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The role of intelligence in the U.S. and multilateral trade control programs.

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The desirability of autarky, economic self-sufficiency, is a recurrent theme in the literature on the theory of Communism. That it continues to be a cherished goal of the Communist countries might seem questionable because the Bloc has increased rather than decreased its imports from outside. A closer look at the trade information, however, reveals that much of the increased importation is of high-quality, latest-design machinery and equipment. Such imports are consonant with autarky because they bring savings in costly research and development effort. These savings, invested in the domestic manufacture of such equipment, accelerate Bloc economic growth and so hasten the day when even this kind of import is both unnecessary and disadvantageous.

The Soviet program of quick-step economic growth and its methods have received widespread attention, but not so well publicized are the measures taken by the Western world in general and the United States in particular to prevent the Bloc from acquiring military equipment of advanced design and related industrial technology. The industrialized countries of the West have joined together in a multilateral, cooperative trade control program for this purpose; and unilaterally, the United States has adopted a program with much more stringent controls over

the export of U.S. goods and technical data.

To illustrate how these programs operate we shall examine two recent cases. Within the past year the USSR ordered from the Japan Electron Optics Laboratory, a Tokyo firm, two electron-beam machiners valued at US\$127,000 and from the Finley-Moody Trading Corporation, an Illinois manufacturer of farm equipment, two forage harvesters and eight self-unloading farm wagons worth about US\$55,000. Because electron-beam machiners at the present time are used almost exclusively in fields related to advanced military technology-nuclear energy, missile and jet engines, microelectronics-the United States, operating through the multilateral trade control program, was influential in preventing the shipment of the Japanese equipment to the USSR. The export of the U.S.-produced farm machinery, on the other hand, was approved after the White House decided that our political and economic gain from the sale would exceed any technological loss.

The Trade Control Programs

Although the United States had controlled exports to some degree for a number of years, the security aspect of its program was not embodied in any peacetime legislation until the Export Control Act of 1949. This act, seeking to provide for "the necessary vigilance over exports from the standpoint of their significance to national security," conferred on the President very broad powers to restrict and control them. These powers have from the beginning been delegated to the Secretary of Commerce.

Even before the act was passed, restrictions on exports of strategic goods from the United States to the Communist countries had become increasingly effective. The Bloc therefore made greater efforts to get such exports by transshipment from third countries, and sometimes achieved amazing results. For example copper, which was in critically short supply in the Soviet Bloc, was also in short supply in the West; and the United States, dominating the world copper market, had a unilateral embargo on its export to the Bloc. The Bloc nevertheless succeeded in obtaining U.S. copper from Italy, a major recipient of Marshall Plan aid, showing the ineffectiveness of unilateral controls. Moreover, Italy accepted grain from the USSR in exchange for the copper when there

was a surplus of grain in the United States. This and other anomalies in the trade of West European countries brought the realization that multilateral controls were necessary.

In mid-1949 multilateral discussions were held on the subject, and in November a secret, informal, voluntary Consultative Group was organized in Paris to formulate policy and guidelines for selecting materials to be embargoed multilaterally from the Bloc. All NATO countries (except Iceland) joined the organization, and a Coordinating Committee, COCOM, was established to carry out day-to-day and item-by-item deliberations.

The Communist conquest of the Chinese mainland in 1949 and the outbreak of the Korean War in June 1950 opened a new phase in the controls program which culminated in the passage of the Mutual Defense Assistance Control Act of 1951. This, commonly called the Battle Act, provides in effect for an embargo on the shipment of arms and other materials of primary strategic significance to the USSR and nations under its domination. An item is considered to be of primary strategic significance if more than a minimal quantity would contribute to Soviet war potential. The act also calls for termination of all U.S. aid to countries that knowingly ship embargoed materials to the Bloc except in "unusual circumstances" when "the cessation of aid would clearly be detrimental to the security of the United States." Of the few actual shipments of embargoed goods made to Bloc destinations by COCOM countries, none have been considered important enough to require this retaliation.

Not long after the passage of the Battle Act, the U.S. effort to reduce the trade of other non-Communist countries with Communist China led to the formation of a separate China Committee under the Consultative Group. CHINCOM controls were much broader than those imposed on the Soviet Bloc through COCOM: in addition to military articles and related strategic material they covered most types of capital goods such as industrial machinery and equipment, steel mill products, and non-fabricated metals. The embargo was also broadened through the inclusion of more countries in COCOM and CHINCOM--Japan at the time of the Korean War, Greece and Turkey in 1953--and strengthened by pledges of cooperation from important neutral countries, notably Sweden and Switzerland.

The West European countries, however, although they cooperated with

the United States by embargoing the export of strategic goods to China, continued even during the Korean War to ship such material as textiles, textile machinery, fertilizer, dyes, and drugs. The end of that war, together with the emergence of a new regime in the USSR and a recession in the United States that might bring a decline in U.S. purchases of European goods, increased the pressure from these countries and Japan for a "substantial relaxation of regulations" limiting trade with the Bloc. In several re-examinations of the lists of embargoed goods the special differential controls for Communist China and North Korea were abandoned, COCOM and CHINCOM became the same committee wearing two hats, and the number of items on the COCOM list was reduced to about one-third of what it had been. The new lists focused more sharply on items embodying advanced technology or unique materials whose denial would have a relatively direct impact on Bloc military programs.

COCOM is an informal and almost amorphous organization, having no direct relationship to any of the multilateral military or economic organizations in Europe such as NATO, OECD, and GATT. It has no charter and is based on no treaty. Its agreements, accordingly, represent moral obligations rather than legal commitments. But it does fulfill its major purpose, to preserve a common policy on strategic trade controls, and thus assures the participating governments that they are according generally equal treatment to their respective business communities. The one exception in this respect is the United States, which does not limit its controls to those agreed in COCOM and approaches more inclusively the complex and vexing question of what constitutes strategic goods.

The United States does not consider the multilateral system of export controls adequate. Since 1950 it has maintained unilaterally an embargo on practically all goods to Communist China, imposing both financial and shipping controls, and has since extended them to North Vietnam. Even towards the European Satellites and the USSR, the U.S. policy is to embargo more items than any other member of COCOM. And the U.S. embargo consistently cuts deeper than the COCOM list into the field of general industrial goods.

U.S. policy thus contains a strange dichotomy, emphasizing on the one hand the necessity for continuing the rather liberal multilateral program--for the effectiveness of any limitation imposed on exports is dependent on support from other countries capable of supplying similar goods--and on the other the maintenance of the more stringent unilateral program.

This ambivalence has been a continuing source of difficulty in the executive branch, especially between the Department of State, which has primary responsibility for administering the multilateral program, and the Department of Commerce with its Export Control Act responsibilities. Both departments agree that the severer program should apply only when a unilateral U.S. embargo is likely to have a recognizable impact on Bloc capabilities. But determining when to deny and when to approve sometimes generates troublesome problems of judgment and evaluation, and these problems are carried over into COCOM when other countries are affected by U.S. unilateral actions.

Some U.S. exporters, and perhaps others as well, are distressed by what seems the use of a double standard. Traders in some COCOM countries are permitted to sell some goods that U.S. traders are prohibited from selling to countries of the Communist Bloc. Moreover, the standard for U.S. exporters appears to vary from time to time: the same or a similar commodity that has been approved for export to the Communist Bloc at one time may be denied at another, depending on how the request is presented and what conditions are estimated to prevail then in the Bloc. A classic example was an application of the Bryant Manufacturing Company to ship high-speed grinders used in the manufacture of ball bearings to the USSR. Deliberations on this case began in 1960, and successive decisions at intermediate levels in the U.S. government oscillated between approval and denial for two years before a final decision to deny was reached.

The Role of Intelligence: EDAC

Within the United States the machinery for coordinating activities concerned with the multilateral program is the Economic Defense Advisory Committee. The Chairman of EDAC is the Battle Act Administrator, who also is the Assistant Secretary of State for Economic Affairs. Other member agencies are Defense, Commerce, Agriculture, Treasury, AEC, AID, and CIA. The Office of Emergency Planning has observer status. Representation on EDAC is at the assistant secretary level, and the full committee is called into session only when important policy recommendations must be made. Otherwise EDAC's advisory function is carried out by its Executive Committee, a smaller group at a

lower level of representation. Two working groups concern themselves respectively with control policies and with problems of application and enforcement.

With respect to the U.S. unilateral program a similar structure, the Advisory Committee on Export Policy, assists the Secretary of Commerce. ACEP, chaired by the Assistant Secretary of Commerce for Domestic and International Business, includes all members of EDAC except AID, plus FAA, Interior, and NASA. As in EDAC, routine matters are handled for ACEP by a lower-level group, the Operating Committee. CIA is represented at every level in both the EDAC and ACEP structures by personnel of its Office of Research and Reports, and these representatives draw on the resources of the whole intelligence community.

The headquarters of the multilateral program has remained in Paris since its inception. There a resident delegation representing the United States on the Consultative Group and COCOM works with the foreign policy delegates of the other member countries. When the State Department in Washington is apprised by its Paris representatives of problems relating to the program, it convenes the appropriate EDAC committee to study them and render its advice, which is generally influential in determining the instructions to be sent to Paris. CIA representation on the EDAC groups guarantees that each case is reviewed by economic intelligence analysts in the specialty concerned, and their responses frequently play a pivotal role in the formulation of the instructions.

They did so in the case of the Soviet order for Japanese electron-beam machiners. For many years COCOM members have agreed that advanced equipment used in the production of war material should be embargoed, and the advertising brochure on these machines emphasized their use in nuclear energy and microelectronic applications; but the COCOM program provides for exceptions, if no member objects, to this embargo. Here the Japanese had applied to COCOM for an exception on the grounds that, since the USSR already manufactured similar machines and hence was abreast of the technology involved, no strategic risk was involved in selling it the two Japanese models. If no COCOM member had objected, Japan would have been free to go ahead without risking the termination of U.S. aid for violation of the Battle Act.

The United States could, of course, object to any and all exceptions to the list of embargoed items, since the list itself is limited to items agreed to be of strategic significance. But such systematic objection could conceivably jeopardize the whole COCOM arrangement; it would give substance to a suspicion that the entire program is designed mainly to achieve U.S. political objectives. Therefore the policy has been to steer a middle course, scrutinizing each exceptions request carefully in order to stop shipments that would be of really significant benefit to the Bloc military program. Which these are is in nearly all cases determined in EDAC Working Group I after analysis and discussion in committee sessions.

When the Japanese request for exception of the electron-beam machiners was discussed at an EDAC Working Group I meeting, intelligence information was produced to show that research and development work on such devices in the USSR was still in a primitive stage and that the Soviets had mounted, before turning successfully to Japan, a multipronged effort in the United States, the UK, and probably in France and Germany as well to acquire technology and equipment in this field. In their exceptions request the Japanese had alluded to broad industrial applications for these devices but neglected to mention that such applications are only potential, that at present the machiners are used exclusively in strategic applications. In view of this fact, together with the intelligence finding that Soviet electron-beam technology is still in its infancy, as opposed to the Japanese contention that it is on a par with that in the United States, EDAC recommended denial, and the delegation in Paris was instructed to interpose an objection. The Japanese government accordingly refused to license the export of the equipment, and the USSR continues to lag behind in this important field.

Intelligence, broadly speaking, is central to the operations of EDAC Working Group II, the enforcement group. Its most active members are the departments of Treasury, State, Commerce, and Defense. Each of these in one way or another participates in checking on export activities. Treasury's Bureau of Customs, for example, examines all export declarations and permits, and when necessary its agents physically inspect articles to be exported. Foreign Service officers ascertain the reliability of certain consignees before an export license is granted, and they determine whether licensed goods were received and used in accordance with the license issued.

During these investigations much information on the export activities of

many firms is acquired. Sometimes sufficient evidence of illegal exports is uncovered to support judicial or quasi-judicial action, which may lead to criminal proceedings against the offending firm or individual. In other cases, when the evidence is not conclusive enough to support litigation, it is forwarded to EDAC Working Group II for possible administrative action. If the Working Group agrees that a company or individual has violated the security trade control laws, appropriate agencies are authorized to take administrative action, the withholding of various government privileges and facilities which generally serves to curtail significantly the business opportunities of an exporter.

The investigations are aided by certain information available to CIA which must be screened and sanitized before being passed to the enforcement agencies. Frequently this information is the first indication that a particular firm or individual may be conducting illegal export activities. Occasionally it contains hard evidence that a violation of the laws has occurred.

The COCOM list of embargoed items is periodically reexamined in Paris in order to add new items embodying the latest technology and remove those no longer considered strategic under the agreed criteria. Before each such international review, CIA economic analysts prepare an intelligence statement on each item on the list, giving the latest information on the situation in each Communist country with respect to that item--actual and planned production, trade, requirements, use pattern, technology, costs. Each statement concludes with an assessment of the adequacy of the Bloc's supply for strategic and non-strategic needs. These analyses are indispensable to the EDAC members responsible for recommending changes in the embargo list and ultimately U.S. policy in the multilateral program.

Intelligence in ACEP

Under the unilateral U.S. program, the Department of Commerce has developed an extensive system for licensing exports, both of commodities and of technical data, and all commercial exports except to Canada are prohibited unless the Department has established a "general license" covering them or has issued a "validated license" for

particular shipments. The bulk (85 to 90 percent) of U.S. exports move to friendly countries under general licenses. A General License Subgroup A lists a small number of items that can be exported to the Soviet Bloc without special application.

A detailed application must be submitted for a validated license to ship any other exports to the Soviet Bloc (except Poland) or to export to any country except Canada about a thousand items carried on a "Positive List." Most of the latter are considered strategic or critical in some way to the Bloc's military-industrial mobilization base. The remainder are items in short supply whose export would contribute to inflationary pressures in the United States.

Now the goods that the Bloc has shown the greatest interest in buying are not on either the GLSA or the Positive List. In deciding whether to issue licenses for them the Secretary of Commerce must determine in each case--usually after interagency review in the ACEP structure--whether the item falls under the control criteria of the Export Control Act of 1949, and particularly under its criterion, as amended in 1962, of whether the "export makes a significant contribution to the military or *economic* potential of such nation or nations which would prove detrimental to the national security and *welfare* of the United States."

The workings of the ACEP and its Operating Committee and the part played by intelligence can be most easily illustrated by the case of the harvesters. In October 1962 the Finley-Moody Trading Corporation applied for a license to export two self-propelled forage harvesters to the USSR. Although harvesters are not considered strategic and therefore are not on the Positive List, the "economic criterion" cited above required that it be determined whether the export would contribute significantly to the economic potential of the Bloc in a way detrimental to U.S. welfare. Thus the request was taken up by the Operating Committee, which had hitherto been most often concerned with exceptions to the Positive List.

In the Operating Committee the CIA representative presented information developed by the Agriculture Branch of the Agency's economic research organization. The intelligence conclusion was that this equipment would not produce a significant increase in Soviet green fodder output. The USSR had designed, constructed, and was currently testing a machine of the same type, and acquisition of the U.S. machines would be of benefit mainly by providing another design for

testing purposes. In the United States, moreover, self-propelled forage harvesters have not been widely used despite the fact that our farms are organized to permit their use if they offered significant economies. A number of companies, including International Harvester, that build forage harvesters have never produced a self-propelled model because prospects for selling them are so poor. In the USSR, which has been traditionally short of harvesting machinery and where the collective and state farms have chronic difficulty maintaining agricultural equipment in operating condition, the economic loss in the event of a breakdown would be greater with a self-propelled machine than with a conventional tractor-drawn model: the tractor would still be available for other work. In a number of recent articles in the press Soviet engineers have themselves questioned the advisability of large-scale production of self-propelled agricultural equipment. Thus even if a large number of these new machines were available to the USSR it is doubtful that they would create a notable improvement in Soviet agriculture.

Several meetings of the Operating Committee were necessary to review evidence and hear different points of view before a decision was reached to deny the license. The Departments of State and Commerce voted in favor of licensing; Agriculture and Defense opposed. Because of this disagreement the case was reviewed at the next higher level, the ACEP proper. Evidence on the case was heard again here, and when CIA repeated its presentation on the situation and prospects for forage harvesters in the USSR the ACEP Chairman reversed the decision of the Operating Committee Chairman and approved the export. This position was in turn reversed by the Secretary of Commerce, an action that sent the whole matter to the Export Control Review Board, which is composed of the President and the Secretaries of State, Commerce, and Defense and to which the Secretary of Agriculture was invited this time because of the nature of the case. After the discussion in the Review Board the Secretary of Commerce decided to approve the shipment. Thus the ultimate decision in this case, just as in the EDAC case of the Japanese electron machiners, was clearly responsive to the intelligence information supplied.

Although in these two typical cases the intelligence support came from CIA's economic research organization, it should not be inferred that this is the only intelligence component supporting the export control programs. While it provides the representation on the interagency committees and is thus the channel through which intelligence is brought to bear, the information itself is acquired and the analyses

coordinated with the participation of other parts of CIA and other agencies. This procedure brings the entire intelligence community into contact with the EDAC and ACEP structures and assures their members that all relevant intelligence information is made available on each case.

The security trade control program of the United States is not and never has been directed at cutting off all trade with the Communist countries; the concensus is that the national interest is better served by permitting some trade with them. It is a program of selective embargo which requires judgments on what trade to allow and under what conditions. It is these judgments that render the role of intelligence in the program a primary one.

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