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26 January 1967

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MEMORANDUM FOR THE RECORD


SUBJECT: S-2152, Comments on Cong. James Harvey (Michigan) Letter to the DCI re "Proposed \$60 Million US Export-Import Bank Loan for Machine Tools to be Used in a New Automobile Plant in the Soviet Union"

D/ORR hand-carried the attached Memo for the Record to Mr. John Warner, Legislative Counsel, today.

Re para. 2.a. I told him that this decision came out of the SIG meeting of the same date and that I doubt CIA took a policy position as the Rusk memorandum indicated, although I am not aware of the Director's practice in these matters.

Re para. 2.b. I indicated that we did not yet know the precise equipment involved and that in any case a final decision on the licensing of whatever equipment is ordered would not be made until the license application has been made to Commerce.

Re para. 2.c. in response to John Warner's question, I said that if the United States did not get this contract it would be picked up by a Western European manufacturer.


WILLIAM N. MORELL, JR.
Director
Research and Reports

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CRC, 10/06/2003

MEMORANDUM FOR: Mr. Sherman Abrahamson
Deputy Director, Office
of Export Control
Department of Commerce
(Room 1010)

Sherm:

Attached are our answers to Cong. Harvey's questions in para. 2.b. and 2.c. I would add to our response in 2.c. that if the United States did not get this contract it is likely that it would be picked up by some Western European manufacturer.

Attachment:
2.b. and 2.c.
excerpted from
attached paper.

WILLIAM N. MORELL, JR. D/ORR
1 February 1967 CIA
(DATE)

FORM NO. 101 REPLACES FORM 10-101
1 AUG 54 WHICH MAY BE USED.

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| FROM William N. Morell, Jr. | | NO. B 164264 | |
| AF18 Hq. | | DATE 1 Feb 1967 | |
| TO: Mr. Sherman Abrahamson | | TYPE OF MATERIAL | |
| Room 1010, 1201 E Street, N.W. | | <input checked="" type="checkbox"/> ENVELOPE (S) | |
| Department of Commerce | | <input type="checkbox"/> PACKAGE (S) | |
| LOG DATA | | OTHER | |
| | | DATE AND TIME OF PICK-UP 0815 | |
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25 January 1967

MEMORANDUM FOR THE RECORD:

1. Congressman James Harvey (Michigan) wrote to the DCI on 20 January 1967 regarding "the proposed \$60 million United States Export-Import Bank loan for machine tools to be used in a new automobile plant in the Soviet Union."

2. Congressman Harvey asked for comments on three specific questions. Those questions and ORR comments are as follows:

a. "Do you approve of this proposal?"

Comment: The Agency would presumably not take a position on this question. It should be noted, however, that the Secretary of State, in a memorandum to the President dated 22 June 1966, stated that "the senior levels of the Department of State, DOD, CIA, Commerce, Treasury, and the Export-Import Bank have agreed unanimously that ... the Export-Import Bank should go ahead with the loan" and that the President should "informally notify Congress."

b. "Is there any possibility that the machine tools could be converted in any fashion to help or to produce war material or weapons of any sort?"

Comment: The special purpose tools likely to be exported by the U.S. to equip the FIAT plant in the USSR could not be used directly to make military equipment such as tanks and similar items. The U.S. tools could be converted to the manufacture of minor military items such as jeeps, but only at great cost and with considerable difficulty. It would be much more economical for the USSR to use its own machine tools for producing military equipment. Although some of the automobiles produced in the plant could be allocated to the military for use as staff cars and for similar purposes, the Soviets are able to meet military requirements from their present automobile plants. New technology would be embodied in the U.S. exports, but the Soviets could acquire this technology almost as easily by purchasing machine tools from European licensees of U.S. manufacturers and by utilizing readily available technical data.

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25 JAN 1967

c. "If the United States does not participate in this transaction, is it likely other sources of financial assistance can be utilized?"

Comment: It should be noted, first, that Congressman Harvey refers to a proposed \$60 million loan. All previous references have been to a loan of "up to \$50 million," the expression used by the Secretary of State in his memorandum to the President of 22 June 1966. It is unlikely that any European or other lending institution would loan money to the Italians for the purpose of buying machine tools in the United States. FIAT and IMI (Istituto Mobiliare Italiano) almost certainly could arrange financing in Western Europe to purchase the machine tools in other European countries. Even in the absence of a loan from the Export-Import Bank, FIAT probably would order about \$20 million of equipment in the United States, which would represent highly specialized machine tools that Italy cannot design and manufacture economically. (FIAT itself uses U.S. machine tools in its Italian plants.) However, FIAT would be able to purchase even these tools in other European countries and might decide to do so if the U.S. loan is not forthcoming. With the Export-Import Bank loan, the orders placed in the U.S. would probably approach \$50 million, and if U.S. manufacturers could promise early delivery, the total might exceed \$50 million.



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WILLIAM E. MORELL, JR.
Director
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Congress of the United States
House of Representatives
Washington, D.C. 20515

January 20, 1967

Honorable Richard Helms
Director
Central Intelligence Agency
Washington, D. C. 20505

Dear Mr. Helms:

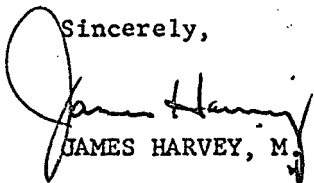
I am taking the liberty of writing to you for an official response on the proposed \$60 million United States Export-Import Bank loan for machine tools to be used in a new automobile plant in the Soviet Union.

As one of the four Members of Congress who recently visited Italy and a number of communist European countries, I believe I have all the necessary general details on this proposal. However, at this time I would greatly appreciate your comments on the following questions:

1. Do you approve of this proposal?
2. Is there any possibility that the machine tools could be converted in any fashion to help or to produce war material or weapons of any sort?
3. If the United States does not participate in this transaction, is it likely other sources of financial assistance can be utilized?

Thank you for your interest and cooperation in this matter. With kindest regards,

Sincerely,


JAMES HARVEY, M. C.

JH:rgs

23 JAN 1967

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OFFICIAL ROUTING SLIP**

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Remarks:

S-2152 Reply to Congressman Harvey.

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DATE

25 Jan 67

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| TO | NAME AND ADDRESS | DATE | INITIALS |
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| 1 | Mr. William Morell | | |
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Remarks:

Will you please call me [redacted]
[redacted] as soon as you have had a chance to
look this over.

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[redacted]

John S. Warner
R

Warner would like a MR that he
can use for oral briefing of Congressmen
Harvey. Does not intend to reply in writing.

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| FROM: NAME, ADDRESS AND PHONE NO. | DATE |
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| Legislative Counsel 7 D 01 | 23 Jan 67 |