

**EXECUTIVE SECRETARIAT**  
**ROUTING SLIP**

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Remarks

*1/18/84*  
Date

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THE SECRETARY OF THE TREASURY  
WASHINGTON 20220

Executive Registry  
84- 313

January 18, 1984

MEMORANDUM FOR THE VICE PRESIDENT  
THE SECRETARY OF STATE  
THE SECRETARY OF DEFENSE  
THE SECRETARY OF AGRICULTURE  
THE SECRETARY OF COMMERCE  
DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET  
✓ DIRECTOR OF CENTRAL INTELLIGENCE  
UNITED STATES TRADE REPRESENTATIVE  
ASSISTANT TO THE PRESIDENT FOR NATIONAL SECURITY AFFAIRS  
ASSISTANT TO THE PRESIDENT & DEPUTY TO THE CHIEF  
OF STAFF  
ASSISTANT TO THE PRESIDENT FOR CABINET AFFAIRS  
CHAIRMAN, COUNCIL OF ECONOMIC ADVISORS  
ASSISTANT TO THE PRESIDENT FOR POLICY DEVELOPMENT

SUBJECT Senior Interdepartmental Group on  
International Economic Policy (SIG-IEP)

A meeting of the SIG-IEP is scheduled to be held on  
Thursday, January 19, at 3:00 p.m., in the Roosevelt Room.  
The agenda is as follows:

1. Export Administration Act
  - a. Status of Act
  - b. Outstanding Commerce/DOE Differences
  - c. Report on Resolution of Commerce/Treasury Issues.
2. International Debt Update.

*deleted per ES, Treasury 1440 hrs 1/18/84 JRC*

An options paper on agenda item 1(b) is attached. The paper was prepared by an interagency staff group chaired by OMB and circulated for policy-level clearance. Agenda item 2 will be an oral report.

Attendance will be principal, plus one.

*DRP*  
Donald T. Regan

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ER

Attachment

*1/19/84-Meeting cancelled.*



*B-220C*

EXPANDED DEFENSE REVIEW (Sec. 10(g))

Issue

Should the Department of Defense' (DOD) review of national security export licenses be expanded to include exports to non-Communist destinations where there may be risk of diversion?

Background

Under Section 10(g) of the current Export Administration Act (EAA), DOD has the right to review any proposed export of any national security goods or technology to any country to which exports are controlled for national security purposes. In general, only license applications for Warsaw Pact countries and the Peoples Republic of China have been referred to DOD. However, the EAA does not prohibit DOD review of any license application which may be referred from Commerce. The question of expanding DOD review to include shipments to non-Communist destinations results from concerns that tightened controls over direct exports to Communist countries has increased the incentive to divert to Communist countries shipments intended for friendly destinations.

When the Administration's position on renewal of the EAA was prepared last spring, it was agreed that the Administration would oppose legislative change and that DOD and the Department of Commerce (DOC) would seek to resolve this issue administratively. The two departments appeared to be close to signing a Memorandum of Understanding (MOU) last June that would allow expanded DOD review of particularly sensitive categories of exports to certain free-world destinations. However, agreement was not reached on whether DOD should review requests for multiple shipment licenses. These bulk licenses enable shipments of a broad range of authorized commodities to approved consignees (of whom there are 22,000). This license category facilitates trade to COCOM and other friendly countries.

Legislative Status

Senate Bill (S. 979) -- Expands DOD clear right to review to include proposed exports of militarily critical goods or technology to free world destinations where the Secretary of Defense, in consultation with the Secretary of Commerce, determines that there is a clear risk that those exports may be diverted to proscribed destinations. This bill has been reported out by committee and is awaiting floor action.

House Bill (H.R. 3231) -- Makes no change to current law. The bill has been passed by the full House.

## Options

1. As agreed in the draft MOU, expand DOD's review to include individual license applications to export specific commodities to selected free-world countries which Defense and Commerce determine pose a high risk of diversion. DOD would not review multiple license applications. Commerce would undertake its own annual review and report to the ACEP.

### Pros:

- o Could increase capacity to prevent diversions.
- o Would likely preempt legislatively imposed solution.

### Cons:

- o Would cause some increased burden on licensing system due to DOD's expanded review from approximately 5,000 cases to 11,000 cases (out of a universe of 90,000 licenses issued annually).
  - o Could cause delays for U.S. exporters (although most acceptable option to business interests).
2. In addition to the increased DOD role provided in Option 1, create an interagency process for reviewing the multiple license process and recommending any changes necessary to minimize diversion. The interagency Advisory Committee on Export Policy (ACEP), chaired by Commerce, could create a Standing Subcommittee on Multiple Licenses, comprised of representatives of Commerce, Defense and State, to:
    - o Conduct an annual audit of the multiple license program, and
    - o Report to the ACEP its findings and recommendations concerning necessary steps to minimize the risk of diversion through the multiple license program.

This Subcommittee's annual review would examine: 1) criteria for evaluating applications for multiple licenses, 2) coverage of commodities eligible for multiple licenses, 3) the adequacy of information in the licensing base, and 4) ways to insure that this information is disseminated to appropriate agencies for investigative purposes. This Subcommittee could also be charged with developing appropriate exemptions to multiple licenses to prevent licensing to countries or importers where there is a reasonable suspicion of diversion.

Pros:

- o Would be more likely than Option 1 to preempt congressional attempts to resolve the issue of multiple licenses.
- o A permanent arrangement could facilitate interagency cooperation and coordination on these issues.

Cons:

- o Because changes to the multiple licensing system would not be immediate, this option is less likely than option 3 to satisfy congressional supporters of a tighter licensing system.
  - o Commerce objects to an interagency review of one of its programs, since it has offered in Option 1 to undertake its own annual review and to report to the ACEP.
3. In addition to increased DOD role provided in Option 1, allow DOD review of selected multiple license applications. This would provide DOD with discretion to review multiple license applications for exports of goods and militarily critical commodities to free world destinations. Under this option, DOD would have authority to review multiple shipment licenses.

Of all options:

Pros:

- o Most likely to preempt legislatively imposed remedy.
- o Could provide greatest assurance that diversion is minimized.

Of all options:

Cons:

- o Would likely further increase burden on licensing system.
- o Would be most strongly opposed by U.S. exporters.