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The Director of Central Intelligence

Washington, D.C. 20505

Executive Registry

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*Memo  
Chrono*

14 May 1984

The Honorable R. T. McNamar  
Deputy Secretary of the Treasury  
Washington, D. C. 20220

Dear Tim,

I talked to Don on the phone on Friday on this  
and I understand it was taken up with you today  
through

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Yours,

*Bill*

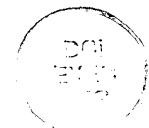
William J. Casey

Enclosure

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The Director of Central Intelligence

Washington, D. C. 20505

14 May 1984

The Honorable Donald T. Regan  
Secretary of the Treasury  
Washington, D. C. 20220

Dear Don,

After our telephone conversation on Friday, I asked to see the evidence on the production and export of goods manufactured by convict, forced or indentured labor in the Soviet Union. As I suspected, the evidence is fragmentary and not very specific.

Also, on reflection I don't see that it does more than defer potential embarrassment from inadequate evidence for Treasury and Customs to prohibit importation and then to leave it up to the importers to certify that the item was not produced through the use of forced labor. I am also impressed by the State Department argument that to take this step now would be seen as a skimpy reaction to the Soviet Olympic decision.

I send along for your information two memoranda outlining the potential impact of this step on the CIA and the rest of the government. According to the State Department memorandum, the issuance of a preliminary finding would be based on a memorandum of 7 November 1983, sent by [redacted] National Intelligence Officer for Economics at CIA, to the Commissioner of Customs. That memorandum states that the evidence is too sketchy to permit calculation of what proportion of total Soviet production of the items listed is provided by forced laborers. It goes on to say that only 3 percent of the total Soviet labor is forced, so that it appears that only in rare instances does production by forced labor comprise a large share of total output of any given product. Also, 93 percent of the entries in the list refer to production before 1981, 5 percent do not give a date, and only 2 percent refer to production after 1980.

I don't want CIA to come under pressure to prove something with sketchy evidence or disclose our information sources, and I urge that all the implications of this step be carefully considered before moving on it.

Yours,



William J. Casey

Enclosures

P.S. I tried to get you on the phone today on this but couldn't reach you, so I asked Tim McNamar to add these further concerns since we talked on Friday.

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SECRET/SENSITIVEBACKGROUND:

The President has set the decision deadline for moving ahead with the ban on products allegedly made with Soviet forced labor for Tuesday, May 15. The NSC staff's decision memorandum for the President was sent to Bud McFarlane yesterday supporting our position on both substance and timing, and with our points attached. Agriculture, USTR, and Commerce are all sending memoranda to the President supporting our position. We expect Senators Dole and Percy to weigh in, hopefully with the President. Since Treasury is basing its case in large part on information provided by CIA and State, which both agencies have stated in writing is not sufficiently specific, you may wish to enlist Bill Casey's support .

TALKING POINTS:

--We are about to have an unwarranted dust-up on the forced labor question. Treasury will proceed with the ban next Tuesday unless we can stop them.

--CIA will be directly involved; Treasury is contending that a CIA memo of November 7, 1983, justifies the ban on five products.

--That study, however, states: "we have very little direct evidence that prison-made goods are exported." Further, it says the evidence is "too sketchy" to calculate the percentage of total Soviet production of the items to be banned provided by forced labor. And the memo cites only two reports that refer to goods produced in camps for export (and those not specifically to the US); both date from before 1976.

--If the ban is approved, CIA evidence will be subjected to great public scrutiny after the fact. You will be in the public dock to provide concrete proof to support the ban. This case may even go to court.

--In order to avoid this, you may wish to inform the President that, in your judgment, the evidence provided to Treasury by CIA does not justify this step.

--We think the best approach is to wait until the ongoing ITC investigation of forced labor practices worldwide is completed at the end of this year.

--The forced labor ban, even if not announced until May 15, would be seen as a reaction to the Soviet Olympic decision. This would undercut our efforts to take the high road with the Soviets on this issue. It could remove some of the onus from them for not responding positively to the President's proposals for a constructive dialogue.

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BAN ON SOVIET IMPORTS

-- The forced labor ban, even if not announced until May 15, would be seen as a sanction in reaction to the Soviet Olympic decision. This would undercut our efforts to take the high road with the Soviets on this issue. It could remove some of the onus from them for not responding positively to the President's proposals, building on our demonstrated strength and realism, for a constructive dialogue. While protecting our interests, we must be careful not to play into the Soviet strategy of trying to raise tension as we move into the elections.

-- The President would be made to look feckless with this "sanction" since imports of only five types of goods would be banned with no significant economic impact on the USSR.

-- The Administration has been forthright and realistic about Soviet forced labor practices in its statements and reports to Congress, and this is an integral part of our overall policy approach to the Soviets. We will call a spade a spade, and the Soviets will have to get used to it.

-- However, what we have before us is not a spade. While we know a good deal about the overall picture, we don't know which specific products made by forced labor are exported.

-- The law can be enforced only if we have specific evidence. Such evidence is clearly lacking. CIA has only two reports that refer to goods produced in camps for export (and those not specifically to the U.S.) and both date from before 1976.

-- Moreover, Treasury's internal guidelines do not reveal which standard of evidence it applied, making it impossible to ensure consistent enforcement of this statute, and opening ourselves to court challenges we could lose.

-- Banning these few items will have no measurable economic impact on the Soviets, but the expected Soviet retaliation could well involve the new grain agreement, which would be very damaging to U.S. economic interests and to the President. The

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Soviets have already warned us that such a ban "could not help but influence the atmosphere for Soviet grain purchase decisions."

-- Farmers are already deeply concerned about agricultural surpluses and export competition. Fears of the loss of the Soviet grain market, which the Soviets can easily stoke, will mean severe political damage to the President in the Farm Belt.

-- Unlike our ban on imports of Soviet nickel, we would have no basis to negotiate away a forced labor-related import ban; even a limited prohibition will be viewed as a serious discriminatory act by the Soviets.

-- Our soundings indicate that Congressional support for such a ban is very thin. And we are picking up growing Congressional and farmer concern over the potential consequences of such a ban for grain exports.

-- Partly for that reason, Senator Dole and the Senate Finance Committee requested the International Trade Commission to investigate forced labor practices worldwide. They are holding public hearings in July and their report is due by the end of this year. It would be inappropriate to act against the USSR when other trade partners (the PRC and a number of our own allies) may be using similar practices.

-- No action should be taken by Treasury on the Soviet forced labor issue until the ITC investigation has been completed. Treasury could cite the ITC study as the reason for the delay. This would be consistent with the views of Senator Dole who, in a letter to Secretary Regan on March 2, 1984, pointed to the need for a consistent and comprehensive official position on this issue, and stated his preference that a final decision on the Soviet issue be deferred until the ITC report is available.

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