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USE OF U.S. CREDITS TO FINANCE FREE WORLD

TRADE WITH THE SOVIET BLOC

Briefing Memorandum for Dcr

Economic Defense Division
Office of Research and Reports
Central Intelligence Agency

Project 110.3
1 May 1956

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MEMORANDUM FOR: Director of Central Intelligence

SUBJECT: Use of U.S. Credits to Finance Free World
Trade with the Soviet Bloc

1. At the National Security Council meeting on 26 April 1956, a question was raised concerning the use of U.S. bank credits to finance Free World trade with Soviet Bloc countries, particularly through the extension of U.S. dollar credits to European banks involved in this trade. I am summarizing in this memorandum the information available on this subject.
2. United States Foreign Assets Control Regulations prohibit governmental and private credits to Communist China, North Korea, and North Vietnam, including the use of United States dollar facilities by foreign banks in connection with transactions with these areas. The U.S. Government has, since 1947, not made any credit available for trade with the USSR and the European Satellites, and, as a matter of policy, does not extend Export-Import Bank credit insurance on exports to Bloc countries. The extension of private dollar credits by U. S. banks to foreign banks engaged in financing trade with the USSR and the European Satellites violates no existing law or regulation of the U.S. Government.
3. Many foreign banks, including Communist-controlled banks, maintain dollar balances in U.S. banks, and utilize them for various purposes, including the financing of Free World trade with the USSR and the European Satellites. There have been rumors that, in addition, U.S. banks have provided lines of short-term credit to European banks, which have facilitated their financing of non-strategic trade with the USSR and the European Satellites.
4. The only known recent case involving the possible extension of U.S. bank credit for the purpose of financing East-West trade concerned a proposal by the Soviet-controlled Banque Commerciale de L'Europe du Nord (BCEN), to the Chase Manhattan Bank, on 19 September 1955, requesting Chase to establish credits of up to \$1,500,000 and £ 500,000 sterling in favor of BCEN for the purpose of financing Free-World exports to "Eastern European" countries.

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BCEN is known to have been involved in financing trade with Communist China in dollars. As a result, the Treasury Department recommended in May 1955 that \$337,000 of the bank's funds in the U.S. be blocked. The U.S. Government has not yet taken affirmative action on this recommendation.

5. When the Chase Bank consulted the State Department in September 1955 regarding the BCEN proposal, the Treasury action against BCEN for financing trade with Communist China in dollars was pending. Consequently, State did not look with favor upon the establishment of the proposed line of credit, and as a result Chase reportedly turned down the BCEN proposal. On 18 April 1956, John F. McGloy, Chairman of the Board of Chase, telephoned John W. Hanes, Special Assistant to the Secretary of State, reportedly regarding this matter. [redacted] has kept in touch with these developments and, on 27 April, received information that the Bankers Trust Company and The First National City Bank had made arrangements similar to those proposed by BCEN to Chase. [redacted]

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[redacted] The AD/OO is reporting these developments to you in a separate memorandum.

6. For your information, on 26 April, Admiral DeLany, ICA Deputy Director for MDAC, was questioned before the House Foreign Affairs Committee on what use was being made of U.S. dollars and U.S. dollar credits in East-West trade. Admiral DeLany replied that he would supply an answer to this question.

7. No evidence is available to us indicating that ^{Government} credit facilities to finance the movement of controlled goods to the Soviet Bloc have been extended in other COCOM countries. However, credits have been made available in these countries to finance trade in non-controlled commodities. (A discussion of Government credits in East-West trade is included in the attachment to this memorandum.)

OTTO E. GUTHE
Assistant Director
Research and Reports

Attachment:
Government Credit in East-West Trade

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