UNITED STATES DEPARTMENT OF COMMERCE
The Under Secretary for International Trade
Washington, D.C. 20230

MEMORANDUM FOR: Dr. Norman Bailey
Director of Planning
National Security Council

FROM: Raymond J. Waldmann
Acting Under Secretary
for International Trade

SUBJECT: Economic Costs of U.S.S.R. Sanctions

You requested an estimate of the economic cost to the U.S. Government and economy of possible sanctions taken with respect to the U.S.S.R. as a result of the events in Poland. The following presents Commerce's analysis of economic costs; also included are comments on effects on the U.S.S.R. The estimated costs are yearly costs with no accounting for inflation, interest lost, etc. The costs reflect lost sales (exports) by U.S. Industry without taking into account downstream effects.

1. Expulsion of Soviet Commercial Officers in the U.S. and Recalling U.S. Commercial Officers in Moscow.

The direct cost to the U.S. Government is small. Retaliation against 28 U.S. company offices in Moscow--if offices closed down, loss of perhaps $10-15 million investment, and some administrative costs, plus loss off future business generated by offices. The indirect costs to the U.S. Government are difficult to estimate. The major indirect cost is tax revenues on export sales.

The cost to the U.S. economy is equally difficult to estimate. The commercial offices do generate trade but estimates vary from 1% to 10% of U.S./U.S.S.R. two way trade.

2. Halt Exporting of Oil and Gas Equipment.

The cost to the U.S. Government of halting the export of oil and gas equipment and technology is small (tax revenues on sales).

The cost to the U.S. economy would be approximately $210 million per year. In 1981 we approved approximately $90 million with $120 million still pending. The pending figure includes the Caterpillar license for 200 pipelayers. Another $80 million worth of oil and gas technology cases were denied in 1981 for the USSR. This $80 million is not included in the $210 million since it is unlikely that we would approve technology in the near future.

The effect of halting shipments to the U.S.S.R. will have a significant short term impact. The U.S. sells the best equipment, which the Soviets prefer. For certain applications--corrosive and high pressure environment--the U.S. has unique capabilities. The Soviets will have some problems to compensate for the losses. Most of the equipment can be purchased outside the U.S. (pipelayers, larger diameter pipe, pumps, etc.).

3. Rescinding International Harvester License.

Cancellation of the IH license will cost $300 million over a five year period. It will result in a loss of about 300 jobs and affect the financial standing of IH. The technology is available from Klaus in West Germany. Little cost to U.S. Government.

4. Impose Embargo on All High Technology.

Embargo of all high technology will cost the U.S economy approximately $80 million in 1982. We approve approximately $200 million per year in validated licenses but only $100 million is classified as "high technology." The rest is oil and gas equipment.

The Soviet Union will be affected by this move, especially if supported by our Allies. A multi-lateral embargo would slow down their economy. Most of the equipment can be acquired from non-U.S. sources; multi-lateral cooperation is imperative.

5. Total Embargo of Exports and Imports (1982).

Cost to U.S. Government approximately $1 billion to $4 billion because of price supports for agricultural programs.

Cost to U.S. economy is projected at $3.7 billion in export sales plus $1 billion to $2 billion in governmental outlays.

Exports are divided into $2.5 billion in agricultural commodities and $1.2 billion in non-agricultural commodities.

The import embargo costs are difficult to estimate since this could result in liabilities due to broken contracts. The U.S. imports approximately $450 million from the U.S.S.R., mostly in raw materials. Firms requiring these commodities must find alternate suppliers, especially in strategic minerals.

The top ten U.S. imports from the USSR are:

1980

Commodity	Value (Millions)
Ammonia	95
Gold Bullion	86
Palladium	55
Uranium flourides	35
Nickel	35
Metal coins	18
Palladium bars	12
Naphtha	10
Uranium compounds	9
Platinum bars	7
	453

Our dependency on the U.S.S.R. for the critical minerals whether among top 10 or not was in 1980:

Chromite	28%
Graphite	6%
Nickel	3%
Platinum	1%
Palladium	26%
Titanium	11%

The highest dependency is in chromite, palladium and titanium sponge. U.S. suppliers would have to seek supplies from South Africa, the Phillipines (chromite) to make up for the disruptions at premium prices. The disruptions would affect catalytic converters for cars and specialty steel production, but supplies can be compensated from within 3 to 9 months. The other dependencies are small and can be compensated from within 3 months.