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CONSULTANT'S REPORT
ON THE
INTELLIGENCE SUPPORT FOR ECONOMIC WARFARE
(Revised 5 Oct 1954)

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SECRET*Office Memorandum* • UNITED STATES GOVERNMENT

TO : Assistant Director, ORR
THRU : Chief, Coordination
FROM : Acting Chief, D/E/RR

DATE: 20 October 1954

SUBJECT: Consultant's Report on "The Intelligence Support for Economic Warfare."

1. Transmitted herewith is a copy of the above cited report.
2. The purpose of the report is to provide a background paper for the consideration of economic warfare planning, with particular reference to the intelligence support required. In the perspective of the experience in both world wars and the cold war to date, it points out the comprehensive nature of economic warfare intelligence, the manifold uses and applications of that intelligence, and the need of an integrated organization to provide it.
3. This report should be a useful contribution to the consideration of the nature and scope of economic warfare (economic defense) intelligence support by IAC Agencies and of economic warfare planning by the responsible agencies. The report should be immediately useful in connection with the Bureau of the Budget's current study relating to the coordination of economic, psychological, and other nonmilitary defense measures.
4. The report is now under review in D/E as a basis for the formulation of specific recommendations along the lines requested by Mr. Amory.

25X1A

Enclosure

D/E/RR:HDG:aa (20 Oct 54)

Distribution

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DRAFT

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From : Chief, D/E

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REVISED DRAFT
5 October 1954

CONSULTANT'S REPORT

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THE INTELLIGENCE SUPPORT FOR ECONOMIC WARFARE

THE INTELLIGENCE SUPPORT FOR ECONOMIC WARFARE

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I. INTRODUCTION

A. Purpose and Scope of the Study

"A comprehensive economic warfare program aimed at supporting our national security in times of peace as well as war" was a major recommendation of the Hoover Commission in 1948. Six years and two wars later, that recommendation has not been given effect. The intervening years have not lessened the importance of the recommendation. The threatening situations in many parts of the world have now accented its urgency.

It is true that the National Security Resources Board in 1949 prepared a series of excellent monographs on certain economic warfare measures, but these cannot be said to constitute a "comprehensive economic warfare program," and did not purport to do so.

A prerequisite to such a program must be provision for adequate intelligence support. Intelligence support represents a major part of economic warfare activities. Intelligence, of course, is a vital part of military warfare, but the scale of military operations is vastly greater than that of the intelligence operations on which it is based; whereas in economic warfare, a large part of the total personnel employed is engaged in intelligence activities, and intelligence and operations are even more closely integrated.

The recent annual report of the Chairman of the Intelligence Working Group suggests that this group may undertake a study of the

intelligence support that would be required for economic warfare. It is hoped that the present report may serve as a contribution to that study. Its purpose is to suggest the nature of the intelligence required and the organization necessary to provide it.

Much material has been drawn from previous relevant studies. It has been included here, at the risk of being unduly academic, in order to provide a background and perspective for the consideration of this important problem, and to show the comprehensive nature of the intelligence which must be drawn on in support of economic warfare, the manifold uses and application of that intelligence, and the need of an integrated organization to provide it.

Section I seeks to define economic warfare, to evaluate its role in any war with the Soviet Union and to consider the effect on economic intelligence requirements of the transition from peacetime to wartime.

Section II deals with the intelligence support required for economic warfare policy-making vis-a-vis enemy, neutral, and allied nations.

Section III attempts to assess the intelligence requirements of economic warfare operations in the fields of international trade and financial transactions, shipping controls, and in military and political measures.

Section IV is concerned with the collection, production, and distribution of economic warfare intelligence with special reference to peacetime and wartime sources of intelligence.

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Section V considers, against the background of two world wars, the Korean/^{War,} and the "cold war," the organizational arrangements needed for the intelligence support of economic warfare.

B. Definitions

Economic warfare is a relatively new word in the bright lexicon of logistics. As such it has been variously defined. For a long time the Industrial College of the Armed Forces, which began its study of economic warfare in the period between the world wars, considered it as "the use of economic, military, political or other measures to injure an enemy's economic support of his war effort, or a possible enemy's economic potential for war." ^{1/} The objection to this definition was that it made no distinction between peacetime and wartime operations. Economic warfare has also been defined simply as the use of economic measures against economic targets. This simplification overlooks the fact that economic measures such as the economic blockade or "paper blockade" depend on the armed forces for their enforcement. In intercepting an unnavicerted ship, for example, the non-military and military measures are integrated. ^{2/}

As used herein, "economic warfare" is the use of all measures to impair an enemy's economic support of his war effort. "Economic defense" is the use of such of these measures as may be employed in peacetime to impair the economic potential for war of an unfriendly or aggressor nation, and may embrace economic sanctions and reprisals, including even pacific blockade.

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The difference between economic defense and economic warfare is therefore largely legalistic and semantic - legalistic, because of the difference between measures which can legally be taken in peacetime and those which can be taken only in war; semantic, because in peacetime "defense" is a good word and "war" is a bad word, while in wartime the reverse is true. Immediately after Pearl Harbor, the Economic Defense Board became the Board of Economic Warfare. There is also, unfortunately, a difference in the extent and intensity of the programs of economic defense and economic warfare. Economic defense, in the sense of fully effective sanctions, has never been applied in peacetime.

While the concept of the totality of economic warfare is generally accepted, there is no such acceptance of the totality of economic defense. Even in the so-called limited war in Korea, full economic warfare was not employed by the United Nations. There was no blockade of the China coast and no complete embargo of exports to Communist China. Although the nature and extent of economic warfare may vary in a limited war as compared with a general war, the character of the intelligence support required is the same in both. There must be cognizance of all areas, enemy, allied, and neutral, and of all economic resources.

The term "economic warfare" was first adopted by the British in the period between the World Wars. In World War II economic warfare became the substitute for and an enlargement of the blockade operations in the first war. The Ministry of Blockade in the first war became

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the Ministry of Economic Warfare in the second. Economic warfare thus became synonymous with the figurative meaning of blockade.

"Intelligence support," as used herein, includes substantive intelligence and also the organizational arrangements for its coordination and application to economic warfare problems.

C. Assumptions

It is assumed that the various economic warfare measures will be implemented by the appropriate existing agencies of the government; for example, diplomatic negotiations by the Department of State; export-import licensing and the "watch lists" by the Department of Commerce; actual implementation of export-import controls by the Bureau of Customs; foreign exchange controls by the Treasury Department and the Federal Reserve Banks; alien property control by the Department of Justice; off-shore procurement and preclusive buying by the Department of Defense and General Services Administration; the ship warrant and navicert system by the Maritime Administration, the Navy, and the Bureau of Customs; and naval interception and military attack on economic targets by the armed forces. Some of these measures are now in effect with the machinery for their administration already functioning. Others are closely related to the normal operations of the respective agencies and experienced personnel are available to implement them. It is further assumed that the coordination of these measures will be administered by a foreign economic administration, under the guidance of or with the advice of an interagency committee.

D. The Role of Economic Warfare in Any War with the Soviet Union

Originally it was believed by many persons in this country and abroad that economic warfare would have a relatively minor role in any war with the Soviet Union. This reasoning was based on the following assumptions:

- (1) that the Soviet Union is largely self-sufficient, with relatively limited dependence on overseas trade, and is, therefore, not vulnerable to blockade;
- (2) that in any future world conflict there will be few if any neutral areas, neutral areas being the principal battleground of economic warfare;
- (3) that the new weapons of war preclude the possibility of a long war of attrition and make obsolete other methods of warfare, including economic warfare.

Each of these assumptions may now be challenged. It is true that the Soviet Union is largely self-sufficient for its austere civilian economy, and its overseas trade is relatively small. This is not true, however, of Communist China and the Asiatic neutrals, who are dependent on seaborne commerce. The European satellites are also dependent on imports from the West.^{3/} Furthermore, the Soviet industrial system lacks flexibility and diversification and specialization and is or was highly vulnerable to a denial of certain strategic materials and products (e.g. natural rubber, copper, antibiotics), of ships and shipping services, and of equipment and components incorporating advanced technology (e.g. high-speed, high production precision tools, anti-friction

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bearings, electrical generating equipment, electronics components, and precision instruments). This is indicated by the Soviet trade offensive and the frantic efforts to acquire strategic materials from the western nations. It is not to be inferred from the foregoing that other materials may not also be strategic. Indeed, in warfare or in the case of a nation striving for autarky or preparing for war, any imports permitted may be assumed to be strategic and in short supply. The "strategic materials fallacy," i.e. that some imports by such a nation or by a belligerent are not strategic, had its origin in the pre-total-war period of modern history.^{4/} The Declaration of London in 1909 considered commodity trade in three categories - absolute contraband, conditional contraband, and non-contraband. This distinction was voided in both world wars by the U-boat sinkings and the compulsory navicert. All trade with the enemy was contraband.

It is recognized that there are differing opinions within the intelligence community regarding the relative strategic advantage to the Soviet bloc and to the free world of current trade between them. It is a difference that cannot be reconciled because there are no means of measuring the relative strategic advantage. Whether coal, grain, timber, and gold are more strategic to Western Europe than are ships and shipping, machine tools, anti-friction bearings, natural rubber, and tractors to the Soviet bloc, is a matter of judgment. These and many other items are presently traded in. With respect to economic warfare (i.e. in wartime), however, there is virtual unanimity of opinion that "trading with the enemy" is legally, strategically and morally wrong. There is no such unanimity

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as to trading with the enemy in a cold war. There are those who thus seem to doubt the hostile intentions of the Soviet Union and Communist China or who make a distinction between trading with an enemy who is actually waging war and trading with one who is merely preparing to wage war. It is, of course, in the period of build-up and preparation for war that economic sanctions could be most effective. History teaches us, however, that not until the aggressor has filled his stockpiles, completed his preparations and launched his aggression, are other nations willing to lock the export stable. Nevertheless, in spite of all the enemy's preparation there still remains in wartime an opportunity for economic warfare to aggravate the critical stresses and strains of his war economy.

Also subject to review is the assumption as to limited areas of neutrality in a future world conflict, especially one between the USSR and Western Nations. As a result of military exigency and political expediency, there is a reasonable prospect of varying degrees of neutrality and non-belligerency for important and strategically placed areas.

As to the third assumption, that the new weapons of war have made obsolete all other means of warfare, including economic warfare, it may be said that similar assumptions have been made erroneously as to each war since the invention of gunpowder. The possible use of nuclear weapons compels a revision of many previous concepts, but most authorities are agreed that other methods of warfare cannot be abandoned. Indeed it is possible that the belligerents in a future war may refrain from the use of atomic weapons for fear of the awesome retaliation, or that they may limit them to tactical employment against military targets. This

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World War II in the use of poison gas. There is also strong support for the view that the East-West struggle may be a prolonged one, fought with diplomacy, propaganda, subversion and economic measures, with or without military warfare.

E. The Role of Economic Warfare in a Limited War.

It is in order to consider also the role of economic warfare in a so-called "limited," i.e. a war in which the military operations are confined to a limited area. In principle, the measures of economic warfare which should be employed and the intelligence support required do not vary in such a conflict from those employed in a global war between major powers. The coast line to be blockaded may not be as long and the volume of shipping to be interdicted may not be as large. The armed forces engaged and the logistical support required for them may not be as great. Nonetheless, while the military conflict may thus be confined to a limited area, the economic war may be expected to have global ramifications. The trade of belligerents, non-belligerents, and neutrals and world-wide shipping and financial services may be involved.

F. The Transition from Peacetime to Wartime Intelligence Requirements

In peacetime the principal intelligence requirements of economic warfare are basic studies of the capabilities and vulnerabilities of various areas, studies of foreign trade and finance, basic commodity studies, and planning studies for economic warfare operations. In wartime and in the period of strained relations often preceding a war, there is a shift to the analysis and evaluation of current spot intelligence against the background of these basic studies. In peacetime probably three-fourths of the information on which economic intelligence is

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based is from open unclassified sources. In wartime probably nine-tenths of current intelligence information is from [REDACTED] censor- 25X1D
ship gleanings, and other classified and covert sources. In peacetime most economic intelligence is basic and strategic in character. In wartime there is an additional requirement for current and tactical intelligence. Intelligence as to a country's economic potential, — manpower, productive capacity, foreign trade, internal economy, technological development, — all this is strategic economic warfare intelligence. In the category of tactical economic warfare intelligence are such reports as the following: an unnavicerted ship is about to leave a neutral port; censorship reveals an illegal financial transaction; a member of a ship's crew is suspected of smuggling jewel bearings; a neutral trader is shipping to a suspected cloak; [REDACTED] 25X1D

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[REDACTED] All of this is tactical economic warfare intelligence.

Stated another way, in the processing of information into strategic intelligence in peacetime, the emphasis is on the production of reports and estimates. In a period of strained relations or in wartime, it is on analysis, interpretation, and evaluation of current, tactical, and spot reports, against a background of personal knowledge and studies and estimates for the most part previously prepared. Intelligence in peacetime is largely static. In wartime it becomes dynamic. Even more important now than refinement of estimates on the degree of capability or vulnerability in production of strategic commodities is intelligence

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as to how the enemy supply of strategic materials, whatever it is, can be cut off or reduced. Also needed is new intelligence of new enemy requirements for new methods, new products, new weapons, and new materials previously without significance which, as substitutes for strategic materials, have themselves become strategic.

Basic research and analysis in support of economic warfare operations were of somewhat greater relative importance in World War II than they may be expected to be in a future conflict because it was necessary in 1941 to "start from scratch." In the present situation there is a vast body of material prepared in World War II and the experience of that war is available to us. The period of the cold war, furthermore, has afforded the opportunity and the necessity for many studies. This is not to discount the importance and urgent necessity for continued research and analysis. The Soviet situation and the Soviet methods differ radically from those of the Germans. Less basic information is available as to their foreign trade and still less as to their domestic production. A greater emphasis, therefore, is placed on the analysis and synthesis of current intelligence to supply this deficiency.

And so in organization for economic intelligence there is necessarily a conversion of at least part of an organization designed for the production of basic reports and estimates to one for the analysis and evaluation of current information and the support of daily operations. To borrow terminology of the industrial world, what is indicated in the transition from peacetime to wartime intelligence production for

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economic warfare, is the partial conversion and retooling of a factory producing capital goods (basic studies) to one producing also consumer goods (operational intelligence).

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II. THE INTELLIGENCE SUPPORT OF ECONOMIC WARFARE POLICY

A. General

The distinction between intelligence in support of policymaking and that in support of operations is, of course, largely arbitrary. Many of the same basic and current intelligence reports support both policy-making and operations. This is true especially in wartime when policy-making, plans, and operations are often telescoped and integrated. Otherwise events would overtake intelligence and planning.

In broad principle the intelligence requirements for policy-making and strategy in the field of economic warfare are not essentially different from those of policy-making in other fields. Against a background of historical precedent and a comprehension of the foreign policy objectives of the US and other countries, they include an estimate of the current situation and of the probable consequences of alternative courses of action. More specifically, they include estimates of the economic capabilities and vulnerabilities of enemy, allied, and neutral nations; estimates of intention; and estimates of consequences of probable courses of action. While the outline of the National Intelligence Surveys and other basic peacetime economic studies of foreign countries is essentially the same for all countries, the pattern of the economic warfare estimates and the supporting data required for economic warfare policy and planning will vary according to the status of the country as enemy, ally, or neutral.

Studies of economic organization, manpower, food and agriculture, forest products, minerals, fuels and power, manufacturing, transportation,

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communications, international trade and finance — all furnish support for economic warfare policy and operations. The need is largely for the analysis, synthesis, interpretation and application of that part of the various fields of economic and other intelligence pertinent to the particular problem. The resulting production of reports and estimates will "cut across the board". For example, an estimate of "The Vulnerability of the Swedish Iron and Steel Industry to Pressures from the East and the West" requires intelligence as to mining, manufacturing, transportation, finance, economic organization, international trade, and other subjects. So also would a study of "The Feasibility of Increasing Stockpile Objectives to the Point of Pre-emption of Certain Strategic Minerals," or "Transit Trade to Eastern Europe through Trieste," (or Switzerland or Austria), or "The Feasibility of Preventing Export to the Soviet Bloc of Strategic Materials from Spain." Such reports and estimates cannot be prepared on an effective and timely basis by an intelligence organization limited to Soviet or non-Soviet areas. Neither can they be prepared by an organization limited to research or to current intelligence.

B. As to Enemy Nations

In the case of an enemy or potential enemy nation, the purpose of the estimates of capabilities and vulnerabilities is to determine (1) its economic potential for war, (2) its intentions and probable courses of action, and (3) its deficiencies in raw materials, in technology, in facilities, in transportation, in manpower, and its vulnerability to interdiction of its international trade and the disruption by strategic bombing or other means, of its domestic production and transport.

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C. As to Allied Nations

In the case of allied nations or probable allies, the policies for which intelligence support is required have to do with (1)

combined or parallel action in the execution of economic warfare measures against the common enemy (especially in export-import controls, control of port facilities, and blacklisting), (2) the ability of the allies to contribute to the allocation of essential civilian supplies to cooperating neutrals, and (3) the dependence of allies on neutral sources of supply.

D. As to Neutral Nations

The neutral nations, as stated above, constitute the principal battleground of economic warfare, and in this area will arise the majority of economic warfare problems requiring policy determination. Estimates of capabilities and vulnerabilities are for the purpose of determining the position of the neutral nation as a possible source of supply for the enemy. Intelligence support will be required for the negotiation of war trade agreements, which will seek to limit its exports to the enemy and to secure supplies for the US and allied nations; for preclusive buying programs, where export limitation agreements are not feasible or effective; and for determining the vulnerability of the neutral to pressures from the enemy or from the allies, and its ability to maintain its neutrality.

E. The Transition from Peacetime to Wartime Policy and Planning

In peacetime these estimates are in broad and comprehensive terms. Even though based on detailed studies of raw materials, manpower, and

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productive capability and on economic organization, technological progress, and international trade and finance, and on all the factors enumerated in the National Intelligence Surveys, they necessarily include many assumptions as to possible future situations and conditions. After the outbreak of war these estimates can be brought into sharper focus as the status of various countries is revealed as that of enemy, ally, or neutral --- black, white, or varying shades of gray. In the war period, furthermore, evaluation of the effects of existing policies and estimates of probable effects of proposed policies are largely the by-products of operational intelligence. As stated above, the economic warfare policy and strategy are dynamic, not static, and the policy-making process is necessarily a continuing one. The same is true to a large extent of economic defense in a cold war. New policies and changes in policy evolve from operational experience. In World War I the US, as late as October, 1915, vigorously protested to Great Britain that "the methods employed by Great Britain to obtain evidence of enemy destination of cargoes bound for neutral ports and to impose a contraband character on such cargoes are without justification indefensible illegal in conception and nature The task of championing the integrity of neutral rights the United States unhesitatingly assumes." ^{5/} But later as public sentiment became aroused in Britain's behalf, the US devised the "navicert" which was to become the principal instrument of economic warfare, and in 1917, the US became the full ally of Great Britain in the War. Sometimes the events that force changes of economic warfare policy come with dramatic suddenness. Today's events may make

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today's policies obsolete tomorrow. For example, Russia was delivering strategic supplies to Germany up to and including the week preceding the German invasion of Russia on 22 June 1941.

In general, broad and basic estimates of capabilities and vulnerabilities are a requirement of peacetime planning. After the outbreak of war, these previously prepared studies furnish a basis or background for the evaluation of current intelligence and a point of departure for more specific estimates of capabilities, vulnerabilities, and probable courses of action. The necessary integration of the production of these latter estimates with the operational intelligence process and in fact with the close support of actual execution of economic warfare measures is illustrated in the experience of both the US and the UK in World War II. (See Section V)

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III. THE INTELLIGENCE SUPPORT OF ECONOMIC WARFARE OPERATIONS

A. General

The intelligence support for economic warfare operations draws on the entire field of economic intelligence - on both an area and a functional basis. The comprehensive nature of this support may best be understood by considering the successive steps in seeking to prevent the enemy's acquisition of materials:

(1) We seek to stop the goods at the source by control of our own exports and the exports of allies and friendly neutrals, by war trade agreements with neutrals, and, where necessary and feasible, by preclusive buying.

(2) If this fails, we seek to prevent the trading for them by blacklisting suspect traders, by financial controls, by prevention of smuggling, by interference with enemy exports, and by a close watch on all enemy transactions.

(3) But if the goods are available, and if they are traded for, then we seek to prevent their transport, by control of bunkering, repair facilities, and denial of marine insurance.

(4) And if they are available, and are traded, and if they are started on their way, the Navy seeks to intercept the unaverted ship, the Army and Air Force attack the transport of such supplies as do get through, or bomb the factories producing the same or substitute supplies.

That is economic warfare from export control to strategic bombing. Some of these measures are taken concurrently. All are interrelated and mutually supporting. There are other measures with economic objectives, including psychological warfare and subversion, disaffection and sabotage by dissident groups in enemy industrial areas. And finally

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there is counter-economic warfare - the prevention or the detection and frustration of the enemy's efforts to interfere with our overseas trade or otherwise impair the economic support of our war effort.

B. Control at the Source

1. Export Licensing. Export licensing is usually the first measure of economic sanction or economic warfare to be invoked by a nation, for the reason that the implementation is entirely within its own power. Most other measures involve negotiation with other nations. Furthermore, export licensing may be and actually is employed to conserve supplies needed for the domestic economy or national defense and does not necessarily imply a sanction against any other country. Export licensing may be administered on a selective basis as to the commodities to be controlled, and as to destinations and consignees, or there may be embargoes or limitative controls by categories of commodities to all or certain areas. In peacetime or in the period preceding the outbreak of war, the controls are usually instituted on a selective basis. In wartime, of course, all exports to the enemy are embargoed, some commodities are embargoed to all destinations, materials in short supply are allocated among allies, minimum essential civilian supplies are rationed to neutrals, and non-strategic items in ample supply are uncontrolled except as to enemy destinations, or are controlled under general licenses.

In any event, the intelligence support required draws on the entire field of international trade, on all major categories of commodities, and on politico-economic intelligence as to all areas, but especially on intelligence as to deficiencies of the enemy or probable enemy. In-

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telligence is required for export licensing policy, programming, determination of the extent of controls, and the fixing of quotas. Intelligence is also required for the processing of the individual license, especially intelligence as to intermediaries and the ultimate consignee. This includes not merely checking against watch lists but positive intelligence as to his acceptability and also as to the ultimate end-use of the material. A vigorous and aggressive intelligence support is required for the enforcement of controls and the apprehension and treatment of violators. The burden of the intelligence support is more onerous in the case of the selective approach than in the categorical classification because of the necessary refinement of technical definition, process, and end-use, as well as the investigation of the consignee and end-use of the material.

2. Import Licensing. Import licensing may be used in the exercise of pressures on and inducements to neutrals in connection with the negotiation of war trade agreements and cooperation in other respects. It may also be used to supplement and reinforce the controls of enemy exports, by denying licenses for the import of commodities any part of which is of enemy origin. It may also supplement foreign exchange controls in conserving or controlling US dollars. Perhaps the most important use of import licensing, however, is in the conservation and allocation of shipping space, but this objective is largely outside the field of economic warfare. The nature of the intelligence support required for import licensing is very similar to that required for export licensing, i.e. as to international trade, various commodities, and the political

and economic situation in the exporting country and in the country of origin, if it represents a reexport. Commercial intelligence is also required as to the consignor instead of the consignee as in the case of export licensing.

3. War Trade Agreements with Neutrals. This represents in some respects one of the most important areas of economic warfare because, when satisfactory agreements can be reached, they may furnish the basis for export-import licensing, limitation of exports to the enemy, compliance with the navicert and ship warrant system, supply-purchase agreements, and other cooperative relations consistent with neutrality. The negotiation of war trade agreements requires intelligence as to the neutral nations' production, imports, consumption, and exports of the principal commodities, in order that import quotas may be agreed upon, against which all export licenses and all approved navicerts may be charged. In addition to this, estimates are required of the current political and economic situation of the country. Also required is biographical intelligence regarding prominent persons engaged in trade and industry and the leading political personalities, especially those engaged in the negotiations.

4. Preclusive Buying. Preclusive buying requires the same types of economic reporting and intelligence estimates as are required in support of export-import licensing, negotiation of war trade agreements, and in the administration of the navicert system. In addition it requires current intelligence as to market fluctuations, and the operations and manipulations of enemy purchasing agents and black market operators. It also requires estimates of the feasibility of preclusive

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buying programs, including projections of the effect of such programs, lest they defeat their purpose by stimulating more and more production to be precluded at higher and higher prices. In general, preclusive buying is a useful measure only in situations (a) where it is combined with an agreement to limit production and to prohibit export to an enemy or potential enemy and (b) in mopping up individual non-recurring pockets of strategic material which cannot otherwise be denied to the enemy. The experience of World War II shows that "a general program" of preclusive buying defeats its purpose by stimulating an increase in production of otherwise uncontrolled supplies available to the enemy.

C. Prevention of Trading

1. Proclaimed Listing and Blacklisting. In peacetime, persons on a Black List or Watch List may be denied export license or may have funds blocked, as was done prior to US entry into World War II. In wartime, persons on such lists are regarded as enemy nationals. They become untouchables. No allied national can trade with them, and if they or their property come within allied control, they are subject to seizure. The threat of postwar reprisal in trade also hangs over their heads.

The US "Proclaimed List of Certain Blocked Nationals" published first by Presidential proclamation 17 July 1941 was a list of

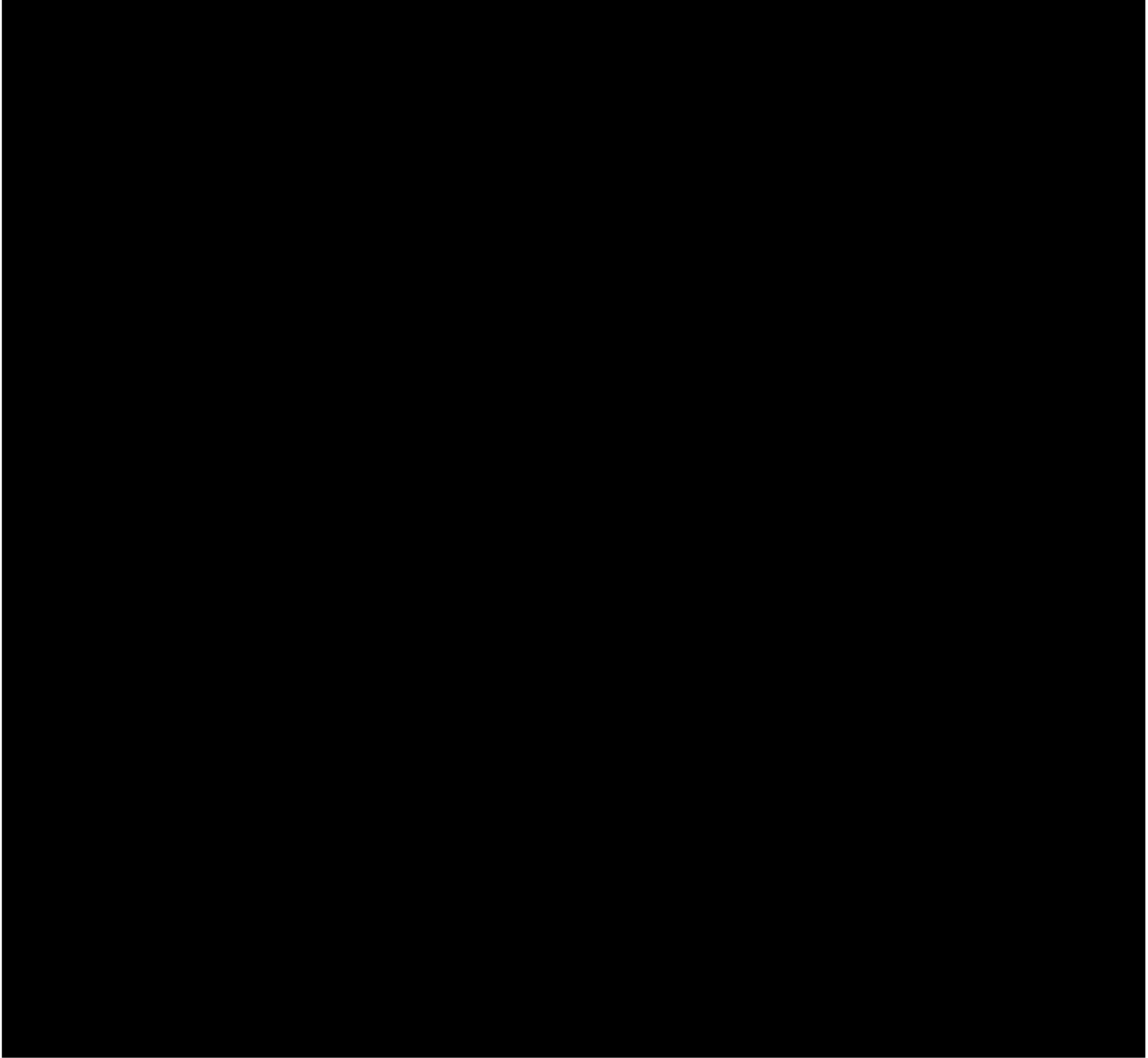
(a) "certain persons deemed to be, or to have been acting or purporting to act, directly or indirectly, for the benefit of, or under the direction of, or under the jurisdiction of, or on behalf of, or in collaboration with Germany or Italy or a national thereof."

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(b) "certain persons to whom, or on whose behalf, or for whose account, the exportation directly or indirectly of any article or material exported from the United States, is deemed to be detrimental to the interest of the national defense."

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In World War I from Jan 1918 to April 1919, 127,000 reports were digested by the Bureau of War Trade Intelligence. The sources of these reports were identified as follows: Censorship 40%, Foreign Service 30%, and Miscellaneous 30%. No comparable statistics are available as to the

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World War II experience, but there is evidence that the percentage distribution was similar, and the volume, of course, vastly greater.

At the present time several "watch lists" are maintained within the US Government. The Treasury Department maintains a "Consolidated List of Designated Nationals, including Specially Designated Nationals;" the Defense Department has a list of firms to whom overseas procurement contracts are denied; the Commerce Department maintains an "Export Screen," popularly known as "Watch Lists,": the State Department maintains a "List of Registrants" in the Office of Munitions Control, and a Visa List in the Visa Division. The CIA maintains an extensive Biographical Register and Industrial Register, which are valuable for background and more extensive development of cases, and a Current Reference Section in ORR/DE, all of which support the several lists maintained within the Government.

The Administrative Action Panel (AAP), composed of representatives of the interested agencies, provides a mechanism by which information can be coordinated to provide uniformity of action in placing names on their respective watch lists, where such uniformity is practicable. ^{7/}

(See p ___ and App. III - 12)

In the event of war with the Soviet Union, it may be assumed that blacklists will attain even larger proportions and their maintenance present serious problems in intelligence and in administration. The

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fifth column of fellow travellers in many countries will result in the addition of many thousands of names.

The problems of intelligence support and administration of blacklists are so great, in fact, as to warrant consideration of "White Lists" instead of blacklists. The navicert and ship warrant system is essentially based on the principle of the "White List," as are most of our licensing systems in both domestic and international affairs. The burden is on the licensee to prove his good faith in a number of undertakings, including in some circumstances the giving of bond. 25X1C

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2. Financial Measures. In general the objectives of financial measures in economic warfare are (1) to interfere with enemy's foreign trade, (2) to prevent the building up of enemy external financial assets, (3) to vest or sequester such assets as exist or (4) to immobilize them by preventing their transfer between different centers, and (5) to bring financial pressures on neutral nations and their nationals. These objectives may be accomplished by the control of foreign funds and other transactions controls; assets; by foreign exchange controls; the export and import licensing of gold, silver, and currency; the manipulation of foreign markets, e.g., the dumping of gold or silver on foreign markets where the enemy is selling bullion or specie for the purpose of procuring foreign exchange; and by the granting or withholding of credit, exchange facilities, and insurance protection to neutral traders.

To support these operations, there are requirements for estimates and analyses of the fiscal position, financial resources, and monetary systems of enemy and neutral countries; observation and interpretation of clearing balances between enemy and neutral countries; analysis of international cartels and other international corporate and financial relationships; and examination and analysis of inventories of foreign

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funds and other foreign assets. There is also a requirement for the evaluation, interpretation, and analysis of financial information in censorship submissions, [REDACTED] foreign publications, interrogations, and other sources of current information with special reference to evidence of "cloaking" and other evasions and violations of the exchange controls.

3. Prevention of Smuggling. The prevention of the smuggling of industrial diamonds, platinum, quartz crystals, mica, certain drugs and other highly strategic items of small bulk was one of the most difficult problems of the allied economic warfare agencies in World War II. The effort was made to control at the source the production and sale of strategic items susceptible to smuggling. Where possible, agreements were negotiated with the producing countries whereby the entire output was to be sold to the US or its allies. Movements of suspected black market operators were carefully watched by undercover operatives. Black market prices were watched as an indication of the presence of buyers. It was noted that prices rose sharply when certain neutral ships put into port. This led sometimes to interception and search of the vessels and seizure of the contraband. Few vessels were given a thorough search at control ports and even when this was done, it was difficult to discover small items in the absence of clues. [REDACTED]

In addition to these sources, there is a requirement for foreign service reporting of market fluctuations, especially in the black market, and of transshipments, diversions, irregular movements, and other evasions of the controls.

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4. Prevention of Enemy Exports. The primary purpose of control of the enemy's exports is to deny him foreign exchange. The intelligence required includes analyses of the normal peacetime export channels and the effectiveness of the measures adopted to close them; the requirements of neutral nations which were formerly met by imports from the enemy and the feasibility of supplying them from allied sources in consideration of the interdiction of the former trade; and analysis of proposed neutral exports to determine those which, or any parts or components of which, are of enemy origin, in order that navicerts may be denied. Censorship submissions [REDACTED] give some 25X1D
clue to enemy exports. The difficulty in controlling enemy exports to contiguous neutrals, however, is that the negotiations looking to the export and the financial transactions in connection therewith do not come under surveillance or control except to a limited extent.

D. Prevention of Transport

We come now to the principal weapons in the arsenal of economic warfare - the navicert, the ship navicert, and the ship warrant - the instruments of the "paper blockade." It is in fact a paper blockade. It depends for its effectiveness on political and economic pressures and inducements as set out elsewhere in this study, and of course, as a last resort, on enforcement by military and naval power. But its extent and effectiveness are far greater than could be achieved by physical enforcement alone.

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Navicerts are in essence commercial passports. It is interesting to note that the navicert was invented by the American Consul General in London during World War I; its purpose was to facilitate American exports during the period of neutrality.^{2/} The British instituted the navicert device early in December 1939, and made it compulsory in July 1940. All un-navicerted ships and cargo vessels were subject to seizure.

The ship navicert, as its text indicates, was given when all the items of the manifest had been navicerted. It permitted a ship to make a single voyage through naval controls. It provided a description of the ship and its proposed itinerary; a list of its officers, crew, and passengers; a description of its cargo, ship stores, mail, and money; an account of the source and destination, consignor and consignee. When an application for a ship's navicert was received, the crew and passenger lists were checked and a requirement made that objectionable persons be removed.

If the Americans devised the navicert, it was the British who invented the ship warrant. A ship warrant entitled a ship to the use of British and Allied port facilities -- bunkering, ships stores, repairs, etc. To receive a warrant, the owner agreed that no vessel owned or controlled or operated by him would sail to or from the navicert area without a ship navicert; that he would not sell or part with effective control of any vessel owned by him without the approval of the Ministry of War Transport; that he would not employ any enemy company for the purpose of obtaining insurance or any other facilities; and many other agreements. In addition, fleet owners were required by the British to

charter to the Ministry of War Transport a portion of their fleets. All of this constituted the price which the British put on the port facilities which they owned or controlled. It is claimed for the ship warrant system that it is a purely commercial bargain and avoids all questions of international law or even of diplomatic discussion. After the US entered the war this country was associated, of course, in the ship warrant system and in fact cooperated during the period of "aid to Britain short of war". But it was the global chain of British ports that made the system most effective.

The intelligence support required for the administration of the navicert and ship warrant system and the control of enemy and neutral shipping requires first of all intelligence as to the movements of enemy shipping and the movement of all ships carrying unnavicerted cargo and all blacklisted ships, i.e. ships not having a ship warrant. Close liaison must be maintained with the Maritime Commission and with commercial shipping information services.

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In addition to intelligence regarding voyages, the administration of the navicert system requires all of the economic intelligence required in the administration of export licensing. As the export licensing would control the export of materials from this country and

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from allied countries, so the navicert system would control the exports from neutral countries, and the same intelligence as to commodities, requirements, production and trade would be necessary.

The administration of the ship warrant system requires detailed intelligence regarding port facilities - allied, enemy, neutral - around the globe. This is necessary to know those facilities that are available and those that are not available to enemy and blacklisted neutral ships. Estimates are required of the possibility of "blockade voyages" in the light of refuelling facilities and other factors.

E. Military Measures.

1. General. Military action as a weapon of economic warfare denotes the use of the armed forces to deny to the enemy commodities required for the prosecution of the war. This action is directed (a) at the disruption and destruction of the enemy's transport by all forms of blockade and (b) at the disruption and destruction of enemy industrial power by strategic bombing or other military attack on economic targets. Obviously, these measures frequently serve immediate military objectives as well as economic warfare objectives, as in the case of the capture of a port or other strategic transportation gateway. This should occasion no controversy, however, as to whether a particular measure or operation is military or economic warfare. The ultimate objective of all economic warfare is to support the military objective by the strangulation and attrition of the enemy's economy, and as stated above, economic, military, psychological and political weapons may be employed. And it is axiomatic that military operations

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are not an end in themselves but an instrument of national policy. Military operations in support of economic warfare, by sea, land, and air, are necessarily controlled and directed by the military on the basis of operational factors, but much of the intelligence on which they are based and the desired order of priority of targets are matters of economic warfare.

2. Disruption and Destruction of Enemy Transport. This includes (a) air and naval patrols (both surface and submarine), interception, and blockade, and (b) attack on strategic transportation targets, by air, land, or sea. It is the former that we are concerned with, primarily in economic warfare not only because of the importance of the actual physical interception of contraband shipping, but even more so because of the fact that on this ultimate physical enforcement depends the effectiveness of the whole system of the "paper blockade". The intelligence required in support of the military blockade includes that previously outlined for export licensing. In addition there is a requirement for technical information as to enemy and neutral shipping, including identification, speed, fuel capacity, etc. As it is probable that nothing in the ship's papers of a blockade runner will indicate its destination and that nothing on the manifest of un-licensed ships will indicate the contraband character of any of the cargo, there is a requirement for covert intelligence as to the covert shipments.

3. Disruption and Destruction of Enemy Industrial Power. In addition to all of the basic intelligence regarding enemy capabilities and vulnerabilities in certain industries and the desired order of priority of economic targets, such as electric power plants, petroleum

refineries, munitions factories, synthetic rubber plants, or transportation gateways, there is a requirement for evaluated information as to the specific installation, including:

- a. Location of target, and identifying information as to nearby cities, industrial installations, housing, railroads, rivers, mountains, and other terrain features.
- b. Physical description of plant and points of vulnerability.
- c. Administrative information, including ownership, government agency having authority, and names of key officials of the facility.
- d. Labor force, including numbers employed, work shifts, nationality, skills, percentage of forced labor, conditions as to housing, food, and other morale factors.

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- f. Importance of this facility as determined by its contribution to the industry aggregate, by the distribution of its product, and by the dependence of other facilities on this source.
- g. Possible importance of this facility to US and allied occupation forces, in the event of occupation of the area.
- h. Appraisal of the effect of bomb damage.

In addition to the intelligence as to individual facilities, there is a requirement for similar intelligence as to concentrations of such strategic targets. This is required for area attack either by high explosive or atomic weapons.

F. Other Measures

1. General. The foregoing represent the principal measures of economic warfare, but they are not exclusive of others, which may, in a given circumstance, be of great effect. Among these are psychological measures, sabotage, and a variety of activities to plague and confound the enemy and his friends. Examples of the last category are the dropping of counterfeit ration cards over enemy territory to confuse his rationing system, and counterfeiting his money.

2. Promotion of Subversion and Disaffection in Enemy Industrial Areas. Just as military operations may be directed to economic objectives, so may psychological weapons be unlimbered in support of economic warfare. Propaganda may be directed to certain industrial areas and individual facilities in coordination with military, economic and political strategy. The intelligence required in the selection of targets and in the choice of psychological ammunition would include reports of conditions and incidents in the area concerned, evaluated against a background of knowledge of political, sociological and economic factors.

3. Sabotage of Enemy Supplies and Installations. Sabotage will ordinarily be the work of forced labor, dissident groups and individuals in the enemy country, and resisting patriots in the satellite and occupied areas. Sabotage is no longer as simple as the throwing of a shoe in the machinery, but may be a highly technical and complicated operation. Intelligence estimates will deal with the feasi-

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bility and probability of sabotage, the anticipated effects, and the requirements in material, and supplies for the operation.

G. Counter Economic Warfare

The enemy's economic warfare will probably fall into these major categories:

(1) His efforts to disrupt or impair the economies of the free nations by the sudden termination or threat of termination of their trade with the Soviet bloc. This can best be countered by the avoidance of dependency on the bloc either as a source of supply or as a market. To the extent that such trade is permitted in peacetime, efforts should be made to develop alternative sources of supply and alternative markets for the commodities traded.

(2) His efforts to negotiate favorable war trade agreements with neutrals. The competition with our own efforts to do the same thing will be a battle of diplomacy and economic pressures.

(3) His infiltration and sabotage of the productive capacity of the free nations. Counter measures against this are the responsibility of the Departments of Defense and of Justice, and of industry itself.

(4) Blockade of allied or neutral ports, especially some in the Far East where he may have the capability of doing so. The countering of this measure will be the responsibility of the Department of Defense, but economic warfare intelligence will be useful in developing diversionary routes and alternative sources.

(5) Military attack on our sources of supply and transport of war materials. The defense against this is also the responsibility of the armed forces.

Foremost among the measures to offset the effect of the enemy's economic warfare is our stockpiling program, but this is a part of our industrial mobilization program and the responsibility of other agencies. The economic warfare agency, however, and particularly the intelligence element can be of great assistance in studying the enemy's

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economic warfare in competitive buying and in his embargoes and blockades. The countering of these measures is primarily a problem of procurement, but where they involve the techniques of economic warfare, the economic warfare agency can be of assistance to the procurement agencies.

A valuable study on "The Nature of the Policy and Tactics of Soviet-type Economic Warfare 1949-1952" was prepared by the Economic Defense Staff of the Department of State in October 1952, and a National Intelligence Estimate (NIE 10-54), published in March 1954 dealt with Soviet bloc capabilities in economic warfare, the vulnerability of the free world to economic warfare measures, and the probable courses of action by the Soviet bloc in this field.

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IV. THE INTELLIGENCE PROCESS IN ECONOMIC WARFARE

A. Collection

1. Sources Available in Peacetime

a. International Economic Organizations. Comprehensive international statistics on production, consumption, domestic distribution, and international trade, if such were available, would be first on the list of materials to be exploited for economic warfare policy-making and planning in peacetime. It has been said, in fact, that the complete and uniform reporting of such data by all nations would have tended to prevent wars by indicating warlike intentions. This ideal of statistical compilation, however, has never been attained. The lack of uniformity in reporting and other deficiencies have long plagued economists. This was true even when there was the best of intentions. It has been greatly aggravated by the recalcitrance and secretiveness of the Soviet Union and its satellites. Nonetheless, to the extent that such data are available in the United Nations and other international organizations, and in international cartels and study groups, they constitute an important source.

b. Central Intelligence Agency. Exploitation of domestic sources of foreign intelligence, covert collection overseas, [REDACTED] - all important sources of economic warfare intelligence - are among the services performed by CIA of common concern to all intelligence agencies. CIA is charged by statute with

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responsibility for correlating all intelligence relating to the national security and with making recommendations to the National Security Council for the coordination of intelligence activities. Frequent references to its functions appear throughout this report and especially in Section V on Organization.

The Director of Central Intelligence is the Chairman of the Intelligence Advisory Committee, under the aegis of the National Security Council, and CIA furnishes the chairman and the secretariat of the Economic Intelligence Committee and of the Economic Defense Intelligence Committee, formerly the Intelligence Working Group. In economic research, CIA has cognizance of the Soviet bloc. Its current intelligence is on a world-wide basis. Among other important services it publishes the daily and weekly Current Intelligence Digest and provides special situation briefings. CIA's facilities include, among others, the Industrial Register, the Biographical Register, the Graphics Register, the Foreign Documents Division, and the CIA Library with its Intellofax System of indexing, digesting and filing intelligence documents. CIA coordinates and supervises the publication of the encyclopedic National Intelligence Surveys. It has extensive geographical intelligence resources.

Of particular interest for this report, it has a small unit - the Economic Defense Division - which supports the EDAC agencies responsible for the strategic control of commodities and services, and also

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provides current intelligence required especially by the Diversion Control Net and the Administrative Action Panel to which reference is made in Section V.

The following paragraphs suggest the vast resources of intelligence material pertinent to economic warfare in the various governmental and other agencies. While based in part on the CIA/OCD survey of "The Primary Economic Information Interests of Certain Government Agencies. (1951)", it does not purport to be complete but is merely suggestive of major areas of interest.

C. State Department. The periodic and special reports of our foreign service officers are the most fruitful sources of intelligence for economic defense operations and economic warfare policy and planning in peacetime and a valuable source for operational intelligence in wartime. Economic Defense Officers (EDOs) have been designated at the principal posts overseas and peripheral reporting officers at appropriate points. In wartime the geographical area of direct foreign service reporting is reduced by the recall of our representatives from enemy countries and by somewhat restricted opportunities in some neutral countries. Quantitatively, the intelligence for economic warfare purposes from foreign service reporting officers in wartime is much less than that from censorship, [REDACTED] and other wartime sources. "The Economic Manual: A Guide for Reporting Officers in

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the Foreign Service of the United States" is an excellent and comprehensive statement of economic intelligence requirements for all purposes, and so organized as to be of great use in economic warfare reporting.

The Department has cognizance of economic intelligence research covering non-Soviet areas. It publishes "Current Economic Developments" (bi-weekly) and "Current Foreign Relations" (weekly) and Soviet Affairs (monthly). The Office of Intelligence Research (OIR) and the Office of Libraries and Intelligence Acquisition (OLI) provide the means for processing intelligence within the Department.

d. Foreign Operations Administration. The Foreign Operations Administration is concerned primarily with assistance to friendly nations. Its information regarding countries receiving aid is complementary to that regarding the Soviet and satellite countries including some of the most prominent of the probable neutrals. The statistical and other economic reports contain much intelligence of import in economic warfare. The FOA does not have an intelligence division as such. It does have a Research, Statistics and Reports Division, but its economic analysis in Washington is largely integrated with the work of the various functional divisions. In the US Regional Office at Paris, a small staff is maintained for the collation of economic defense intelligence and the coordination of economic defense operations in Europe.

of the Mutual Defense Assistance Control (MDAC) Act in the Director of the Foreign Operations Administration, in harmony with the foreign policy direction of the Department of State. This has to do with the international program of security trade control. Collateral with this is the domestic program of security trade control, represented by the Export Control Act, administered by the Department of Commerce. The former program is coordinated through the Economic Defense Advisory Committee (EDAC), and the latter through the Advisory Committee on Export Policy (ACEP). These two committees are in fact "interlocking directorates," coordinated at the working level by the Joint Operating Committee. A number of working groups, under the EDAC Executive Committee, provide for interagency consideration in connection with their respective functions. Of special interest for the purpose of this study is the Intelligence Working Group, which is discussed further in Section V-D-5.

e. The Armed Forces. Each of the armed forces maintains attaches attached to the US diplomatic missions. They report primarily on subjects of special interest to their respective services, but also make economic estimates. The Intelligence Division of the Army (G-2) is interested in intelligence required for logistical operations, planning for civil affairs, administration in the occupied areas, and in economic warfare. The Industrial College of the Armed Forces includes Economic Warfare in its curriculum. In fact, the study of economic warfare, as such, had its genesis in the US in the Industrial College in 1940. The Office of Naval Intelligence (ONI) is interested in these subjects and particularly in ship building, port

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facilities and related subjects. Air Force intelligence (AFOIN) is interested particularly in target information for strategic bombing, and its Strategic Vulnerability Branch has done extensive work in this field.

f. Department of Commerce. The Department of Commerce is of outstanding importance in economic intelligence. Its Division of Commercial Intelligence publishes the World Trade Directory and maintains the Export Screen (Watch List). Foreign service reports, especially those of the commercial attaches, are available to all departments and in the Department of Commerce are the basis for commodity, industry, and regional economic studies. While these studies are primarily for the benefit of US industry, they are of great value in economic warfare. The Bureau of Foreign Commerce, especially in connection with the administration and enforcement of export controls, the Civil Aeronautics Administration, the Office of Technical Services, The Patent Office, the Bureau of Standards, the Maritime Administration, The Weather Bureau, Bureau of Public Roads, the Bureau of the Census, and US Coast and Geodetic Survey, -- all have a significant contribution to economic warfare intelligence.

g. Department of Agriculture. In the Department of Agriculture, the Office of Foreign Agricultural Relations, and other units have furnished basic studies and current reports on agricultural commodities and on agricultural conditions in foreign areas.

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h. Department of Justice. Because of its interest in international cartels, the vesting or sequestration of foreign-owned assets, and other matters related to economic warfare, the Department of Justice maintained in World War II an Economic Warfare Division. Since that time the Office of Alien Property has been placed in the Justice Department and in addition to the administration of control or vesting of alien property, handles all litigation growing out of foreign funds program of the Treasury Department. The Federal Bureau of Investigation (FBI) rendered valuable assistance in World War II especially in connection with detection of smuggling operations and other violations. The Immigration and Naturalization Service, charged with the admission, exclusion, and deportation of aliens, and their registration and finger printing, was a source of biographical intelligence and a means of the discovery of sources for investigation.

i. Department of Interior. Minerals represent the largest category of strategic materials, and the Bureau of Mines and the US Geological Survey have been sources of much of the basic material. The mineral attaches in certain diplomatic missions have furnished much of the current information essential to economic warfare operations regarding minerals, fuels, power, and water resources.

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j. Treasury Department. The Treasury Department was the first agency of the Government to implement an economic warfare measure in World War II, or, more properly, to apply an economic sanction, since the US was not at war at the time. This was the freezing of the assets of Norway and Denmark in April 1940 and the extension of the order in June and July 1940 to the Axis countries and the European neutrals. While this was for the purpose of protecting the interests of rightful owners of these assets from Nazi exploitation, it was also impressed with economic warfare considerations. From that time on the Treasury Department was actively interested in the implementation of economic warfare measures through its Foreign Funds Controls and the Bureau of Customs, and in intelligence through its Monetary Research Division. It has statutory authority for foreign assets control under the authority of the Trading with the Enemy Act. The Office of International Finance collects and analyzes current information concerning economic policies and positions of foreign countries, having a bearing on US financial or monetary policy.

k. Federal Reserve System. In intelligence support through its Division of Research and Statistics and Division of International Finance, and in implementation of foreign exchange controls through member banks, the Federal Reserve System also has a part in economic warfare.

l. Department of Labor. The Bureau of Labor Statistics prepares studies of labor conditions in foreign countries, based in part on reports of labor attaches abroad.

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m. Tariff Commission. Because of the emphasis on international trade and world wide commodity studies, many of the reports and analyses of the Tariff Commission are germane also to economic warfare.

n. The National Archives and Records Service is the repository of a vast store of official documents and records, in amazingly available arrangement when the quantity and diversity of the material are considered. The Department is engaged in the preparation of a series of handbooks of records of World War II that will make these records even more serviceable.

o. Other Agencies. The foregoing list is not intended to be exclusive of a number of agencies, some of them very closely identified with economic warfare, but otherwise than in intelligence support, for example, the Office of Defense Mobilization and the Bureau of the Budget in connection with mobilization planning and organization; the General Services Administration in the implementation of preclusive buying; the Export-Import Bank in financial intelligence and in the negotiation of foreign loans; the Federal Communications Commission in international telecommunications; the Department of Labor in its Office of International Labor Affairs; and the various wartime agencies, notably the Office of Censorship, an important source of economic warfare intelligence in wartime discussed elsewhere in this study.

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p. Library Material. First among the sources of library material is the Library of Congress. In addition to its own unequalled resources, it publishes the "Library Reference Facilities in the Area of the District of Columbia" covering more than two hundred general and specialized libraries. These facilities and indeed the resources of the research libraries throughout the nation may be tapped through inter-library loans. The Interdepartmental Committee for the Acquisition of Foreign Publications (INDEC) provided much material for research analysts in the field of economic warfare. The Foreign Documents Division of CIA has done and is doing a vast amount of translation and analysis for this and other agencies.

q. Private Foundations, Scientific Associations and Economic Study Groups. The Rockefeller Foundation, the Ford Foundation, the Carnegie Endowment for International Peace, the Brookings Institution, the National and American Geographic Societies, the various engineering, scientific, and professional associations, the American Economic Association, and international commercial study groups such as the International Rubber Study Group and the International Tin Study Group, and research centers at various educational institutions, many of them under government contracts, - all are invaluable sources of basic studies and current information. The list is intended merely to suggest many other organizations of which these are typical. Some of them sponsor research projects of considerable scope and depth, some organize special missions and

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expeditions, some conduct institutes of international affairs. The published and unpublished records of most of them yield valuable material to the economic warfare analyst.

f. Foreign Broadcasts. In World War II the Radio Unit of the Economic Intelligence Division in the Board of Economic Warfare processed reports and transcripts of foreign broadcasts. These broadcasts were monitored for the most part by the Federal Communications Commission, the output at times approximating three thousand pages per day of monitors' reports and transcripts. In addition there was an exchange of selected material with the British Broadcasting Corporation and other allied sources. Only a small portion of the broadcasts contained information of value, but the potential significance of that small portion was frequently very great. It required a vast amount of winnowing to separate the grain from the chaff. Evaluation and interpretation were very important. For example, the theme of the propaganda to condition the public mind might be an indication of a probable course of action. It is also frequently necessary to broadcast official announcements to the people even at the calculated risk of its disclosure.

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g. Refugees and Displaced Persons. Never before in history have there been so many displaced persons in the world as the millions

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who were expelled by or who fled first from Nazi and then from Soviet tyranny. From German Sudeetenland, from Silesia, from the Baltic states, from Poland, Czechoslovakia, Hungary, Rumania, Bulgaria, Albania, from Communist China and, when they could, from the Soviet Union itself. Most of them have refused to return to their former homelands now held by the Communists. Many have resisted or escaped the Soviet kidnap gangs which operated in the name of repatriation. Among their number are statesmen, scholars, scientists, engineers, artists, lawyers, doctors, farmers and laborers. Their value as sources of intelligence has been recognized. They are being developed as much as time and available personnel will permit. The first intelligence requirement is as to these people themselves, as groups, as types, as individuals; then the exploitation of selected sources both for the information they have and for what they can acquire, not merely passive but active intelligence. And not merely intelligence but operations of assistance, of liberation. But this is beyond the scope of this study.

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u. US Firms and Trade Associations. The foreign economic intelligence in the possession of US exporters and importers, manufacturers, engineers, banks and insurance companies, and trade associations is practically unlimited. They have traded with or in competition with international traders all over the world. They have supplied equipment and technical "know-how", for industrial facilities. They have built and operated subsidiaries in many of the leading countries. They have conducted research into markets, actual and potential. They have financed capital improvements and commercial transactions. They know the capabilities and vulnerabilities of the major industries and the individual facilities. They know the requirements and sources of essential raw materials, and possible substitutes for those in short supply. The intelligence is there. It is freely available, and yet its adequate exploitation presents serious difficulties in administration, in collection, evaluation, analysis, interpretation and dissemination.

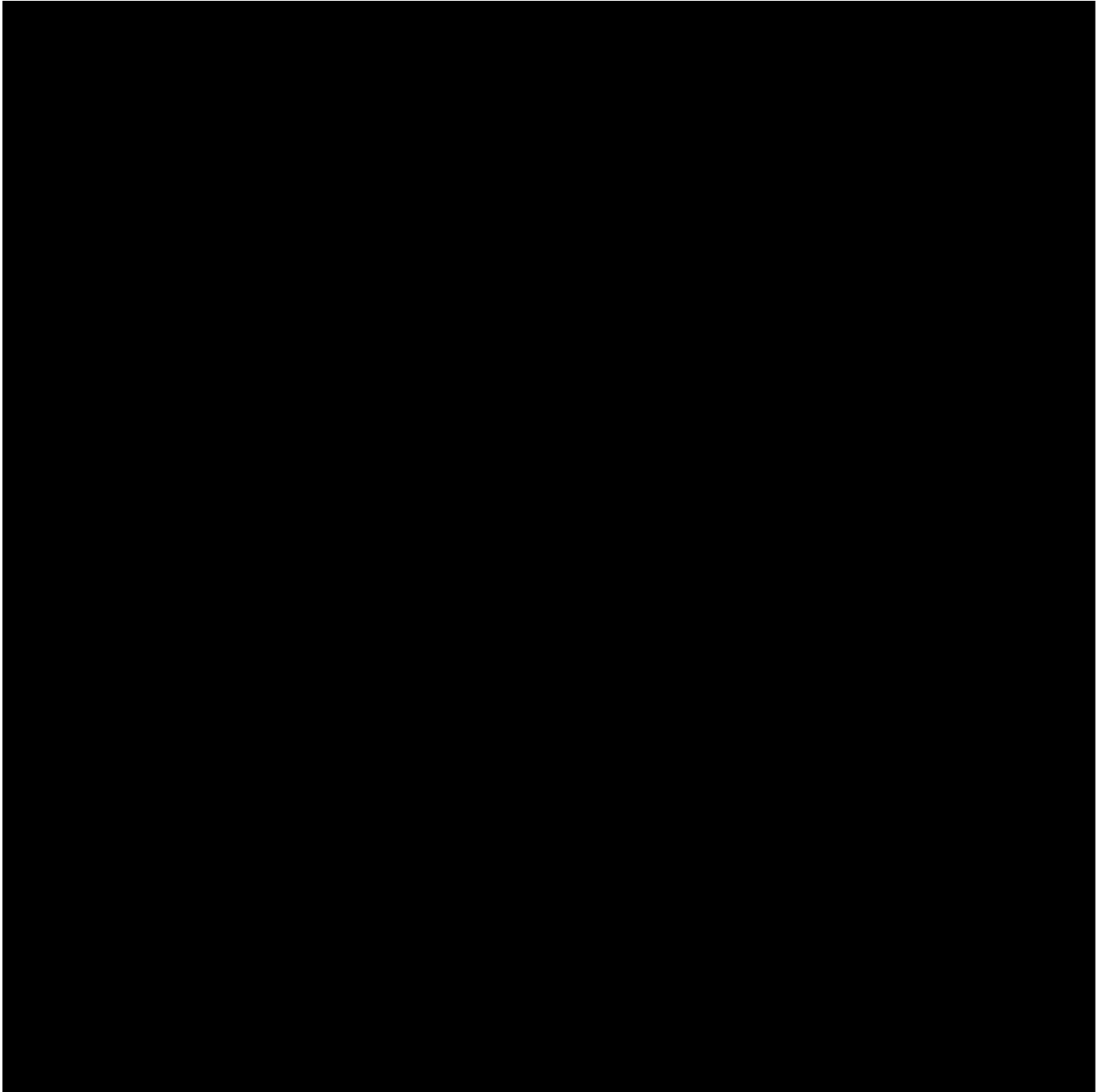
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2. Additional Sources Available in Wartime. In addition to the foregoing catalog of some of the sources of economic intelligence available in peacetime, important additional sources are available in wartime. Among these are censorship, intercepted messages, interrogation of prisoners of war, analysis of captured enemy materials, espionage and aerial reconnaissance.

a. Censorship. As has already been indicated, censorship is the source of the greater part of current economic intelligence in wartime. The extent to which the principals or agents in illegal or inimical transactions will go in their communications is almost incredible. Sometimes, it is due to carelessness or ignorance; sometimes the parties think they have successfully concealed the significance of the message; sometimes they assume a calculated risk, such is the urgency of the communication: sometimes the information is revealed by collateral reference of innocent parties; sometimes a clue is gleaned from the mere fact of correspondence between certain parties even though a private code is used; sometimes the volume of communications from or to a given source is an indication to an alert censor or intelligence officer of suspicious circumstances.

Whatever the explanations, censorship in World War II spotted a number of targets for the economic warfare batteries. ^{10/} Among these were the following:

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Obtained information pinpointing for the Air Force targets of strategic and tactical importance: such as the exact engineering details of the dams in the Rhine area and previously unknown defense being constructed in the Hague Forest of the Netherlands capital.

Obtained information concerning strategic and critical materials making it possible to increase allied war production and weaken the enemy's production; one censorship item alone enabled the War Production Board to obtain \$25,000,000 worth of much needed textiles; other censorship items uncovered some \$2,000,000 worth of dragline dredges, galoshes, cocoa, cattle hair and other diversified commodities.

Exposed black market activities.

Discovered and reported violations of export license controls: at one time, according to an official of the Foreign Economic Administration, 60% of the cases of violations of export licenses were discovered through censorship.

Aided in preventing the outward flow of technical data.

Helped to implement controls of the international transfer of funds: one group of censorship items showing how funds had been provided to build up a stock of goods at a Latin American port for transport by a German blockade runner, while in another instance censorship material showed that a considerable amount of money sent to the Bank of China was intended for beneficiaries in Japanese-Occupied territory.

Assisted in the enforcement of restrictions applicable to the Proclaimed List of Blocked Nationals; one of censorship's greatest contributions in this respect being to supply data indicating that listed parties were using intermediaries or cloaks to mask their activities.

Detected commercial transactions which might have resulted in the Nazi obtaining vitally needed commodities.

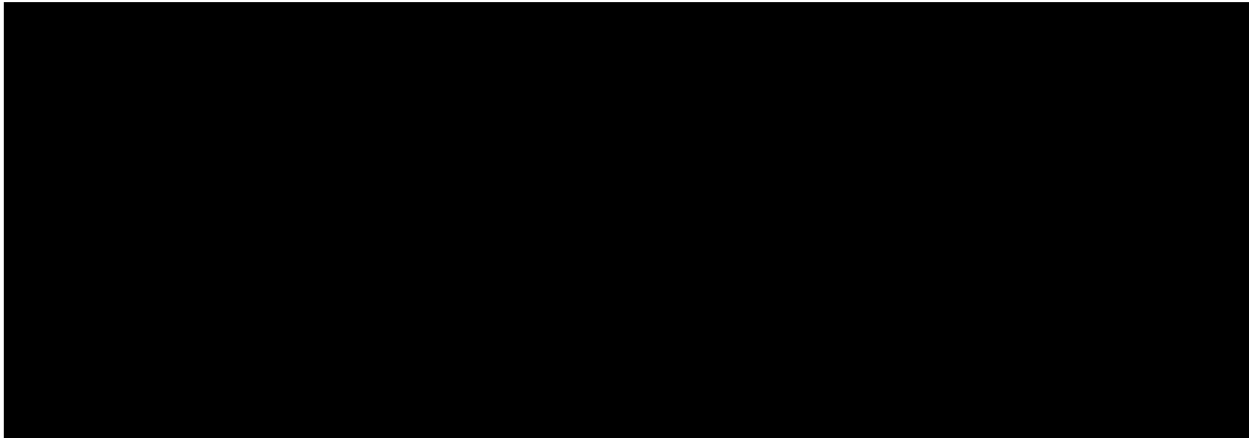
It would be desirable for the Economic Intelligence Committee and the Intelligence Working Group to direct the preparation of a manual of instructions to censors and to keep it current. It is also important to post

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economic intelligence officers in the principal censorship control offices. Even so, with the vast volume of material handled, it is not feasible to be too discriminating in the first selection as to what may or may not be of value to economic warfare. Accordingly, a unit in the latter agency must further screen and analyze the material and prepare copies or extracts or digests for the interested branches. Thousands of these are handled daily.



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c. Captured Enemy Materials. From the beginning of World War II, and in fact in the period between the wars, the British had made careful technical examination and analysis of German material and supplies and found it an important source of intelligence regarding the enemy's supplies of raw materials, his use of substitutes, manufacturing processes, technical innovations, and other factors in production. It was not until 1943 that the Economic Intelligence Division of FEA undertook similar activities with regard to Japanese materials. Prior to that time the War and Navy Departments had been examining enemy material primarily with a view to determining the military operational potentialities and limitations of such equipment,

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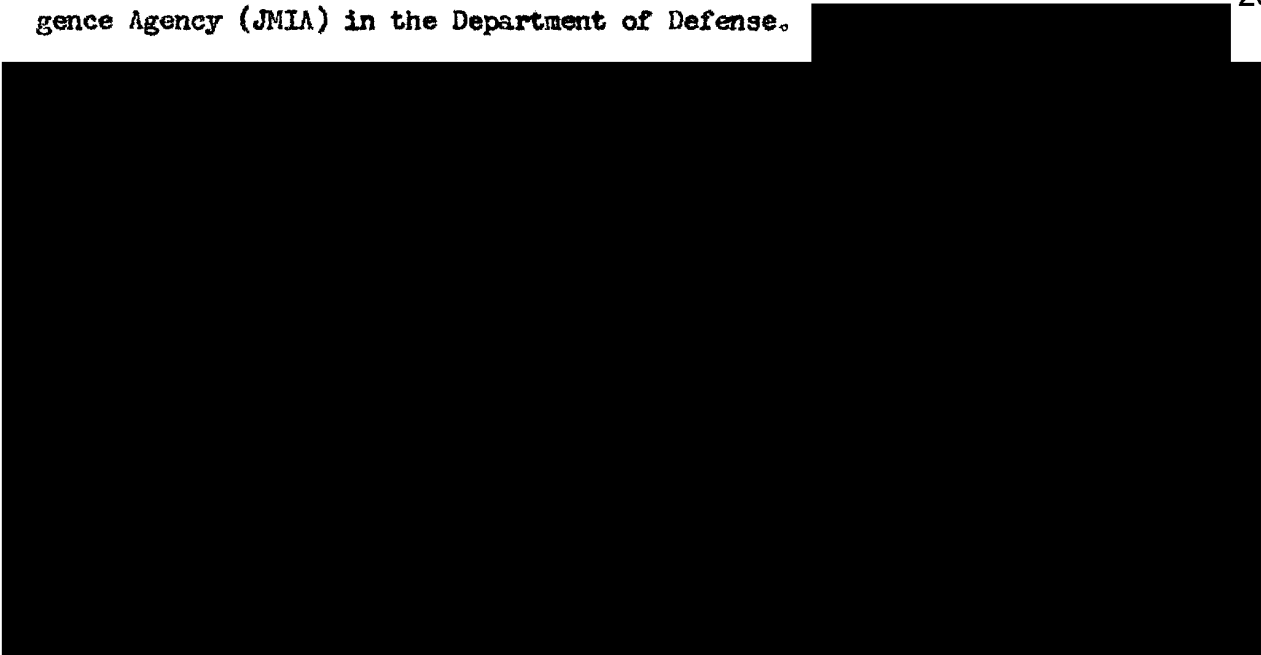
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and the possibility of any improvements that might be introduced into our own design. This work is now directed by the Joint Materials Intelligence Agency (JMIA) in the Department of Defense.

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d. Prisoners of War. While the first objective in the interrogation of prisoners of war is to extract information of immediate military significance, it is also true that many of them are possible sources of economic intelligence of great value. Due to lack of coordination and sometimes cooperation, the economic intelligence agencies in World War II had only limited opportunity for interrogation of prisoners of war.^{12/} In some theaters, however, notably at New Delhi, where the Combined Services Departmental Intelligence Center (CSDIC) was organized, very important results were achieved. A valuable aid to intelligence officers, -- whether economic, military, scientific, political, -- would be an Economic Interrogation

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Manual kept up to date, and classified not only by industries and regions, but according to the experience and competence of the type of individual being interrogated.

e. Covert Collection. Covert intelligence in World War II was the responsibility of the OSS. In this as in so many other respects there was for a time an unwillingness to make the intelligence available to the Economic Intelligence Division of FEA. After FEA took proper security measures, however, the economic intelligence obtained through covert means was made available to them. Since the establishment of CIA, with responsibility for this type of intelligence collection overseas, this is a valuable source of voluntary reports as well as reports in response to specific economic intelligence requirements, and should be given high priority.

f. Aerial Reconnaissance. Great progress was made during and after World War II in the development of aerial photography. The new techniques of making mosaics and the specialized skills in interpretation have greatly increased the value of this intelligence especially for economic purposes. It is frequently possible to assess with fair accuracy new industrial developments, the extent of industrial activity at a particular facility, the nature of bomb damage, condition of agricultural crops, congestion in transportation gateways, and character and direction of transportation movements.

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The Graphics Register in CIA contains a large collection of photographs and motion picture films collected in both peacetime and wartime, covering areas and subjects of intelligence value in economic warfare. Intellofax tapes, giving abstracts of the content of films, and machine listings of still photographs, covering various subjects and geographical areas can be supplied.

B. Production. Having considered, in barest outline and suggestion, the requirements of economic warfare intelligence and the sources for collection of the information on which it is based, it is in order now to look at the methods of processing that information into intelligence. Again, as in the case of the requirements and the sources, it is to be noted that, in the event of actual war, and even now with the accelerating tempo of the economic war, significant changes will be necessary in the processing and production of the supporting intelligence. Now, more than ever, time is of the essence. Comprehensive treatment of the subject, the manner of organization and presentation, perfection of style, complete coordination - all always desirable - are less important now than speed, -- the greatest possible speed in distribution to the using agency consistent with accuracy of the evaluation and soundness of the estimate.

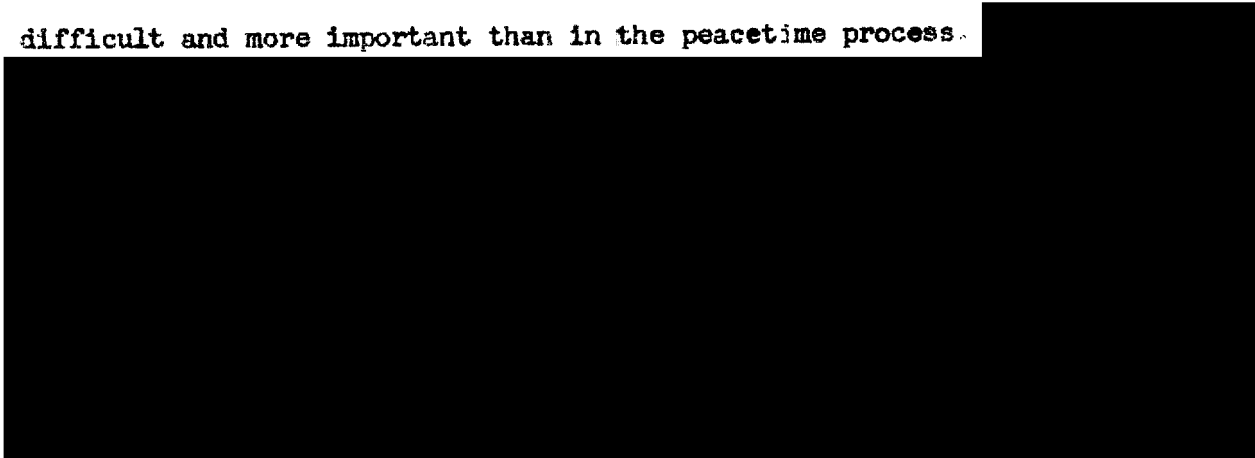
The steps in the processing of information into intelligence are usually identified somewhat as follows: classification, indexing, synthesis, analysis, interpretation, evaluation. The steps frequently occur in that order, although, of course, not necessarily so. Evaluation

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and interpretation may be necessary at various stages in the process from the source to the finished product. Classification and indexing have a much greater significance in economic warfare intelligence than these words usually connote. The classifying and indexing are done not merely for future convenient reference. They serve an immediate purpose - that of matching up the pieces of the jig-saw puzzle into an identifiable intelligence picture. Interpretation and evaluation are both more difficult and more important than in the peacetime process.

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And as the uses and the sources and the methods of processing economic intelligence undergo radical changes in the transition from a peacetime to a wartime economy, so does the form which the production takes. As stated in the Introduction, while there will be a greater need than ever for reports and estimates, periodical and special, in support of economic warfare policy and operations, there will be an even greater requirement for current intelligence memoranda and spot reports. Quantitatively, these latter forms will constitute by far the greater part of the production.

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C. Distribution of Intelligence. The ideal distribution is to deliver as promptly as possible to every analyst all the information he needs and nothing else; to deliver to each using agency the intelligence which it requires and nothing else; and within each agency to distribute the intelligence to each officer who requires it and to no others. Only the less important material should be "circulated". Within the agency all [REDACTED] reports from overseas, and other information requiring action, should be duplicated, or digested and then duplicated, and distributed as fast as received throughout the day - and night - to the responsible branches, with one copy designated as the action copy. 25X1D

So much for the distribution within the Agency. The final product may be no more than this bare message properly interpreted and evaluated. Or it may be an estimate or a study based on this and many other items and the result of much research and analysis. In any event, the final product should be delivered as speedily as possible to the Agency or Agencies, the individual or individuals, who require it. Then, and not before, is the intelligence process complete.

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V. ORGANIZATION FOR INTELLIGENCE SUPPORT OF ECONOMIC WARFARE

A. World War I

1. General. The purposes to be served by economic intelligence are as numerous and varied as the many departments and agencies of the government which have responsibilities in the economic field. They may be grouped, in wartime, under four main headings: economic warfare, economic mobilization, military strategy, and military occupation. In volume of intelligence required, economic warfare is the largest customer.

Prior to World War I and in the period between the wars, economic intelligence was limited largely to commercial intelligence, hydrographic data, foreign service reports, occasional economic reports of the military attaches as a part of strategic intelligence, and published data in statistical year books and similar publications. In wartime, as we have seen, new sources of intelligence are developed and new objectives served. The experience of two world wars and the present cold war indicates that by far the greater part of the economic intelligence effort is required for the support of economic defense or of economic warfare.

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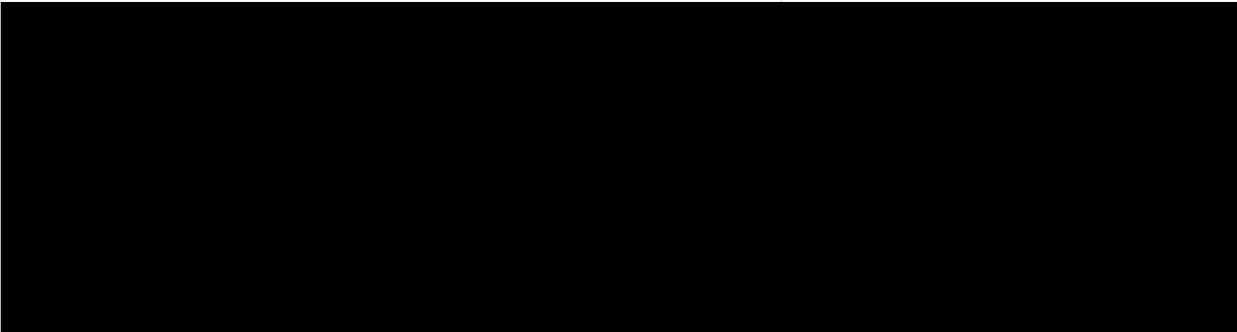
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3. The US Experience. The principal agency of economic warfare in the US in the first world war (although the term "economic warfare" had not been coined at that time) was the War Trade Board. It consisted of representatives of the Departments of State, Commerce, Agriculture, the Food Administration and the War Shipping Board. At the peak of its activity in 1918 it had 2897 employees. ^{13/} Of these 230 were in the Division of Research (divided into Country Studies, Commodity Studies, and Special Studies), 275 in the Division of Tabulation and Statistics, and 409 in the Bureau of War Trade Intelligence. There were thus a total of 914 employees engaged in intelligence whereas the largest of the operational units, of the Board, the Bureau of Exports, had 599 employees.

The Bureau of War Trade Intelligence was largely an intelligence support and liaison organization, serving as the "repository and clearing-house" for other agencies of the US Government, other bureaus of the War Trade Board, and the embassies of the allied governments in Washington, supporting export-import licensing, blacklisting and control of enemy property.

All of the measures of blockade and war trade control were admin-

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istered by the War Trade Board.

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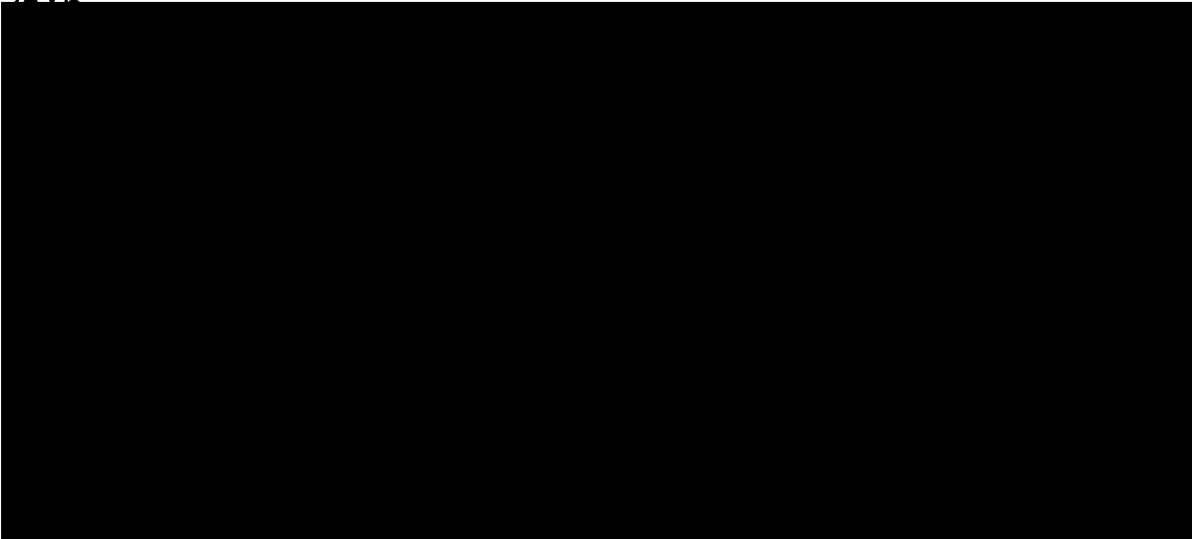
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2. The US Experience. The succession of agencies - the Administrator of Export Control, the Economic Defense Board, the Board of Economic Warfare, the Office of Economic Warfare, and finally the Foreign Economic Administration (FEA), and concurrently with this the Coordinator of Information which became the Office of Strategic Services (OSS) -- tells a sad story of costly improvisation, [REDACTED]

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[REDACTED] Both the FEA and the OSS had

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intelligence and operational responsibilities in the field of economic warfare, but after a period of duplication and jurisdictional disputes, collaborated in the collection, analysis, and application of economic intelligence, and worked out a satisfactory modus vivendi.

Economic warfare intelligence in World War II began with the establishment in 1940 of a Projects Section in the office of the Administrator of Export Control. This later became a Research Division, with an intelligence Section in the Economic Defense Board. Shortly after Pearl Harbor, the Board (now called the Board of Economic Warfare)

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divided this Research Division into four geographical divisions --
European, British Empire, American Hemisphere and Far East. ^{15/} Each
division had an analysis section and an intelligence section. By
the end of April 1942, the intelligence sections of the four geograph-
ical divisions were combined into a single Economic Intelligence
Division. It should be noted that this division was concerned pri-
marily with procurement of intelligence. The work of analysis, with
or without positive recommendation, was the responsibility of the
Office of Economic Warfare Analysis. It should also be noted that BEW
and its successor agencies also had a Trade Intelligence Division which
had the responsibility of procuring, analyzing and applying economic
intelligence to the export licensing procedure. Following a visit of
the Chief of the Economic Intelligence Division to London in July
1942 the economic intelligence function was brought closer to operations
by making the Economic Intelligence Division a part of a newly organ-
ized Enemy Branch. The functions of the Intelligence Division were
described as follows: ^{16/}

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- "a. The compiling, classifying, and routing of informa-
tion obtained from censorship [REDACTED], foreign
radio broadcasts, foreign publications, British MEW,
American business firms with foreign interests,
refugees, returned travelers, foreign representatives
of other Government agencies and all sources other
than espionage;
- "b. The answering of specific requests for economic
intelligence information from other Divisions of the
BEW, the armed forces, the Ministry of Economic
Warfare;
- "c. The continual search for new sources of economic
intelligence;

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"d. The indexing, routing and safeguarding of all restricted, confidential, and secret documents which originate in the Board or come to the Board from other sources."

Later, on 30 November, 1942, the Assistant Director, Office of Economic Warfare Analysis, Board of Economic Warfare, stated the essence of the intelligence function to be "to find and exploit all possible sources of economic information useful in the work of economic warfare ... and to mobilize this information in such a way that it makes the maximum possible contribution to the work of the Board." The Economic Intelligence Division lived happily ever afterwards, or rather to the end of the war and the liquidation of FEA and its absorption into the State Department. At that time some of the intelligence personnel were transferred into the research area of the State Department. In fact some of the personnel in both the Intelligence Division of FEA and the OSS formed the nuclei of the Office of Intelligence Research (OIR) in the State Department and the Central Intelligence Group (CIG), the predecessor of the Central Intelligence Agency. In a sense, therefore our major economic intelligence units today grew out of the intelligence support for economic warfare in the last war.

For a documented account of the costly and tragic lack of coordination in World War II, see the report "The Enemy Branch of the Board of Economic Warfare: A Study in the Relation of Research to Operations," (App. III, Item 3) and also "The Procurement of Economic Information for Strategic Purposes - Analysis of the Experience of the Economic

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Intelligence Division of the Board of Economic Warfare, the Office of Economic Warfare, and the Foreign Economic Administration, 1942-44 with Observations Pertinent to Future Operations of Intelligence Services." (App. III, Item 15) The conclusions supported the later proposal for a central intelligence agency.

3. Allied Operations. A strong case for allied cooperation in the waging of economic warfare was stated by the Allied (Britain, France, Belgium Netherlands) Ministerial Meeting in London on 17 June 1940. It asserted that the vigorous prosecution of economic warfare was an essential factor in victory and that, as the four allied empires commanded the major portion of the world's essential raw materials and commodities, it should totally deny them to the enemy. The statement is reproduced here as a fine declaration of principle and high resolve:

"The representatives of the four Allies in consultation

- 1) Consider that the vigorous prosecution of the economic war against the enemy constitutes an essential factor in the ultimate victory of the allies;
- 2) resolve that, since the four Allied Empires jointly command the major part of the essential raw materials and commodities of the world, the export of these commodities and materials shall be so controlled as totally to deny the use of them to the enemy;
- 3) agree that such control cannot satisfactorily be established without the imposition in all territories of the Allied Empires of a system for licensing exports;
- 4) resolve that such systems shall, where not already in existence, be imposed and that they should be coordinated in scope and practice and in the policy governing their operation;

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- 5) direct that a Committee of experts, representing the four Allies, shall examine how best these resolutions and this policy may be implemented;
- 6) agree to meet again from time to time as required to receive reports from the committee of experts and to undertake any necessary action."

Unfortunately this came too late. Owing to the fall of France a few days later, the committee of experts never met, and no allied committee was established until nearly two years later.

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Congress enacted the export control

law on 2 July 1940, and the US began the progressive control of its exports, both to conserve its supply of critical materials and to deny them to the Germans.

The cooperation was greatly handicapped, however, throughout 1941 and the first few months of 1942, by the lack of an integrated economic defense organization, supported by an integrated intelligence office. Medlicott in his monumental work on "The Economic Blockade" in the series on the History of the Second World War ^{19/} says, in speaking of American cooperation during this period:

"A genuine handicap was the absence from the Administration of any single administrative organization charged with planning economic defense, and therefore able to take a comprehensive view of the problems involved and to see that plans were carried through in all departments of government."

In discussing the confusion in the famous "Sheherazade" (French tanker) case, Medlicott refers to it as an illustration of the sort of Blind Man's Buff that was going on inside the US administration.

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An outstanding example of a situation in which an economic warfare measure could have saved American lives, ships, and material would have been the stoppage earlier of the Italian Air Lines (LATI) service to South America. At a time when US national policy was one of "all aid to Britain short of war," these Axis planes were spotting American convoys on the South Atlantic route and notifying German submarine commanders. They were also transporting Axis agents and industrial diamonds and other strategic materials. And they were flying with tetraethyl lead produced in the US.

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C. The Korean War

In the Korean War economic warfare was employed by the United Nations only to a limited extent. In response to the "Uniting for Peace" resolution and the appeal of the Additional Measures Committee of the UN, many of the nations imposed embargoes on the most strategic categories of materials. The US imposed a complete embargo on exports

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to China and North Korea. There was no blockade, however of the China coast, no interception of allied or neutral shipping, no attack on transport across the Yalu, and no interference with sources of supply in China.

D. The Cold War

1. The NSRB Studies. In 1948-49, the National Security Resources Board, in the exercise of its statutory responsibility for the planning of mobilization measures, undertook the production of a series of inter-agency studies on mobilization planning for foreign economic measures. Comprehensive studies were later condensed into shorter monographs as follows:

NSRB 118/1	Proclaimed Listing
NSRB 118/2	Preclusive Buying
NSRB 118/3	Export Controls
NSRB 118/4	Import Controls
NSRB 118/5	Foreign Economic Assistance
NSRB 118/6	Foreign Assets Control
NSRB 118/7	Foreign Procurement and Development.

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These useful studies dealt with the substantive nature of these instruments of economic warfare and proposed "readiness measures" and "wartime measures," for their implementation but carefully avoided any consideration of jurisdictional responsibility. There are two notable omissions in the series. The first is the absence of any paper on shipping controls (the ship warrant and navicert systems), probably one of the most important measures of economic warfare. The second omission is the absence of any coordinated study of intelligence support for economic warfare. This latter omission was attributed to the statutory responsibility of CIA in this field.

2. Planning Study for Intelligence for Economic Warfare.

An excellent preliminary "Planning Study on Intelligence for Economic Warfare" had been prepared in the intelligence area of the Department of State, dated 19 April 1949, which recommended creation of an inter-departmental committee under the chairmanship of CIA. "The committee should concern itself", said the report, "with delineation of responsibility in the fields of procurement of economic intelligence and its analysis or exploitation. The mere assigning of responsibility is, of course, meaningless unless it is carried out by action. It will be necessary therefore to devise some type of clearing machinery to insure that major questions received by an intelligence unit through its policy or operating officers will be subjected to all the talent available in all the agencies concerned. At the same time such a mechanism must not deprive the individual agencies of the freedom to handle quick or spot requests."

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Following this report and a series of conferences between the NSRB staff and the Chief of the Office of Reports and Estimates of CIA and the Chief of the Economic Warfare Branch of that office, the NSRB under date of 2 February 1950 requested the National Security Council to direct the CIA to organize and conduct a study of:

- a. foreign economic intelligence requirements requirements relating to the national security, including requirements for mobilization planning;
- b. facilities and arrangements currently employed for meeting those requirements;
- c. the adequacy of such facilities and arrangements; and, where appropriate, means for their improvement.

3. The NSC Request and Subsequent Action. This request became the basis of NSC Action 282 which set off a chain reaction in CIA. It was originally intended to call for another planning study in the NSRB series of interagency studies on mobilization planning for foreign economic measures (economic warfare). However, it was broadly interpreted and became the basis of an extensive interagency survey by CIA/OCD and for a survey by an office-wide task force in CIA to determine the "areas of ignorance in intelligence regarding the Soviet bloc". It was made the basis for planning a future research production program, and finally on 31 May 1951 in a reply to the NSC, the Director of Central Intelligence proposed the establishment of an Economic Intelligence Committee and recommended the issuance by the NSC of an intelligence directive which was issued as NSCID-25.

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Thus what was originally sought as a planning study in the NSRB economic warfare series, emerged many months later as a general survey of economic intelligence requirements - a larger and perhaps more useful study - but it left still unsatisfied the need for a study of the intelligence support required for economic warfare.

4. The Clamorous Customer vs the Basic Study. The agencies of the Government, charged with responsibilities in the economic cold war, had made since 1948 continuing demands on CIA for intelligence support. The "clamorous customers", as they were called, were told in effect to wait while a survey was made of economic intelligence requirements and of CIA capabilities to meet those requirements. This was facetiously called the "survey of ignorance" and was followed by an effort to close the gaps. The effort is still continuing. As soon as one area of research is completed the result tends to become obsolete, as the situation does not remain static. The concept that current demands can wait until basic research is completed was discredited early in the last war. Research and current analysis and evaluation are all continuing and interrelated processes.

The dilemma of "the clamorous customer vs the basic study" was forcibly expressed in one of the supporting papers on "The Role of ORR in Economic Intelligence," 1 August 1951:

"The problems to whose solution we are asked to contribute are very urgent. Events will not wait for the orderly, patient, exhaustive research which alone can give satisfactory answers to these problems. If we were to devote ourselves exclusively to amassing all the facts we need, we would have to tell harried policy-makers that we would be glad to advise them--

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beginning in two years. (Ed. note: three years has now elapsed.) We neither should nor can stay in an ivory tower that long. Even if it were possible ... it is highly likely that at the end of that period many that we would be asked to help with would have changed so that our results would no longer be particularly applicable. On the other hand if we succumb to the very real pressure on us to answer all current requests for prompt information, we will never have any information better than the slim fragments that we can now supply. Thus our dilemma is, in a sense, whether to be encyclopedic and irrelevant, or operational and incompetent. Clearly the only tolerable solution is a compromise between these two extremes."

In the three years intervening since that plaintive plea, the preponderance of effort in ORR has been in the field of research on the Soviet bloc. There is now an urgent need for a redirection of economic intelligence to serve the needs of economic defense/warfare in both research and current intelligence regarding both Soviet and non-Soviet areas. Research must be continuing and diligent, but at the same time there should be a timely and adequate response to the intelligence demands of economic defense and economic warfare planning. The vast amount of intelligence in the various research projects will remain sterile unless it is brought into the focus of those charged with policy-making and operations in economic warfare.

5. The Economic Intelligence Committee. The several periodic reports of the work of the Economic Intelligence Committee and the Intelligence Working Group reveal that those committees, with certain limitations, serve admirably as advisory and even as coordinating groups. They also reveal, however, the difficulty, if not the

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futility, of attempting to do in committees what should be done by individuals or individual agencies.

Some of the difficulties of intelligence production by committee are implicit in the following statement from the current EIC progress report: "When the EIC agrees as to the priority need for particular economic-intelligence studies, and as to the agencies which should be responsible for making detailed contributions thereto, the results must not be invalidated by inability of the contributing offices to provide competent staff and required data which should be available through their channels. It is not sufficient for other agencies with greater and more flexible facilities (perhaps CIA) to be in position to "pinch hit" and undertake studies for which it was agreed other agencies should be responsible."

An economic defense or economic warfare agency would be in a peculiarly helpless position if it had to await first the assignment of responsibility for such contributions and then the production of the intelligence by diverse agencies, each probably giving priority to its own departmental requirements.

"In general" says the report "the EIC has been developing into a planning and service mechanism by which the intelligence community seeks to coordinate the economic intelligence needs of the government as a whole with a minimum of duplication and a maximum of mutual support among the several agencies. During this period, however, the initial emphasis on the Soviet bloc has continued."

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In calling for a full-dress evaluation of the US economic intelligence program as a whole, the same EIC report states that "without pre-judging the results of such an overall evaluation, it seems clear that the economic intelligence community should supplement its studies of ... the economic strength of the Soviet Union to support hostilities, by considerably greater attention to the emerging economic patterns of principal countries in peripheral areas and in the free world, and to those developing economic pressures which might influence alignments of particular regional or national economies towards the Soviet bloc or non-bloc systems..." It would also seem that somewhere in the intelligence community, either in CIA or in the economic defense/warfare agency, these emerging patterns should be kept current as a back-drop for the evaluation of the daily scene in economic defense and economic warfare operations. The Office of Current Intelligence in CIA (CIA/OCI) publishes in loose-leaf form and keeps current a series of excellent Handbooks on major countries of the world, but they are "for CIA internal use only".

6. The Intelligence Working Group.^{20/} In April 1952, the Administrator of the Mutual Defense Assistance Control Act and the Secretary of State requested the Director of Central Intelligence to establish an Intelligence Working Group for direct intelligence support of the EDAC. The Secretary of Defense endorsed the proposal and requested each of the Services to designate representatives. The IAC approved the terms of reference and the IWG began to function. One of its first undertakings was to tackle the problem of the rapid

collation and dissemination of operational intelligence to the using agencies. Its recommendations resulted in the establishment of the Current Reference and Transactions Sections in the Strategic Trade Branch of the Economic Defense Division of CIA. This Branch supports the work of the Diversion Control Net, the Administrative Action Panel, and other agencies and other elements of CIA in current operational intelligence and serves one of the purposes for which the IWG was originally created. The difficulties which the IWG has encountered are the necessary preoccupation of members with their departmental responsibilities and the other usual difficulties of action by committee. Nevertheless, the IWG has performed a useful service and its program includes (1) further review of the intelligence produced in the course of the security list review and additional intelligence on the hard core items as required, (2) preparation of papers on Soviet trade trends and tactics for the fall sessions of COCOM, (3) efforts to improve the priorities for the collection of economic defense intelligence and to expedite its transmission, (4) consideration of the problem of bilateral and multilateral exchange of economic defense intelligence with allies, (5) an indoctrination program and arrangements for briefing and debriefing personnel assigned to overseas posts and (6) compilation of enforcement regulations of other countries. This would certainly appear to be a useful and constructive program. However, continuation of IWG would seem to be justified if only as a stand-by facility in the event of war or a worsening of the international situation.

A periodical economic defense intelligence digest was proposed and authorized in 1953. It was never instituted because it was felt that the problem of the prompt collation and dissemination of current operational intelligence to the using agencies had been partly solved for the time being by the establishment of the Current Reference and Transactions Sections in the Economic Defense Division of CIA and by the work of the Diversion Control Net and the Administrative Action Panel. However, the preparation of such a digest by the secretariat of IWG and its dissemination to member agencies would serve a highly useful purpose. This would seem particularly timely in view of the new allied export control policy.

E. Wartime Organizational Requirements

1. Organization for Economic Warfare. It was pointed out in the Introduction that although the Hoover Commission in 1948 recommended that a comprehensive economic warfare program be developed, that recommendation had not been given full effect. The NSRB studies referred to above which followed in 1949, dealt with certain measures of economic warfare but did not propose an organization for their administration. The developments of the cold war, however, have resulted in the evolution of an interagency organization for the coordination of economic defense measures, which may be adapted to serve a similar purpose in economic

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warfare. The responsibility for the administration of the Mutual Defense Assistance Control Act was vested in the Director of the Foreign Operations Administration, in harmony with the foreign policy direction of the Secretary of State (p 37 supra). The diverse elements of economic defense and the necessary implementation of its measures by various other agencies of the government under constitutional or statutory authority, required that these measures also be coordinated by an interagency mechanism. This has been accomplished by the formation of the Economic Defense Advisory Committee (EDAC). It is not the purpose of this paper to review in detail the EDAC structure, with its Executive Committee, Working Groups, and staff and secretariat furnished by the Mutual Defense Assistance Control (MDAC) element of FOA. This is described succinctly in "The Economic Defense Structure of the US" (EDAC-D-85, 14 May '54). It is pertinent, however, to consider this structure as the possible prototype of an economic warfare committee structure,^{17/} in order to determine the arrangements required for its intelligence support. Indeed, it furnishes more than a prototype. It furnishes an interagency organization in being whose present activities could be continued and expanded and adapted to wartime conditions as needed. In this respect we are now years ahead of our position at the outbreak of World War II. There should thus be no necessity for the costly improvisations, "empire building," and jurisdictional disputes that characterized the early months of that war.

Whatever organization structure is required for economic warfare

(and its intelligence support) in wartime, should be planned now. To the extent that it is applicable to economic defense operations in the cold war, it should be implemented now. Then, in the event of war, we would have an organization in being, which would merely have to change to a belligerent status, as do the armed forces. Some additional measures would need to be implemented, e.g. the ship warrant and navicert systems; some new sources of intelligence would need to be exploited, e.g. censorship. Basically, however, the objective is the same -- the limitation of the Soviet bloc's economic potential for war -- in economic defense and in economic warfare, and the same expertise is required in their administration. Some additional executive orders and directives, perhaps some legislation, will be required. It is presumed that some of these exist now in draft. They should be brought together now in an "Economic Warfare Plan" and kept under review, so that they might be promulgated immediately in the event of war. Personnel assignments to "battle stations" in economic warfare should be made now. At least the organization structure and the job descriptions for the key positions should be determined. When the bombs begin to fall, it will be too late to be drafting plans which could better have been prepared in advance. It would be tragic irony if after six years of economic war (euphemistically called "economic defense") it should be necessary on the outbreak of war to lose irreplaceable time in hastily prepared improvisations for the prosecution of economic warfare. It would seem as illogical as waiting until the outbreak of hostilities to establish the armed forces.

A comprehensive plan for an economic defense organization and a collateral plan for its augmentation, in the event of hostilities, to an economic warfare organization, should be made now.

The EDAC structure was devised for economic defense in the cold war. It can be adapted, insofar as interagency coordination is concerned, to the mission of economic warfare in a hot war. What is needed is an administrative organization with the authority and ability to take action. The EDAC committee structure could serve such an agency in an advisory capacity. Any lack of effectiveness of EDAC in economic defense measures thus far, particularly in international controls, may be attributed to policy limitations rather than to operational deficiencies. In the event of war, it is assumed that policy objectives will be clear and definite.

2. Organization for Intelligence Support. As previously pointed out intelligence constitutes a large part, perhaps the greater part, of economic warfare/ activities. There are vast resources of personnel and data and facilities within the Government devoted to intelligence. And much of it is relevant to economic defense/warfare. The irony of the situation is that there is no office within the Government prepared to furnish promptly as required adequate intelligence in support of economic defense or economic warfare. Within CIA, ORR has devoted practically its entire resources to research regarding the Soviet bloc. Only a skeleton staff in the Economic Defense Division

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has served in close support of the vast economic defense operations of the cold war. OCI produces a substantial volume of current economic intelligence concerning Soviet and non-Soviet areas, but much of it cannot be used outside CIA. (p 69 Supra). Much of the intelligence being produced in and out of the Government is pertinent to economic warfare, but is not recognized as such and is not directed to economic warfare needs. This is illustrated by the Intelligence Publications Index for July-December 1953, prepared by the CIA Library. This is a cumulative index by subject and area of some forty intelligence periodicals and monographic intelligence studies. The index contains no classification of/"economic warfare," although the Library Reference Code for the Intellofax System contains "Economic Warfare" (790). Included under "warfare" in addition to the various aspects of military warfare, are "Biological Warfare," "Guerilla Warfare," "Psychological Warfare," "Radiological Warfare," but nothing on "Economic Warfare". Under "Economic" appear "Conditions," "Development," "Plans," "Policy," "Relations," "Problems," and "Resources". Of course many of these have economic warfare implications but they are not pointed to economic warfare needs, and are not listed under "Economic Warfare."

The effective prosecution of economic warfare calls for an intelligence office within the responsible agency. Such an office would have cognizance of relevant intelligence regarding all areas and all commodities and essential services. It need not duplicate the facilities or the production of any existing agency, but would

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bring into the focus of the economic warfare agency all pertinent available information. Its mission would not be primarily one of collection or research. It would be rather one of collation and evaluation, for its own departmental use, of intelligence and intelligence information produced by the other agencies. This being true, its staff need not be large. It should have a Trade Division with three branches - enemy, allied, and neutral - with "desks" for the principal countries in each. It should have a Strategic Resources Division, with branches for the major categories of commodities and the principal services, except shipping which should constitute a separate division. It should have a Liaison Division, which would include a Support Staff and furnish the Secretariat for the Intelligence Working Group. It should have a Current Reference Division to support the diversion control program, the administration of the watch lists and black lists, and other current operations.

The responsibility for economic defense measures and for the intelligence support of such measures is now diffused among several departments and agencies of the government - State, FOA (MDAC), Commerce, Treasury and others. Under the National Security Act of 1947, it is the duty of CIA "To make recommendations to the NSC for the coordination of such intelligence activities of the departments and agencies of the government as relate to the national security; to correlate and evaluate intelligence relating to the national security.....(provided that the departments and

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other agencies of the government shall continue to collect, evaluate, correlate and disseminate department intelligence); and to perform for the benefit of existing intelligence agencies such additional services of common concern as the NSC determines can be more efficiently accomplished centrally."

Accordingly, if an existing department or agency of the government were given responsibility for the coordination of economic defense measures now and of economic warfare measures in the event of war, such department or agency would doubtless be empowered under the National Security Act to establish an intelligence component with authority to correlate for departmental use the relevant intelligence produced by the various intelligence agencies. Until such time as a department or agency is designated or established to coordinate economic defense and economic warfare measures, an office should be established within the intelligence community to correlate economic defense and economic warfare intelligence. It is believed that such an office could be established without additional personnel by re-assigning existing personnel in keeping with a re-directed emphasis and the elimination of duplication of effort.

In the meantime the deficiency is being met in part by the coordination of economic research in the Economic Intelligence Committee and direct support of economic defense operations by the Intelligence Working Group, but with the difficulties cited by each of those groups in the preceding section. In addition the Diversion Control Net (DCN) and the Administrative Action Panel (AAP) are supported by the Economic

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Defense Division of CIA/ORR. The former is the prototype of a war-time Blockade Committee and the latter of a Blacklisting Committee. In the event of the establishment of an economic defense agency or an economic warfare agency, with its own intelligence unit, the need would still exist for the EIC and the IWG, not as producers of intelligence but as means of the mutual interchange of ideas and facilities.

F. Intelligence Support for Allied Economic Warfare

The intelligence support needed for combined economic warfare may be considered in three major categories: (1) economic information concerning the allied or cooperating countries themselves, (2) intelligence concerning neutral countries and (3) intelligence concerning the enemy or potential enemy. As to the first category, each country will be the logical source of data regarding its own situation. All such intelligence must be carefully examined and evaluated for subjective elements and national bias. Each of the allies may be presumed to have information and intelligence regarding the others but ordinarily it would not be consistent with protocol to introduce it at the intergovernmental level. Its existence, however, may be useful in making the subject country careful of the accuracy of its facts and the validity of its estimates. As to the second category, the problem is more difficult. Diplomatic and trade relations will continue with the neutrals, but there will be more reluctance on their part to disclose significant data to the belligerents. The neutrals have a vital interest in establishing

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favorable import quotas for themselves and in preserving some trade with one or both belligerents. The neutral countries which, by the way, may be expected to represent various gradations of neutrality, constitute, as stated elsewhere in this report, the principal battle ground of economic warfare. Basic intelligence is needed as to their economic capabilities and vulnerabilities and current intelligence is required as to their surpluses and shortages, their re-exports and diversions and the activities of persons trading with the enemy. The greatest difficulty in collecting intelligence, and therefore the greatest need and opportunity for international exchange of intelligence, occurs in the case of the third category - intelligence concerning the enemy.

Economic warfare, even more than any other phase of the war effort, requires combined or parallel and coordinated operations among allies. In economic warfare the measures and the weapons are largely the same and they are employed on a worldwide basis. It is the same firms and individuals to be blacklisted by the allies for trading with the enemy, the same ships to be navicerted or intercepted, as the case may be, and the same commodities to be preempted. By the freest exchange of intelligence consistent with security and by a division of labor to avoid duplication and to conserve manpower, each of the allies can have more complete and valid economic intelligence than would otherwise be possible. The opinion is widely held in the intelligence community that effective cooperation between intelligence agencies of allied nations can best be accomplished on an agency to agency or bilateral basis and on a

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foundation of mutual confidence, similarity of interests and the supplying of quid pro quo. The very nature of an intelligence system, it is said, precludes its participation in an international organization. At the same time it is recognized, as stated above, that the successful waging of economic warfare requires combined, or parallel and coordinated, operations by allies and this requires combined or coordinated intelligence. The arrangements by which appropriate intelligence will be brought to bear on economic warfare policies and operations at the intergovernmental level will necessarily depend on the type of allied organization adopted for waging economic warfare. It is assumed that some structure will be built on the foundation of the Coordinating Committee at Paris extended to a worldwide scope. It remains to be determined if the organization would be a combined one under a single allied command as in military operations or if it will be a coordinating mechanism as at present. If the former, the combined economic warfare organization should have its own small intelligence staff responsible directly to the organization itself. This staff as in the case of military commands, would draw on the resources of the economic intelligence agencies of the member nations. If the allied economic warfare organization is one for coordination only then it is to be expected that the intelligence would be furnished by each nation to its delegation on the Coordinating Committee and its sub-committees, notably the Black List Committee and other operational committees such as Diversion, Transactions, Permits, etc.

In a period of threatening hostilities it is important to make an inventory of document collections and of individuals with special knowledge regarding them and with expertness in specialized fields, who are in areas in danger of invasion by the enemy. Arrangements should be made for the microfilming of many of these records and their storage in other areas less likely to invasion and for the evacuation of the intelligence personnel in the event of invasion. In Germany and Austria, for example, are large reservoirs of intelligence concerning Eastern Europe. In France and Belgium there is a vast amount of information on Africa, some of it in documents, some in the knowledge of individuals, which if lost would be largely irreplaceable. In the Netherlands and the UK are similar resources regarding the Far East.

The experience in allied economic warfare in both world wars has been cited above. Another case history in intergovernmental economic operations, with many applications to the present situation is that of the Middle East Supply Center, which controlled the imports and exports and many aspects of the economy of 17 diverse political entities in the

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25X6 Middle East.

The multilateral approach in the Coordinating Committee at Paris has presented difficulties in view of the divergent national interests and policies with respect to East-West trade. It has resulted too often in a

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course of action based on the lowest common denominator. Intelligence, or the lack of it in the specificity demanded, was frequently made to bear the onus of the failure to secure effective united action. But the results were frequently no different where the intelligence was adequate and even where there was unanimity in its evaluation. A different situation would be expected in wartime, however, with complete interdiction of enemy trade and a concentration on the prevention of violations and evasions. A reconstituted and rededicated "Cocom" might thus serve as the coordinating mechanism for the Allied economic warfare.

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VI. CONCLUSIONS

1. The struggle between the Communists and the free world will probably be a prolonged one, fought with political, psychological, and economic measures, with or without military warfare. In such a continued cold war or in armed conflict, economic measures will play an important role because of (a) the requirements of the Soviet bloc, especially Communist China and the European satellites, for certain strategic imports and (b) the probable existence of important areas of neutrality, which constitute the principal battleground of economic warfare.

2. The experience of two world wars and the cold war to date emphasizes the urgent need of a comprehensive economic warfare plan, coordinated by a single agency of the Government. Our allies in both world wars provided a "cover" operation in economic warfare as in military warfare, while the US was mobilizing. In any future war the responsibility for the initiative will doubtless devolve on the US.

3. An essential part of any economic warfare plan is a provision for adequate intelligence support. This can best be accomplished on a timely and effective basis, by an intelligence component of the agency responsible for the conduct of economic warfare.

4. In order to avoid the long and costly lead time for the establishment of such an organization after the outbreak of war, an Office of Economic Defense Intelligence should be established now for the support

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of economic defense operations in the cold war and as a nucleus for an Office of Economic Warfare Intelligence in the event of war.

5. Under the provisions of the National Security Act such an Office can be established only in CIA or, for departmental purposes, in the agency designated to coordinate economic warfare.

6. The intelligence required in support of economic defense and economic warfare embraces all geographical areas and all major resources. It is inter-related and cannot be produced on a satisfactory basis by an intelligence organization limited to Soviet or non-Soviet areas, or devoted primarily to basic research or to current and operational intelligence. Furthermore, economic warfare requires not only economic intelligence, but military and political intelligence as well. It thus represents the most important area of correlated intelligence of common concern.

7. The Mission of such an office should be the collation and evaluation, for economic defense and economic warfare purposes, of all pertinent intelligence. The office would not engage in collection or in primary research. Its staff need not be large and could be recruited from existing personnel in the intelligence community. Plans should be made, however, for some expansion in the event of war.

TAB

FOOTNOTES

1. Other Definitions:

"The use of diplomatic, economic, financial, and sometimes military means to cut the Axis off from the supplies they needed to fight, and to destroy their economic power throughout the world."
- The Hidden Weapon. Gordon and Dangerfield. N.Y. Harper Brothers 1947.

"All actions other than military taken to weaken, disrupt, or interfere with the ability of an enemy or potential enemy to provide economic support for his national policy. As defined here, economic warfare might be employed during periods of general war, limited war, or cold war." - Economics of National Security. US Military Academy. West Point 1953.

"Economic warfare is defined in this estimate as the use of economic measures to alter the power positions and alignments of opposing nations or groups of nations." - CIA:NIE 10-54. (Secret)

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"A process of conflict in which measures are employed to throttle an enemy's trade, destroy his foreign credit, and/or prevent him from acquiring supplies necessary for the prosecution of warfare. Among the measures used in this connection are export restrictions, foreign

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funds control, blacklisting of nationals of foreign countries, the purchasing of goods to prevent others from getting them and naval blockade." - Dictionary of Modern Economics. NY Public Affairs Press, 1949.

"Economic warfare has many definitions... Generally speaking, economic warfare is the use of diplomatic, economic, and financial power in peace or in war directed toward the weakening of enemy resources, and the strengthening of one's own position... it is non-military in character, except in actual war when blockading and strategic bombing takes it into the field of military operations -- but its objectives are the same as the objectives of military victories. In time of peace, its theater is universal, but particular emphasis is placed on the sources on which the enemy depends, and on the sources from which he would hope to operate his springboards of offense. Examples of economic warfare used by the Allies in World War II were the blockade, export and import controls, preclusive buying, the safe haven program, and the blacklist technique. Examples of economic warfare currently being used by the Western powers are export control on military items against the Soviet and its satellites in East-West trade; the economic aid programs; and technical and capital assistance programs." - Mobilization Planning and the National Security. Wm. Y. Elliott, Public Affairs Bulletin 81. July 1950.

2. For further discussion of military measures in economic warfare, see "Military Measures", page 24.

For example,

3. The captain of the Polish ship Praca, in describing the Soviet shipping situation, has ^{recently} said that if other western nations followed the US lead in denying shipping services and shipyard facilities, Soviet and Satellite shipping would be virtually immobilized.

4. Yuan, Li-Wu. Economic Warfare. NY. Prentice-Hall. 1952.

5. Note of Secretary Lansing to Ambassador Page at London, October 20, 1915.

6. Report of the War Trade Board, 1917-1919. Washington, D.C. GPO 1920. pp 268-9.

7. Economic Defense Administrative Action Program. (EDAC D-46a,

7 Sept 1954; also ED/EC D-2/3, 2 June 1954)

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9. Ritchie, H. The Navicert System During the World War. Washington, D.C., Carnegie Endowment for International Peace. 1938.

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11. The Procurement of Economic Information for Strategic Purposes.
(An analysis of the Experience of the Economic Intelligence Division
of the Board of Economic Warfare, Office of Economic Warfare and
Foreign Economic Administration 1942-1944.) Foreign Economic Admini-
stration. (Secret) p 80.

12. Ibid, p 57.

25X1ARE 13. Report of the War Trade Board, 1917-19.

[REDACTED]

15. Foreign Economic Administration op. cit. p 7.

16. Ibid. p 9.

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[REDACTED]

18. Paruslee, Maurice. Blockade and Sea Power. N. Y. Crowell. 1924
(out of print)

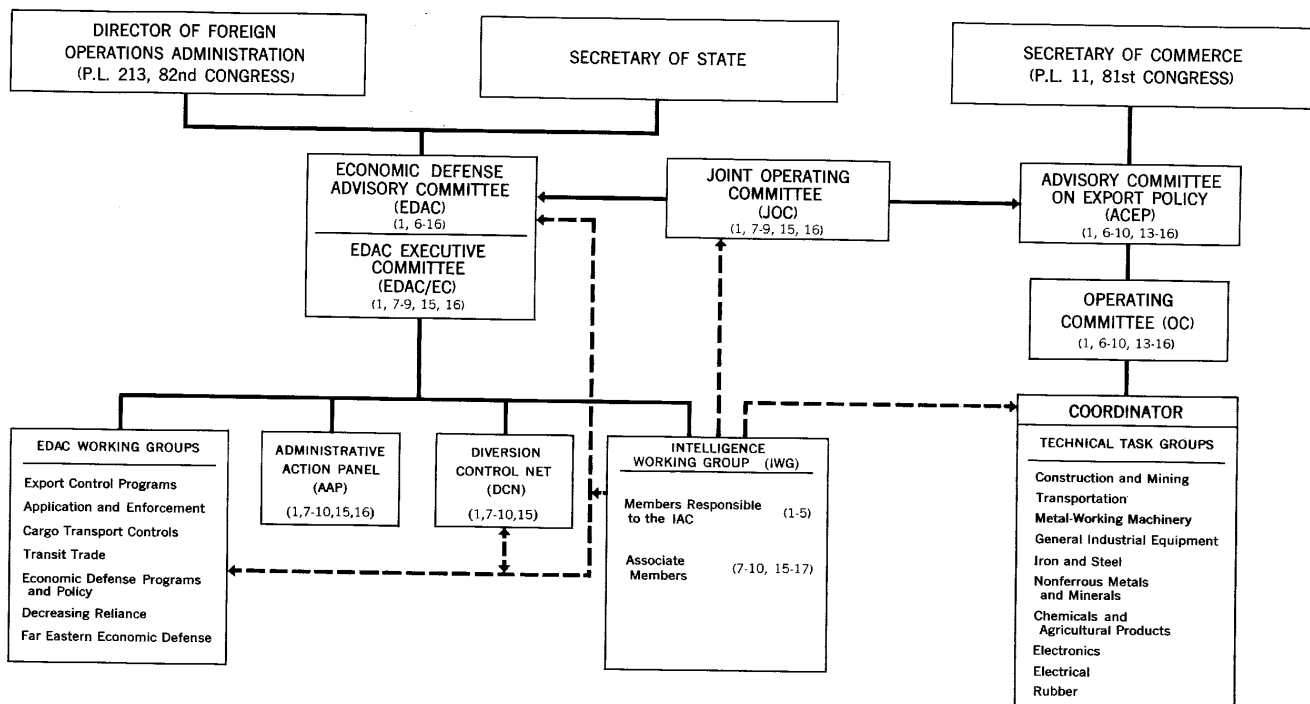
19. Medicott, W. N. The Economic Blockade. London. H. M. Stationary
office.

20. At the time of the preparation of this report, a change in the
name of the Intelligence Working Group to the "Economic Defense
Intelligence Committee" was awaiting approval by the Intelligence
Advisory Committee.

TAB

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INTELLIGENCE SUPPORT FOR ECONOMIC DEFENSE



NOTE: Dashed lines indicate flow of intelligence support from IWG

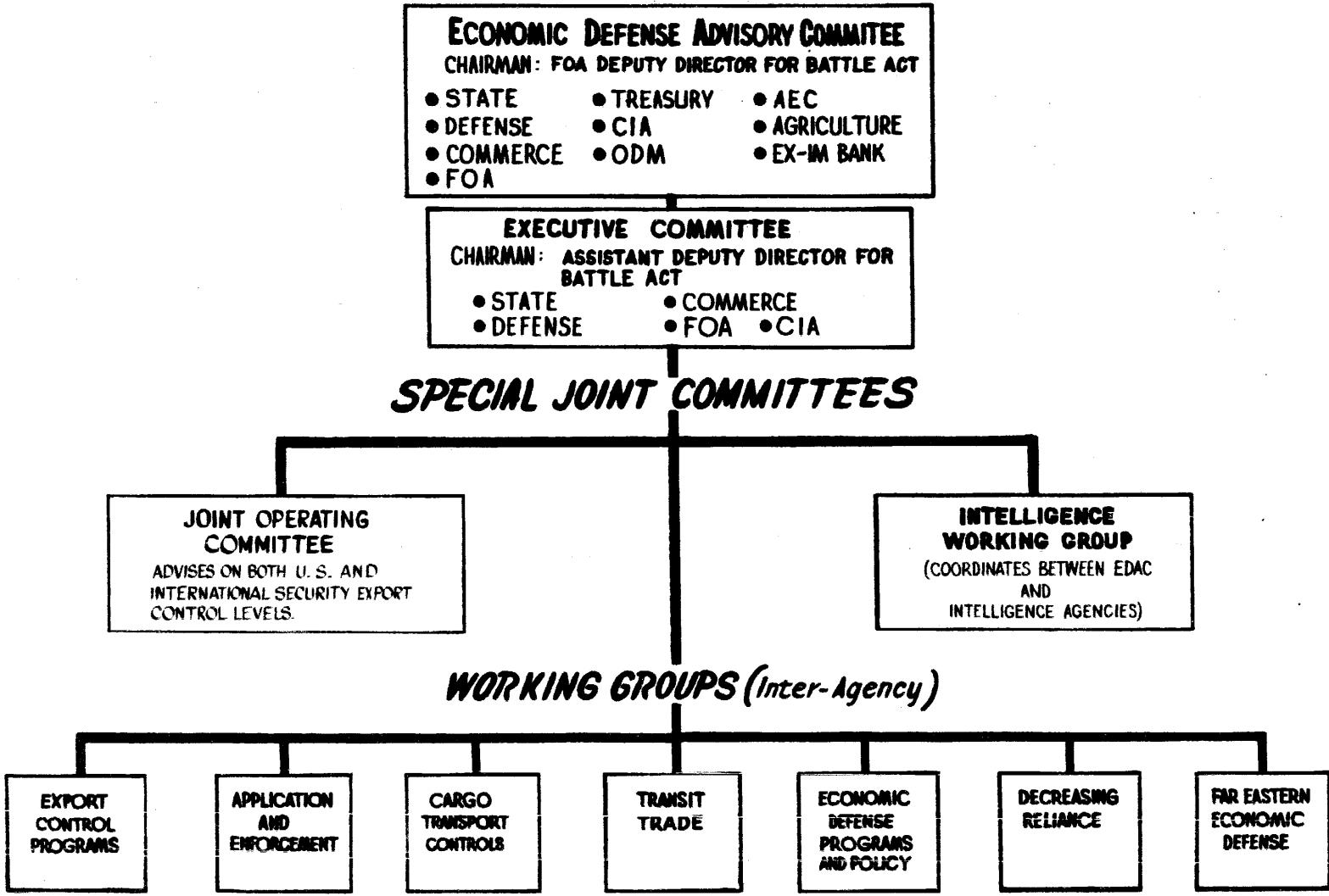
PARTICIPATING AGENCIES
NUMBERS ON CHART INDICATE PARTICIPANTS

- | | | |
|--------------|------------------|-----------------|
| 1. CIA | 7. DEFENSE (OSD) | 13. AGRICULTURE |
| 2. STATE (R) | 8. STATE (E) | 14. INTERIOR |
| 3. G-2 | 9. COMMERCE | 15. MDAC |
| 4. ONI | 10. TREASURY | 16. FOA |
| 5. AFOIN | 11. ODM | 17. STATE (MC) |
| 6. AEC | 12. EX-IM BANK | |

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TAB

EDAC STRUCTURE



TAB

APPENDIX III

A LIST OF REFERENCE MATERIALS RELATING TO ECONOMIC WARFARE,
WITH SPECIAL REFERENCE TO INTELLIGENCE SUPPORT

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2. Army Industrial College. Economic Sanctions: A Project in Economic Warfare. 27 Feb 45. (Seminar No. S36)
3. Bureau of the Budget. Enemy Branch. War Records Section. The Enemy Branch of the Board of Economic Warfare: A Study in the Relationship of Research to Operations. 1944.
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5. ---Foreign Economic Intelligence Requirements Relating to the National Security. CIA 422999. 11 Oct 1950.
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17. Gordon, David L. Techniques in Economic Warfare. Army Industrial College. May 9, 1945. (Seminar 58)
---and Royden Dangerfield. The Hidden Weapon, the Story of Economic Warfare. N.Y. Harper & Bros., 1947.
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19. ---Economic Warfare. Student Officers' Report SR 49-43. 1949.
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