid any publicity in our approach.

A similar emphasis on production technology was recommended by the Defense Science Board in a 1976 report and by the Congress in 1979 amendments to the Export Administration Act. In June 1981 COCOM negotiations of U.S. metallurgy proposals, our Allies indicated only an interest in further discussions of this approach. It is clear that the Allies will resist controls on technology for industries where the military connection is not readily apparent or may not be strong. Thus a major effort may be necessary to bring them around to our position.

*Defense priority industries include computers, communications, high-technology micro-electronics, aerospace, machine building, ship building, metallurgy, chemicals, heavy vehicles.

~~SECRET~~

GDS 7/17/87

27
~~SECRET~~

- 2 -

While we are seeking to impose restraints in the above mentioned areas, we would also propose to loosen controls on equipment and technology which is not critical to defense related industries and on technology not needed for production in those industries. This would serve your objectives of predictability and consistency.

If you approve our recommendation, we would have a sound basis for developing and negotiating in COCOM the multilaterally agreed and technically precise definitions which are necessary for effective controls.

A handwritten signature in cursive script, appearing to read "Billings".

~~SECRET~~

DECLASSIFIED

11690

E/W TRADE

8/2/82

NLRR F06-114/11 #11690

~~CONFIDENTIAL~~

BY KML NARA DATE 4/21/11

- 3 -

3. THE SOVIETS DEBATE THE FUTURE OF EAST-WEST TRADE

The long-standing debate among Soviet policy makers on the value of East-West trade and Moscow's future course of action has resurfaced in the wake of the expanded US embargo on gas- and oil-producing equipment. The gains from trade are undeniable, however, and the Soviets have no real alternative in the foreseeable future.

Soviet supporters of expanded trade with the West, while praising the USSR's productive capacity, proceed from three basic premises: trade is ideologically correct, politically useful, and economically advantageous. They also argue that such trade helps Western Europe withstand US pressures on East-West issues, thereby exacerbating basic differences between the US and its allies and enhancing Moscow's influence in Western Europe over the long term.

The trade proponents assert that the USSR has exploited cooperation with the West to accelerate the development of its own sophisticated technology, without becoming dependent on capitalist countries. They defend the pipeline deal on the grounds that it will compress the time for creating a West Siberian infrastructure without drawing off resources from other programs; supply additional energy to the European USSR; and provide hard currency to pay for goods needed for other economic programs. They expect to recoup the total investment in 3 to 4 years by selling to the West only a "small" portion of the additional gas flow.

Soviet opponents of trade with the West, on the other hand, see their position vindicated by the most recent economic sanctions. Arguing that the benefits from East-West trade are illusory, they claim that reliance on such trade creates a constant threat of embargo and perpetuates the export of limited natural resources to pay for spare parts associated with Western equipment. Moreover, comparable products are "easily" obtainable within CEMA, continued reliance on the West damages CEMA's own research and production potential, and Western suppliers often sell equipment which is outdated.

Given these differing views, the tough decision facing Moscow is how to allocate its increasingly scarce hard currency. The availability of Western material and financial resources significantly lowers the time needed for projects, particularly those aimed at increasing energy supplies and labor productivity. But there are limits to how much new debt the Soviets can comfortably carry. Moreover, money that must be spent to offset shortfalls in domestic production (e.g., grain and steel) will continue to divert scarce capital from investment.

MEMORANDUM

NATIONAL SECURITY COUNCIL

~~SECRET~~

April 13, 1982

ACTION

MEMORANDUM FOR WILLIAM P. CLARK

FROM: RICHARD PIPES *R*SUBJECT: Effect of Hard Currency Shortages on Soviet
Bloc Foreign Adventures

The memorandum at Tab I to the President forwarding an interesting DIA report entitled "Soviet Bloc Reassesses Foreign Aid and Trade" is self-explanatory, and I believe it will be of interest to the President. (S)

RECOMMENDATION

That you sign and forward the memorandum at Tab I to the President.

Approve _____ Disapprove _____

Attachments:

Tab I Memorandum to the President
Tab A DIA Memorandum dated April 13, 1982.

~~SECRET~~

Derivative/multiple sources
Review April 12, 2002.

DECLASSIFIED

NLRR F06-114/11 #11691

BY KML NARA DATE 4/24/11

~~SECRET~~

2518

11694

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

~~SECRET~~

INFORMATION

MEMORANDUM FOR THE PRESIDENT

FROM: WILLIAM P. CLARK

SUBJECT: Effect of Hard Currency Shortages on Soviet
Bloc Foreign Adventures

Economic stringencies are beginning to produce their first visible effects on Communist Bloc expansionist policies. DIA reports (Tab A) that

- an official of the 10th Directorate (Foreign Military Assistance) of the Soviet General Staff last December has indicated that economic pressures will compel a reduction in the number of Soviet military advisors and instructors serving abroad.
- East Germany is said to be contemplating a 30 percent reduction of its personnel in Ethiopia. (S)

All this suggests how significant the West's economic and financial pressures are in inhibiting Soviet aggressiveness in the Third World. (S)

Attachment:

Tab A DIA Memorandum dated April 13, 1982, "Soviet Bloc Reassesses Foreign Aid and Trade"

Prepared by:
Richard Pipes

~~SECRET~~

Derivative/multiple sources
Review April 13, 2002.

DECLASSIFIED

NLRR EOB-114/11 * 11694

BY KML NARA DATE 4/21/11

~~SECRET~~

NO

TO

1. NSC STAFF
2. NSC SECRETARIA

CFARLANE
DIS

ID 8202694

file USSR 31
Trade

VED 17 APR 82 13

DOCDATE 14 APR 82

MERCHANT

KEYWORDS: INTL TRADE

STEEL

VERITY, WILLIAM

USSR

SUBJECT: CHAIRMAN OF BOARD OF ARMCO STEEL PARIS MTG W/ SOVIET TRADE REPS

ACTION: PREPARE MEMO FOR CLARK

DUE: 21 APR 82 STATUS S FILES

FOR ACTION

FOR CONCURRENCE

FOR INFO

NAU

BAILEY

PIPES

MYER

STEARMAN

DOBRIANSKY

COMMENTS

OBE
18

REF # LOG NSCIFID (N /)

ACTION OFFICER (S) ASSIGNED ACTION REQUIRED DUE COPIES TO

NSC/S 4/19 referred to Pipes
C 21 Apr OBE per Richard Pipes

2694

THE WHITE HOUSE
WASHINGTON

April 14, 1982

DECLASSIFIED IN PART
NLRR F-06-114/11 #11699
BY CH NARA DATE 7/15/08

MEMORANDUM FOR WILLIAM P. CLARK

FROM: JAY MOORHEAD *Jay Moorhead*
Special Assistant to the President
Private Sector Initiatives

Bill Verity, Chairman of the Board of Armco Steel Company, and also Chairman of the President's Task Force on Private Sector Initiatives, returned yesterday to Washington after a two day business trip to Paris.

Mr. Verity was meeting with the Soviet Trade representatives to discuss the steel business. He has had these discussions with the Soviets for over twelve years.

After yesterday's religious luncheon meeting in Washington Mr. Verity asked me to pass along the following to whomever appropriate.

In Verity's opinion,

1. The Soviets are hopeful that a meeting can be arranged quickly between Breshnev and President Reagan.
2. Because of Breshnev's physical condition, there is only a little time left.
3. Breshnev will not be able to come to New York. Verity hopes that there might be a meeting arranged in June.

Verity consulted with Dobrynin, Haig, and Baldridge before he left [REDACTED]

Do you want to discuss this with Verity or is any more action necessary? Verity has not informed anyone besides myself at the White House of these conversations.

33

THE WHITE HOUSE
WASHINGTON

4/17
Dear,

Send original
to staff for action.

Return advisory
copy with route slip
Done

JL

RECEIVED 17 APR 82 13

TO

CLARK

FROM MOORHEAD, JAY

DOCDATE 14 APR 82

2694

34

KEYWORDS: INTL TRADE

STEEL

VERITY, WILLIAM

USSR

SUBJECT: CHAIRMAN OF BOARD OF ARMCO STEEL PARIS MTG W/ SOVIET TRADE REPS

ACTION: PREPARE MEMO FOR CLARK

DUE: 21 APR 82 STATUS S FILES

FOR ACTION

FOR CONCURRENCE

FOR INFO

NAU

BAILEY

PIPES

MYER

STEARMAN

DOBRIANSKY

COMMENTS

Interesting but one must bear in mind
that no "summit" is intended. The
June initiative was to have been a
"get acquainted" meeting. RP

REF#

LOG

NSCIFID

(N /)

ACTION OFFICER (S)

ASSIGNED

ACTION REQUIRED

DUE

COPIES TO

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that no "summit" is intended. The June
initiative was to have been a "get acquainted" meeting.

RP

DISPATCH

W/ATTCH FILE

(C)

THE WHITE HOUSE

WASHINGTON

FOR STAFFING

4/17

Dear,

Send original
to staff for action.

Return advance
copy with route slip.
Done

JL

36

THE WHITE HOUSE

WASHINGTON

April 14, 1982

DECLASSIFIED IN PART

NLRR FOI 114/11 #11700

BY CIL NARA DATE 7/15/08

MEMORANDUM FOR WILLIAM P. CLARK

FROM: JAY MOORHEAD *Jay Moorhead*
Special Assistant to the President
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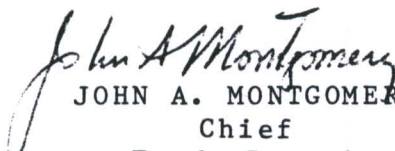
Verity consulted with Dobrynin, Haig, and Baldrige before he left [REDACTED]

Do you want to discuss this with Verity or is any more action necessary? Verity has not informed anyone besides myself at the White House of these conversations.

19 October 1982

MEMORANDUM FOR: (See Distribution)

FYI. The attached tables from Project Order present Soviet orders placed in the West for machinery and equipment in 1980, 1981, and 1982. This run reflects orders received in SOVA/SE/T as of 1 October 1982. Information is incomplete for the third quarter of 1982. If you have any questions please call Cherry O'Dell on 281-8519. (OUO)


JOHN A. MONTGOMERY
Chief
Trade Branch
Soviet Economy Division
Office of Soviet Analysis

Attachments:
As Stated

Distribution:
Copy - NSC (R. Pipes, Norman Bailey)
Commerce (J. Brougher)
State (J. Danylyk, J. Colbert, Bill Root,
Tim Hauser)
DOD (Carl Groth, William A. George)
Treasury (Robert Cornell, Steven Canner)
Bureau of the Census (Barry Kostinsky)

CJS 8/7/02

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- 1 -

TABLE 1

SOVIET MACHINERY ORDERS PLACED WITH HARD CURRENCY COUNTRIES *

MILLIONS OF U.S. DOLLARS

	1980					1981				
	1ST QTR	2ND QTR	3RD QTR	4TH QTR	TOTAL	1ST QTR	2ND QTR	3RD QTR	4TH QTR	TOTAL
TOTAL	355	313	1137	837	2641	893	574	2435	2844	6746
CHEMICALS AND										
PETROCHEMICAL	17	18	100	276	412	68	69	4	324	465
OIL AND NATURAL GAS	182	46	6	163	397	350	16	1962	1115	3443
METALWORKING AND										
METALLURGY	19	55	678	55	806	156	34	99	302	591
FOOD PROCESSING	0	0	14	9	22	45	52	23	27	147
TIMBER AND WOOD	0	0	-	74	74	3	60	135	1	198
TEXTILE AND SEWING	-	0	5	7	13	3	27	2	8	41
ELECTRIC POWER	29	-	16	0	45	0	67	-	-	67
ELECTRONICS	6	20	6	5	38	6	0	6	760	773
MANUFACTURING OF										
AUTOMOBILES AND OTHER										
VEHICLES	17	82	-	55	154	46	50	27	96	220
SHIPS AND PORT EQUIPMENT	4	1	24	23	52	51	9	67	-	127
MANUFACTURING OF CONSUMER										
GOODS	0	16	18	2	36	19	68	34	3	125
MINING AND CONSTRUCTION	-	54	13	51	118	103	61	7	125	296
RAILROAD STOCK AND										
EQUIPMENT	-	-	-	-	-	0	-	-	-	0
AIRCRAFT AND EQUIPMENT	32	-	2	3	38	-	-	-	-	-
FARM TRACTORS AND										
MACHINERY	40	4	-	1	44	0	-	7	3	9
ANIMAL FEED PLANTS AND										
EQUIPMENT	-	-	203	3	206	7	7	-	12	25
PRINTING	1	-	-	-	1	-	5	19	0	25
MEASURING AND TESTING	-	4	0	-	4	-	1	6	3	10
OPTIC AND OPTIC										
MANUFACTURING	0	-	-	0	0	-	1	19	25	44
MEDICAL AND										
PHARMACEUTICAL	3	2	3	-	7	20	1	7	3	30
PHOTOGRAPHIC	0	0	-	-	1	-	-	-	0	0
VEHICLES (USER UNKNOWN)	-	-	25	69	94	15	0	7	20	42
OTHER	2	10	24	41	77	-	46	4	16	67

- INDICATES NO ORDERS RECORDED. O INDICATES NEGLIGIBLE AMOUNTS.

* COMPONENTS MAY NOT ADD TO TOTAL SHOWN BECAUSE OF ROUNDING.

U

ECR sales
Trade

TABLE 2

SOVIET MACHINERY ORDERS PLACED WITH HARD CURRENCY COUNTRIES *

MILLIONS OF U.S. DOLLARS

1982

YEAR TO DATE	JAN	FEB	MAR	1ST QTR	APR	MAY	JUN	2ND QTR	JUL	AUG	SEP	3RD QTR	OCT	NOV	DEC	4TH QTR
TOTAL	2,152	362	234	743	<u>1340</u>	263	180	246	689	123	-	-	123	-	-	-
CHEMICALS AND																
PETROCHEMICAL	462	288	22	-	310	-	24	128	152	-	-	-	-	-	-	-
OIL AND NATURAL GAS	453	11	2	25	38	195	129	12	337	78	-	-	78	-	-	-
METALWORKING AND																
METALLURGY	566	0	18	548	566	0	0	1	1	-	-	-	-	-	-	-
FOOD PROCESSING	105	5	3	34	42	-	0	64	64	0	-	-	0	-	-	-
TIMBER AND WOOD	43	-	-	34	34	-	-	10	10	-	-	-	-	-	-	-
TEXTILE AND SEWING	9	1	3	4	8	-	-	-	-	1	-	-	1	-	-	-
ELECTRIC POWER	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
ELECTRONICS	5	4	-	2	5	-	-	-	-	-	-	-	-	-	-	-
MANUFACTURING OF																
AUTOMOBILES AND OTHER																
VEHICLES	56	3	5	-	8	27	11	8	46	1	-	-	1	-	-	-
SHIPS AND PORT EQUIPMENT	0	0	0	-	0	-	-	-	-	0	-	-	0	-	-	-
MANUFACTURING OF CONSUMER																
GOODS	20	10	3	-	14	-	-	0	0	6	-	-	6	-	-	-
MINING AND CONSTRUCTION	226	2	170	8	180	9	-	0	9	37	-	-	37	-	-	-
RAILROAD STOCK AND																
EQUIPMENT	12	9	-	-	9	-	-	3	3	-	-	-	-	-	-	-
AIRCRAFT AND EQUIPMENT	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
FARM TRACTORS AND																
MACHINERY	10	-	-	9	9	1	-	0	1	-	-	-	-	-	-	-
ANIMAL FEED PLANTS AND																
EQUIPMENT	0	-	-	-	-	-	-	0	0	-	-	-	-	-	-	-
PRINTING	6	-	5	1	6	-	-	-	-	-	-	-	-	-	-	-
MEASURING AND TESTING	0	-	-	0	0	0	-	-	0	-	-	-	-	-	-	-
OPTIC AND OPTIC																
MANUFACTURING	0	-	-	-	-	-	-	0	0	-	-	-	-	-	-	-
MEDICAL AND																
PHARMACEUTICAL	1	-	0	0	1	-	1	-	1	-	-	-	-	-	-	-
PHOTOGRAPHIC	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VEHICLES (USER UNKNOWN)	167	29	-	72	101	30	15	21	66	0	-	-	0	-	-	-
OTHER	11	1	3	7	11	-	-	-	-	-	-	-	-	-	-	-

- INDICATES NO ORDERS RECORDED. O INDICATES NEGLIGIBLE AMOUNTS.

* COMPONENTS MAY NOT ADD TO TOTAL SHOWN BECAUSE OF ROUNDING.

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- 1 -

TABLE 3

SOVIET MACHINERY ORDERS BY COUNTRY *

MILLIONS OF U.S. DOLLARS

	1980	1981	1982 (YEAR TO DATE)
TOTAL	2641	6746	2,152
SINGAPORE	-	-	-
JAPAN	360	1260	160
PANAMA	-	-	-
CANADA	2	-	14
UNITED STATES	232	267	73
AUSTRIA	121	137	637
BELGIUM	0	-	2
WEST BERLIN	-	-	-
DENMARK	14	1	0
IRELAND	-	-	-
FRANCE	779	1895	114
WEST GERMANY	892	1792	806
ITALY	56	758	191
LUXEMBOURG	-	-	-
NETHERLANDS	1	70	30
NORWAY	30	-	64
PORTUGAL	-	-	-
SPAIN	3	-	-
SWITZERLAND	3	29	10
SWEDEN	9	89	9
UNITED KINGDOM	139	447	42

- INDICATES NO ORDERS RECORDED. O INDICATES NEGLIGIBLE AMOUNTS.

* COMPONENTS MAY NOT ADD TO TOTAL SHOWN BECAUSE OF ROUNDING.

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Director's Staff Group Memorandum

DECLASSIFIED IN PART

NLRR EO 6-114/11 #11695

BY KML NARA DATE 5/2/11

13 APR 1982

To: RICHARD PIPES

Subject: Soviet Bloc Reassesses Foreign Aid and Trade

Recent reporting indicates that the USSR, East Germany, and Czechoslovakia are considering measures that would restructure some aspects of their foreign aid to the Third World, as well as trade with the industrial West. The policy deliberations can be linked to these nations' growing shortages of hard currency -- an outgrowth of Poland's financial crisis -- and to the declining growth in their domestic economies.

Last December, an official of the 10th Directorate (Foreign Military Assistance) of the General Staff of the Soviet Ministry of Defense reported that the USSR's military aid programs were coming under pressure from the ailing Soviet economy and from needs of the armed forces. Consequently, the overall number of Soviet military advisers and instructors abroad might be reduced.

Since January, we have seen similar reports regarding a possible change in East Germany's aid and trade policies. In response to economic problems, including a growing trade deficit, the East German Government is considering a 30-percent reduction in its technical assistance personnel in Ethiopia; a cutback in imports of Western components needed for East Germany's military research and development program; and a redirection of trade from financially strapped Third World nations to those capable of paying with hard currency, important energy sources, or raw materials.

Czechoslovakia clearly considered a similar change in its foreign policy. Last September, the Czechoslovak Party Presidium endorsed a decision to reduce aid to Third World nations, a measure designed to alleviate the nation's financial problems.

DIA COMMENT: We believe these reports accurately reflect the seriousness of the Soviet and East European hard currency situation, characterized by fewer available Western credits and a diminished ability to generate hard currency earnings.

Poland's financial crisis has exacerbated Eastern Europe's hard currency problems in two ways. First, the specter of a Polish default has made the West less willing to extend credit to other East European countries. Second, shortfalls in Polish deliveries of coal and other goods have forced several East European nations to purchase additional supplies from the West, thereby adding to their hard-currency indebtedness.

Overall economic malaise in the USSR and Eastern Europe is another factor aggravating the region's financial problems. In the USSR, consecutive crop

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Review on 13 Apr 02

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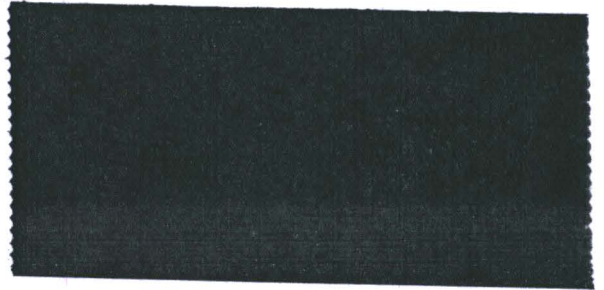
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failures and the need to import record amounts of food have severely strained the Soviet hard currency position. In Eastern Europe, falling productivity has limited the flow of saleable commodities to the West, making Western imports required for industrial expansion difficult to finance.

These financial difficulties are likely to persist. Thus, we expect the USSR and Eastern Europe to continue to reassess foreign aid with the Third World and trade with the West in an effort to alleviate their faltering hard currency positions.

cc:
RADM Poindexter
Chris Shoemaker
William Stearman

[FOIA(b)(3)]



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