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Report
DRAFT
April 7, 1954

Report to ED/EC on Operations of the Diversion Control
Network - January 1, 1954 to March 31, 1954

1. Background

The Diversion Control Network commenced operations about January 1, 1954, pursuant to EDAC Executive Committee decision (ED/EC D-37/3, October 20, 1953). It was designed to remedy an unsatisfactory situation that had become increasingly evident to the Economic Defense community in Washington -- namely, that existing arrangements for intelligence support and for preventive action were too ^{indefinite} diffuse and uncertain. It was necessary (to improve the intelligence required for enforcement of controls and) to effect a closer relationship among the agencies responsible for action and intelligence support.

The Diversion Control Network consists of Diversion Control officers representing EDS/State, MDAC/FOA, and ORR/CIA. These agencies are concerned with the intelligence and action aspects of most diversion cases and constitute the regular membership of the Network. Commerce, Treasury, and Defense have appointed Diversion Control Liaison officers who participate in the activities of the Network (only) in those cases in which they have a specific interest.

The establishment of the Diversion Control Network did not imply any modification in the general responsibilities of the agencies concerned with the application and enforcement of controls on strategic trade. Rather, it was intended as a mechanism which would serve to

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speed up the interchange of information ^{plan} and ideas and to coordinate, ^{timely} Washington action ⁱⁿ ~~in time~~ to prevent impending diversions ^{in country procurement activities}.

2. Statistical Summary

Cases carried on initial inventory (January 1, 1954)

Active	56
Inactive	28
Dead	18
Total	<u>102</u>

Cases carried at end of quarter (March 31, 1954)

Active	65
Inactive	35
Dead	43
Total	<u>143</u>

New cases added during quarter: 41

Cases closed for any reason during quarter: 25

Of cases handled during quarter

Diversions prevented:
Diversions accomplished:
Outcome uncertain:

*Use Dept. files found
among reports
to be handled.*

3. Operations of the Diversion Control Network

Cases are established and designated by mutual agreement among ^{action agency} the Network members, a "case" being any East-West trade ^{business deal effort} transaction in which the Diversion Control Network is interested and on which some ^{or among which} mutually agreed action is ^{on intel. contribution} undertaken by one or more of the members. ^{7 M. D. N.} Action may involve a ~~file check~~ by CIA, a despatch or telegram to one or more Foreign Service posts, a request for field investigation, etc.

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The volume of communications on diversion cases is so large that the Diversion Control Network cannot consider all possible cases. Broadly speaking the criteria used in establishing cases are the following:

- ① a. ~~There is a substantial chance of preventing the impending diversion, or of preventing future diversions of the same sort.~~ *The possibility exists that an info can be provided that will be developed that will aid*
- b. Following this case, even if diversion cannot be prevented, may yield enough information to assist in persuading or enabling a PC to plug a loophole in its enforcement machinery. *③ info can be developed which will aid*
- c. The commodity is an International List I commodity and the amount is significant. *④ info can be developed which will aid*

Although most cases arise from information collected by Foreign Service posts, a significant number of Diversion Control Network cases are based on covertly-collected CIA information which has not been disseminated laterally to Foreign Service posts. Usually, in forwarding such information to other members of the Network, CIA makes a preliminary [redacted] check and includes in the letter of transmittal any additional information it may have uncovered. The MDAC and State members of the Network then decide whether a case should be established and to which posts the information should be transmitted (after appropriate clearances have been obtained from CIA).

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4. Relations with USRO/ST

The current arrangements for division of responsibility between the Diversion Control Network in Washington and the Office of Security Trade Controls (USRO/ST) in Paris are as follows:

a. Paris has responsibility for monitoring diversion cases which it initiates unless relieved of this responsibility by the Diversion Control Network.

b. Paris has responsibility for regional (Western European) diversion cases on which preventive action must be taken promptly (~~five~~ within two or three weeks).

It has become increasingly clear that these arrangements are too vague to be satisfactory and that further clarification is necessary. A definite decision has been deferred, however, until such time as the Chairman of the Diversion Control Network can visit USRO/ST and discuss the problems fully and also until the matter can be considered at the next EDO conference.

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5. Special Problems

In addition to coordinating action on diversion cases, the Diversion Control Network has considered several special problems during the period under review. Both procedural and substantive aspects of the following questions were discussed: analysis of [REDACTED] [REDACTED] Radio Free Europe reports on East-West trade transactions; routinizing surveillance of copper movements from Chile through the

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Norddeutsche Affinerie in Hamburg; lateral dissemination of intelligence reports in the field; [REDACTED]

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problems affecting the relationship of Foreign Service posts, [REDACTED]

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[REDACTED] and CIA/Washington; preparation of diversion case summaries for specific purposes; ^{2100 4-11-62} encouraging cooperation of naval, military, and air attaches to provide peripheral support to KDOs.

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