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WITHDRAWAL SHEET

Ronald Reagan Library

Collection Name BAILEY, NORMAN: FILES

Withdrawer

SMF 3/4/2010

File Folder EAST-WEST TRADE [02/01/1982-02/07/1982]

FOIA

F99-078/3

Box Number 5

ZUBER

19

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
86308	MEMO	BAILEY TO CLARK RE WEINBERGER'S MEMO	1	2/1/1982	B1
86309	MEMO	CLARK TO HAIG, ET AL RE SIBERIAN GAS ALTERNATIVES STUDY GROUP	1	ND	B1
86310	MEMO	WEINBERGER TO ASST TO THE PRESIDENT FOR NATIONAL SECURITY AFFARIS RE SIBERIAN PIPELINE PROJECT	1	1/27/1982	B1
86311	MEMO	BAILEY TO CLARK RE CREDIT SITUATION	2	2/4/1982	B1
86312	MEMO	BAILEY TO CLARK RE NSC MEETING 2/4/82	2	ND	B1
86313	MEMO	BAILEY TO CLARK RE NSC MEETING 2/2/82	2	1/31/1982	B1

The above documents were not referred for declassification review at time of processing

Freedom of Information Act - [5 U.S.C. 552(b)]

- B-1 National security classified information [(b)(1) of the FOIA]
- B-2 Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
- B-3 Release would violate a Federal statute [(b)(3) of the FOIA]
- B-4 Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
- B-6 Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
- B-7 Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
- B-8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
- B-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

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THE WHITE HOUSE
WASHINGTON

574

~~SECRET~~

MEMORANDUM FOR THE HONORABLE CASPAR W. WEINBERGER
The Secretary of Defense

SUBJECT: Your Suggestion re Alternatives to
Siberian Gas

I agree fully with the thoughts expressed and the suggestion made in your memorandum to me of January 27. I will proceed immediately to the establishment of such a group.

Thank you for your offer of office space and secretarial assistance.

William P. Clark

DECLASSIFIED
Sec. 3.4(b), E.O. 12958, as amended
White House Guidelines, Sept. 11, 2006
BY NARA *AM*, DATE 3/4/10

~~SECRET~~

Review January

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86310 MEMO

1 1/27/1982 B1

WEINBERGER TO ASST TO THE PRESIDENT FOR
NATIONAL SECURITY AFFAIRS RE SIBERIAN
PIPELINE PROJECT

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REVIEW & OUTLOOK

Congress's Chance on Poland

It looks as if the battle for freedom in Poland is going to have to be taken to the floor of the U.S. Congress. With Ronald Reagan's administration slipping into tacit collaboration with martial law by making it easier for the Soviet bloc to finance repression, any serious action against the Polish regime will have to be taken by another branch of government.

It turns out that the administration, far from calling in the Polish debt to hamper the flow of credit to the Soviet Union and its satellites, is bending U.S. law to keep Poland out of bankruptcy. The Commodity Credit Corporation provides government guarantees to banks financing grain shipments abroad, offering to repay the banks if foreign governments cannot. For ordinary, non-Communist governments, no payment is made until the bank declares the loan in default. But in the case of Poland, this was deemed too embarrassing.

So the State Department lobbied to change the CCC rules, and the administration decided to pay off \$71 million to the banks without their declaring a formal default. This is a down payment on about \$400 million in guarantees on Polish loans due this year. No sooner is the decision taken than Secretary Haig rushes off to Chicago to spend Solidarity Day posturing before Polish voters as a tough guy on Poland.

One point that begs attention is how this decision was reached. At what level of the government was it decided? Did the President understand the full implications of the change in the rules? Did the National Security Adviser? Where was the Treasury? (The undersecretary for monetary affairs says he's under instructions not to discuss the issue.) Was the Defense Department even consulted? Was this the foreign policy equivalent of the decision to change the tax status of segregated private schools? Everything we learn leads us to suspect that the answers to these questions would be profoundly embarrassing, that this is another example of sloppy management at the White House.

A second point concerns the banks. They have refrained from declaring a default in Poland because the write-downs would hurt their earnings. It would also hurt their chances of doing new business with the Communist dictators of Poland and the rest of the Soviet bloc. But the real question is how

did U.S. and other Western banks make all these bad loans, and how can we stop them from doing it again?

The banks have made the loans because Western governments encouraged them to do so, implicitly suggesting that loans to Communists had a favored position, deserved lower rates and would more or less be backed by Western governments. The CCC deal can only encourage this notion. The Soviets rushed to get the gas pipeline deal and other credits wrapped up before the Polish crackdown, and with the new incentives just demonstrated by the Reagan administration, the flow of credit will resume again as soon as the bad press dies down.

The U.S. government ought to at least stay neutral toward Communist loans. The Polish loans clearly are sick, and probably terminally so. The banks ought to be establishing large reserves against them—we have previously suggested 50%—as a matter of pure commercial prudence. The government ought to be encouraging them to do this, not helping them avoid it, to limit the commercial damage from any forceful foreign policy initiative. Instead, the Reagan administration sponsors a TV show.

Fortunately Congress will have an opportunity to show greater forcefulness, for it controls the power of the purse and bail-out money has to come from somewhere. Specifically, it would come from House Joint Resolution 389, a budget-busting supplemental appropriation of \$5 billion for the CCC. This measure has been marked up—with unseemly haste—in the agriculture appropriations subcommittee by the Mississippi Democrat, Jamie Whitten. The main purpose is to provide pork for American farmers, who are calling on their CCC entitlements because of low farm prices. But a lot of the money—between \$500 million and \$1.5 billion, so far as we can learn—could be used to bail out repression in Poland.

It would not be the worst thing in the world if this whole supplemental were grounded, farm price supports being one of our least favorite subsidies to the land-owning poor. But if Congress is going to bail out the American farmer, it can at least write in an amendment prohibiting the use of these tax funds to bail out Polish dictators, at least until a default is declared and the economic lessons of Poland digested.

PRESERVATION COPY

NATIONAL SECURITY COUNCIL

1. Cut off decrease or raise cost of official + officially-guaranteed credits to the Soviet Bloc.
 2. Chemical cutoff.
 3. Export levy on corn to Soviet Bloc.
- Introduce legislation

~~SMG~~
2 WT.

White House Library
and
Research Center
Room 308, OEOB, X7000

TO:

Pat/Dr. Bailey

FROM:

Angie

(d) Effective Date.—

(1) In general.—The amendments made by this section take effect on December 1, 1974, and shall apply only with respect to wagers placed on or after such date.

(2) Transitional rules.—

(A) Any person who, on December 1, 1974, is engaged in an activity which makes him liable for payment of the tax imposed by section 4411 of the Internal Revenue Code of 1954 (as in effect on such date) shall be treated as commencing such activity on such date for purposes of such section and section 4901 of such Code.

(B) Any person who, before December 1, 1974.—

(i) became liable for and paid the tax imposed by section 4411 of the Internal Revenue Code of 1954 (as in effect on July 1, 1974) for the year ending June 30, 1975, shall not be liable for any additional tax under such section for such year, and

(ii) registered under section 4412 of such Code (as in effect on July 1, 1974) for the year ending June 30, 1975, shall not be required to reregister under such section for such year.

Approved Oct. 29, 1974.

EXPORT ADMINISTRATION AMENDMENTS OF 1974

For Legislative History of Act, see p. 6234

PUBLIC LAW 93-500; 88 STAT. 1552

[S. 3792]

An Act to amend and extend the Export Administration Act of 1969.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That:

SHORT TITLE

Section 1. This Act may be cited as the "Export Administration Amendments of 1974".

SHORT SUPPLY POLICY

Sec. 2. Section 3(2)(A) of the Export Administration Act of 1969⁸⁹ is amended by striking out "abnormal".

MONITORING AND CONSULTATION

Sec. 3. (a) Section 4 of the Export Administration Act of 1969⁹⁰ is amended by redesignating subsections (c) through (e) thereof as subsections (d) through (f), respectively, and by inserting after subsection (b) a new subsection (c) as follows:

"(c)(1) To effectuate the policy set forth in section 3(2)(A) of this Act, the Secretary of Commerce shall monitor exports, and contracts for exports, of any article, material, or supply (other than a commodity which is subject to the reporting requirements of section

^{89.} 50 App. U.S.C.A. § 2402(2)(A).
^{90.} 50 App. U.S.C.A. § 2403.

812 of the Agricultural Act of 1970) when the volume of such exports in relation to domestic supply contributes, or may contribute, to an increase in domestic prices or a domestic shortage, and such price increase or shortage has, or may have, a serious adverse impact on the economy or any sector thereof. Information which the Secretary requires to be furnished in effecting such monitoring shall be confidential, except as provided in paragraph (2) of this subsection.

"(2) The results of such monitoring shall, to the extent practicable, be aggregated and included in weekly reports setting forth, with respect to each article, material, or supply monitored, actual and anticipated exports, the destination by country, and the domestic and worldwide price, supply, and demand. Such reports may be made monthly if the Secretary determines that there is insufficient information to justify weekly reports."

(b) Section 10 of such Act ⁹¹ is amended—

(1) by inserting "(a)" after "Sec. 10."; and

(2) by adding at the end thereof the following:

"(b)(1) The quarterly report required for the first quarter of 1975 and every second report thereafter shall include summaries of the information contained in the reports required by section 4(c)(2) of this Act, together with an analysis by the Secretary of Commerce of (A) the impact on the economy and world trade of shortages or increased prices for articles, materials, or supplies subject to monitoring under this Act, (B) the worldwide supply of such articles, materials, and supplies, and (C) actions taken by other nations in response to such shortages or increased prices.

"(2) Each such quarterly report shall also contain an analysis by the Secretary of Commerce of (A) the impact on the economy and world trade of shortages or increased prices for commodities subject to the reporting requirements of section 812 of the Agricultural Act of 1970, (B) the worldwide supply of such commodities, and (C) actions being taken by other nations in response to such shortages or increased prices. The Secretary of Agriculture shall fully cooperate with the Secretary of Commerce in providing all information required by the Secretary of Commerce in making such analysis."

(c) Section 5(a) of such Act ⁹² is amended—

(1) by striking out "hereunder" in the first sentence and inserting in lieu thereof the words "or monitored under this Act"; and

(2) by inserting immediately after such first sentence the following: "Such departments and agencies shall fully cooperate in rendering such advice and information."

(d) Section 5(a) of such Act is further amended by adding the following at the end thereof: "In addition, the Secretary of Commerce shall consult with the Federal Energy Administration to determine whether monitoring under section 4 of this Act is war-

91. 50 App. U.S.C.A. § 2409.

92. 50 App. U.S.C.A. § 2404(a).

ranted with respect to exports of facilities, machinery, or equipment normally and principally used, or intended to be used, in the production, conversion, or transportation of fuels and energy (except nuclear energy), including but not limited to, drilling rigs, platforms, and equipment; petroleum refineries, natural gas processing, liquefaction, and gasification plants; facilities for production of synthetic natural gas or synthetic crude oil; oil and gas pipelines, pumping stations, and associated equipment; and vessels for transporting oil, gas, coal, and other fuels.”

INTERNATIONAL COOPERATION TO SECURE ACCESS TO SUPPLIES

Sec. 4. (a) Section 2 of the Export Administration Act of 1969⁹³ is amended by adding at the end thereof the following new paragraph:

“(5) Unreasonable restrictions on access to world supplies can cause worldwide political and economic instability, interfere with free international trade, and retard the growth and development of nations.”

(b) Section 3(3)(A) of such Act⁹⁴ is amended by striking out “with which the United States has defense treaty commitments”.

(c) Section 3(5) of such Act⁹⁵ is amended—

(1) by striking out the word “and” immediately preceding clause (B); and

(2) by striking out the period at the end thereof and inserting in lieu thereof a comma and the following: “and (C) to foster international cooperation and the development of international rules and institutions to assure reasonable access to world supplies.”.

HIGH TECHNOLOGY EXPORTS

Sec. 5. (a) Section 4 of the Export Administration Act of 1969, as amended by section 3 of this Act,⁹⁶ is amended by adding at the end thereof the following new subsection:

“(g) Any export license application required by the exercise of authority under this Act to effectuate the policies of section 3(1)(B) or 3(2)(C) shall be approved or disapproved not later than 90 days after its submission. If additional time is required, the Secretary of Commerce or other official exercising authority under this Act shall inform the applicant of the circumstances requiring such additional time and give an estimate of when his decision will be made.”

(b) Section 5(c)(1) of such Act⁹⁷ is amended by striking out the next to the last sentence thereof and inserting in lieu thereof the following: “Each such committee shall consist of representatives of United States industry and Government, including the Departments of Commerce, Defense, and State, and, when appropriate, other Government departments and agencies.”.

93. 50 App. U.S.C.A. § 2401.

94. 50 App. U.S.C.A. § 2403(3)(A).

95. 50 App. U.S.C.A. § 2402(5).

96. 50 App. U.S.C.A. § 2403.

97. 50 App. U.S.C.A. § 2404(c)(1).

(c) Section 5(e) of such Act⁹⁸ is amended by adding at the end thereof the following new paragraph:

"(5) To facilitate the work of the technical advisory committees, the Secretary of Commerce, in conjunction with other departments and agencies participating in the administration of this Act, shall disclose to each such committee adequate information, consistent with national security, pertaining to the reasons for the export controls which are in effect or contemplated for the grouping of articles, materials, and supplies with respect to which that committee furnishes advice."

(d) Not later than one year after the date of enactment of this Act, the Secretary of Commerce shall include in a quarterly report under section 10 of the Export Administration Act of 1969 an accounting of actions taken to expedite the processing of export license applications as required under section 4(g) of the Export Administration Act of 1969.

OPPORTUNITY TO COMMENT ON LICENSING

Sec. 6. Section 5(b) of the Export Administration Act of 1969⁹⁹ is amended—

(1) by inserting "(1)" after "(b)"; and

(2) by adding at the end thereof the following:

"(2) Upon imposing quantitative restrictions on exports of any article, material, or supply to carry out the policy stated in section 3(2)(A) of this Act, the Secretary of Commerce shall include in his notice published in the Federal Register an invitation to all interested parties to submit written comments within 15 days from the date of publication on the impact of such restrictions and the method of licensing used to implement them."

TECHNICAL AND CONFORMING CHANGES

Sec. 7. Section 4(d) of the Export Administration Act of 1969,¹ as redesignated by section 3 of this Act, is amended to read as follows:

"(d) Nothing in this Act or the rules or regulations hereunder shall be construed to require authority or permission to export, except where required by the President to effect the policies set forth in section 3 of this Act."

HARDSHIP RELIEF

Sec. 8. The Export Administration Act of 1969² is amended by inserting after section 4 the following new section:

"PROCEDURES FOR HARDSHIP RELIEF FROM EXPORT CONTROLS

"Sec. 4A. (a) Any person who, in his domestic manufacturing process or other domestic business operation, utilizes a product produced abroad in whole or in part from a commodity historically obtained from the United States but which has been made subject to export controls, or any person who historically has exported such a commodity, may transmit a petition of hardship to the Secretary

98. 50 App. U.S.C.A. § 2404(c).
99. 50 App. U.S.C.A. § 2404(b).

1. 50 App. U.S.C.A. § 2403(d).
2. 50 App. U.S.C.A. § 2401 et seq.

of Commerce requesting an exemption from such controls in order to alleviate any unique hardship resulting from the imposition of such controls. A petition under this section shall be in such form as the Secretary of Commerce shall prescribe and shall contain information demonstrating the need for the relief requested.

“(b) Not later than 30 days after receipt of any petition under subsection (a), the Secretary of Commerce shall transmit a written decision to the petitioner granting or denying the requested relief. Such decision shall contain a statement setting forth the Secretary’s basis for the grant or denial. Any exemption granted may be subject to such conditions as the Secretary deems appropriate.

“(c) For purposes of this section, the Secretary’s decision with respect to the grant or denial of relief from unique hardship resulting directly or indirectly from the imposition of controls shall reflect the Secretary’s consideration of such factors as—

“(1) Whether denial would cause a unique hardship to the applicant which can be alleviated only by granting an exception to the applicable regulations. In determining whether relief shall be granted, the Secretary will take into account:

“(A) ownership of material for which there is no practicable domestic market by virtue of the location or nature of the material;

“(B) potential serious financial loss to the applicant if not granted an exception;

“(C) inability to obtain, except through import, an item essential for domestic use which is produced abroad from the commodity under control;

“(D) the extent to which denial would conflict, to the particular detriment of the applicant, with other national policies including those reflected in any international agreement to which the United States is a party;

“(E) possible adverse effects on the economy (including unemployment) in any locality or region of the United States; and

“(F) other relevant factors, including the applicant’s lack of an exporting history during any base period that may be established with respect to export quotas for the particular commodity.

“(2) The effect a finding in favor of the applicant would have on attainment of the basic objectives of the short supply control program.

In all cases, the desire to sell at higher prices and thereby obtain greater profits will not be considered as evidence of a unique hardship, nor will circumstances where the hardship is due to imprudent acts or failure to act on the part of the appellant ^{2a.}”.

^{2a.} So in original. Probably should read “applicant”.

INTERAGENCY REVIEW

Sec. 9. Section 4 of the Export Administration Act of 1969,³ as amended by sections 3 and 5 of this Act, is amended by adding at the end thereof the following new subsection:

"(h)(1) The Congress finds that the defense posture of the United States may be seriously compromised if the Nation's goods and technology are exported to a controlled country without an adequate and knowledgeable assessment being made to determine whether export of such goods and technology will significantly increase the military capability of such country. It is the purpose of this subsection to provide for such an assessment and to authorize the Secretary of Defense to review any proposed export of goods or technology to any such country and, whenever he determines that the export of such goods or technology will significantly increase the military capability of such country, to recommend to the President that such export be disapproved.

"(2) Notwithstanding any other provision of law, the Secretary of Defense shall determine, in consultation with the export control office to which licensing requests are made, the types and categories of transactions which should be reviewed by him to carry out the purpose of this subsection. Whenever a license or other authority is requested for the export of such goods or technology to any controlled country, the appropriate export control office or agency to whom such request is made shall notify the Secretary of Defense of such request, and such office may not issue any license or other authority pursuant to such request prior to the expiration of the period within which the President may disapprove such export. The Secretary of Defense shall carefully consider all notifications submitted to him pursuant to this subsection and, not later than 30 days after notification of the request shall—

"(A) recommend to the President that he disapprove any request for the export of any goods or technology to any controlled country if he determines that the export of such goods or technology will significantly increase the military capability of such country;

"(B) notify such office or agency that he will interpose no objection if appropriate conditions designed to achieve the purposes of this Act are imposed; or

"(C) indicate that he does not intend to interpose an objection to the export of such goods or technology.

If the President notifies such office or agency, within 30 days after receiving a recommendation from the Secretary, that he disapproves such export, no license or other authorization may be issued for the export of such goods or technology to such country.

"(3) Whenever the President exercises his authority under this subsection to modify or overrule a recommendation made by the Secretary of Defense pursuant to this section, the President shall

3. 50 App. U.S.C.A. § 2403.

submit to the Congress a statement indicating his decision together with the recommendation of the Secretary of Defense.

“(4) As used in this subsection—

“(A) the term ‘goods or technology’ means—

“(i) machinery, equipment, capital goods, or computer software; or

“(ii) any license or other arrangement for the use of any patent, trade secret, design, or plan with respect to any item described in clause (i);

“(B) the term ‘export control office’ means any office or agency of the United States Government whose approval or permission is required pursuant to existing law for the export of goods or technology; and

“(C) the term ‘controlled country’ means any Communist country as defined under section 620(f) of the Foreign Assistance Act of 1961.”

EXPORT FEES AND LICENSES

Sec. 10. Section 4 of the Export Administration Act of 1969, as amended by sections 3, 5, and 9 of this Act,⁴ is amended by adding at the end thereof the following:

“(i) In imposing export controls to effectuate the policy stated in section 3(2)(A) of this Act, the President's authority shall include but not be limited to, the imposition of export license fees.”

ECONOMIC POLICY ACTIONS

Sec. 11. Section 3 of the Export Administration Act of 1969⁵ is amended by adding at the end thereof the following new paragraph:

“(7) It is the policy of the United States to use export controls, including license fees, to secure the removal by foreign countries of restrictions on access to supplies where such restrictions have or may have a serious domestic inflationary impact, have caused or may cause a serious domestic shortage, or have been imposed for purposes of influencing the foreign policy of the United States. In effecting this policy, the President shall make every reasonable effort to secure the removal or reduction of such restrictions, policies, or actions through international cooperation and agreement before resorting to the imposition of controls on the export of materials from the United States: *Provided*, That no action taken in fulfillment of the policy set forth in this paragraph shall apply to the export of medicine or medical supplies.”

ALLOCATION OF LICENSES

Sec. 12. Section 4(b)(1) of the Export Administration Act of 1969⁶ is amended by adding at the end thereof the following: “In curtailing the exportation of any articles, materials, or supplies to effectuate the policy set forth in section 3(2)(A) of this Act, the President is authorized and directed to allocate a portion of export

4. 50 App. U.S.C.A. § 2403.
5. 50 App. U.S.C.A. § 2402.

6. 50 App. U.S.C.A. § 2403(b)(1).

licenses on the basis of factors other than a prior history of exportation."

EXPIRATION DATE

Sec. 13. Section 14 of the Export Administration Act of 1969⁷ is amended by striking "September 30, 1974" and inserting in lieu thereof "September 30, 1976".

PRESIDENTIAL REVIEW

Sec. 14. The President is directed to review all laws, regulations issued thereunder by the Atomic Energy Commission, the Department of Commerce, and other Government agencies, governing the export and re-export of materials, supplies, articles, technical data or other information relating to the design, fabrication, development, supply, repair or replacement of any nuclear facility or any part thereof, and to report within six months to the Congress on the adequacy of such regulations to prevent the proliferation of nuclear capability for nonpeaceful purposes. The President is also directed to review domestic and international nuclear safeguards and to report within six months to the Congress on the adequacy of such safeguards to prevent the proliferation, diversion or theft of all such nuclear materials and on efforts by the United States and other countries to strengthen international nuclear safeguards in anticipation of the Review Conference scheduled to be held in February 1975 pursuant to Article VIII, section 3 of the Treaty on the Non-Proliferation of Nuclear Weapons."

Approved Oct. 29, 1974.

DEPOSITORY INSTITUTIONS—INTEREST RATES

For Legislative History of Act, see p. 8249

PUBLIC LAW 93-501; 88 STAT. 1557

[S. 3888]

An Act to authorize the regulation of interest rates payable on obligations issued by affiliates of certain depository institutions, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That:

TITLE I—REGULATION OF INTEREST RATES ON
CERTAIN OBLIGATIONS

Sec. 101. Section 19(a) of the Federal Reserve Act (12 U.S.C. 461)⁸ is amended by inserting "and, regardless of the use of the proceeds," immediately before "shall be deemed a deposit".

(b) The amendment made by subsection (a) shall not apply to any bank holding company which has filed prior to the date of enactment of this Act an irrevocable declaration with the Board of Governors of the Federal Reserve System to divest itself of all of

7. 50 App. U.S.C.A. § 2413.

8. 12 U.S.C.A. § 461(a).

WITHDRAWAL SHEET

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86311 MEMO

2

2/4/1982

B1

BAILEY TO CLARK RE CREDIT SITUATION

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86312	MEMO BAILEY TO CLARK RE NSC MEETING 2/4/82	2	ND	B1

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National Security Council
The White House

System II 90

Package # 90043

	SEQUENCE TO	HAS SEEN	ACTION
John Poindexter	<u>1</u>	<u>[Signature]</u>	<u> </u>
Bud McFarlane	<u>2</u>	<u>HAS SEEN</u>	<u> </u>
Jacque Hill	<u>B</u>	<u> </u>	<u> </u>
Judge Clark	<u>A</u>	<u>[Signature]</u>	<u>A</u>
John Poindexter	<u>5</u>	<u>[Signature]</u>	<u> </u>
Staff Secretary	<u>6</u>	<u> </u>	<u> </u>
Sit Room	<u> </u>	<u> </u>	<u> </u>

I-Information A-Action

2/3

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Other	<u> </u>		<u> </u>

Norman, OK to discuss 1 on 1 with
 COMMENTS
 1) STOKESSEL
 2) OLIVER
 3) McNAMARA
 4) CARLUCCI
 and report back reaction.
 Call them all on
 Secure
 John

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86313 MEMO

2 1/31/1982 B1

BAILEY TO CLARK RE NSC MEETING 2/2/82

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WHSR
ROUTE SLIP

Time Stamp

STAFF	C/O
Clark	C
McFarlane	C
Poindexter	C
Nance	C
Merchant	
NSC 5/5	

02 FEB 5 PM: 0

Boyle
Pipes
Sturman

C = Copy

O = Original

24

SSN. <u>1060</u>	TREASURY	DEPARTMENT OF THE TREASURY
ACTION STATION/S	K-1	FEB 5 6 06 PM '92
CIA _____ DIA/G _____ STATE _____ DIA/H _____ NMCC _____ WHSTR <u>X</u> _____ ANMCC _____ NPIC _____ NSA _____ USSS _____		WATCH OFFICE
		OPR. SIG _____

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MESSAGE CLASSIFICATION

2
NO. of PAGES

ORIGINATOR: Marc Holland 566-5363 3430
(NAME) (PHONE) (ROOM)

ADDRESSES/S: Judge William Clark 456-2255

SUBJECT: Poland

REMARKS: _____

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7
FEB 5 1992

The President has decided that maximum pressure can be put on Poland by insisting on repayment rather than declaring a default now. A declaration of default might be used by the Polish Government as an excuse to relieve itself of its obligations to make repayments. The U.S. Government has fulfilled its legal obligations to U.S. banks. The U.S. Government, through the Commodity Credit Corporation, guaranteed loans made by U.S. banks for the sale of agricultural commodities to Poland. In 1981, when the Poles did not pay the banks the amount due on these loans, the U.S. Government fulfilled its obligation by making payments to the banks. We are, of course, doing the same in 1982. These payments in no way relieve Poland of any of its obligations. The only difference now is that Poland owes the money to the U.S. Government instead of U.S. banks.

The following questions have been raised:

1. Are payments to the banks on the Commodity Credit Corporation loans a bail out of the banks? No. The U.S. Government guaranteed these loans and it is obligated to honor the obligations.

2. Is this payment to the banks letting the Poles off the hook? No. The obligation is now owed to the U.S. Government instead of to the banks, and we will do everything possible to collect it.

3. Did these payments to the banks prevent them from declaring Poland in default? No. The banks are owed amounts on non-guaranteed loans for which they have not declared default but can declare default at any time.

4. Would a formal declaration of default force the Soviets to pay the amount due by the Poles? No. This is an obligation incurred by Poland and not guaranteed by the Soviet Union.

5. Wouldn't a declaration of default keep further credits from going to Poland? No. Private banks are not lending to Poland. The Polish debt situation prevents further credits from going to Poland. Some funds are coming from Poland to the West toward satisfying previous Polish obligations while no new credits are going to Poland.

6. Would a declaration of default stop credit from going to the Soviet Union? No. Unguaranteed private bank credit unrelated to short-term trade transactions has not been going to the Soviet Union. This is because of the debt

26

situation of Poland and other countries in Eastern Europe, as well as the other economic and financial difficulties faced by the Soviet Union itself.

7. Can we declare a default on the Soviet Union?

No. They are current on all their obligations to the U.S.

8. Will the USG ever declare Poland in default? Default always remains an option, to be used at which time as we see fit.

Administration Defends Polish Repayment Policy

By Dan Morgan
Washington Post Staff Writer

The Reagan administration, in an apparent attempt to counter mounting conservative criticism over its Polish policy, yesterday defended its decision to force Poland to repay its debts instead of declaring the nearly bankrupt military regime in Warsaw in default.

"The president has decided that maximum pressure can be put on Poland by insisting on repayment rather than declaring a default now," said Marc E. Leland, assistant secretary of the treasury for international affairs.

Leland's statement was seen as an effort to calm bankers who have grown increasingly nervous recently because of conflicting signals from Washington concerning the possibility of a default.

A senior government source said earlier this week that Defense Secretary Caspar W. Weinberger favored forcing Poland into default.

Last week, Fred C. Ikle, undersecretary of defense for policy, reportedly urged that the government force private banks to declare Poland in default before paying the banks money due them under government loan guarantees.

The refusal of the Reagan administration to take such action has been sharply criticized by conservative columnists and political activists in the president's New Right constituency.

Almost all of the money in question involves loans made to Poland during the last few years to purchase U.S. agricultural commodities.

These private bank loans are guaranteed by the Commodity Credit Corp., the Department of Agriculture's bank, to promote U.S. grain exports.

In his statement yesterday, Leland argued that declaring a default would give Poland's military government an excuse to ignore its obligations. He stressed that the current

procedure did not absolve Poland of any obligations, but transferred them from the banks to the government.

"We will do everything possible to collect," Leland said.

Unaffected by the action is \$1.2 billion in principal and interest that Poland owes private U.S. banks from private loans not covered by government guarantees.

Leland said yesterday that before the imposition of martial law in Poland on Dec. 13, the federal government paid the banks \$340 million, in fulfillment of Commodity Credit Corp. guarantees.

This was done because the United States and other western governments agreed to reschedule direct and government-backed loans last year and, in doing that, assumed the obligation of making payments to the private banks as they came due.

The official statement released yesterday noted that the Soviet Union has not guaranteed Poland's debts and is under no obligation to cover them even if a default is declared.

Despite yesterday's statement, criticism of the administration's position continued.

Sen. Daniel Patrick Moynihan (D-N.Y.) described the U.S. and allied response to martial law as "near to shameful" and said he would ask Congress to declare Poland in default.

Most officials agree that the strongest economic weapon the U.S. government has is a total grain embargo against the Soviet Union, Poland and East Germany.

Agriculture Secretary John R. Block told the Senate Agriculture subcommittee on foreign agricultural policy yesterday that an embargo would penalize U.S. farmers more than the Soviets.

Block acknowledged, however, that an embargo is a possibility "under extreme conditions." He did not define what these would be.

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The Burns Cable

One of the key issues in the debate over whether the Reagan administration ought to declare Poland formally in default on its debts to the U.S. government is whether such an action would cause a crisis in the Western banking system. Nearly everyone agrees that U.S. banks could easily ride out such a shock, as about 60 American banks hold a scant \$1.2 billion, or so, in Polish paper. But the State Department has been arguing the U.S. should continue to subsidize credit to Poland because to get tough and declare a default would cause a crisis in West Germany, whose banks hold the biggest exposure.

Now, however, the State Department has received a confidential cable from the U.S. envoy in Bonn, Arthur Burns, that makes us wonder. Mr. Burns, lately of the Fed and now on the spot where any financial crisis would start, sent his cable Jan. 29. In essence he makes three points: First, most of the effects of a Polish default will happen with or without a default. Second, the financial ramifications of default would be easier for the Western banking system to swallow if it were spread over several years, avoiding official default now but presumably requiring banks to establish reserves to cover their Polish losses. And third, that if default did happen now and make the banks swallow their losses in a gulp, the problems would still be manageable.

The Burns cable doesn't suggest there won't be serious consequences. But he says the more serious secondary effects of the Polish financial crisis are probably going to be felt even if a formal default isn't declared. He reports the Polish experience will make international banks a lot more cautious in lending to the Soviet bloc, which in turn will cause the Soviet bloc to cut back on imports from the West. Without a lot of new Western credit flowing in, other Soviet bloc countries could run into financial trouble. This would mean the German government could be forced to help its banks save some subsidiaries from going bust.

Too, with or without a declaration of default, the Polish experience will make international banks increasingly reluctant to make new loans to Third World countries with weak balance of payments positions, Mr. Burns says. And this, too, could have repercussions on Western banks of the sort that Poland might have more directly. So Mr. Burns says he's been telling Ger-

man businessmen and newspapermen that Western bankers have awakened to the fact that their lending to socialist countries wasn't too bright and that they have to proceed more cautiously, while German businessmen will have to turn to Western markets.

What strikes us about the Burns cable—in the context of all the shrill doomsaying we've been hearing from the State Department—is the absence of any suggestion that getting tough would bring down the Western financial system. From the narrow financial standpoint, Mr. Burns would of course prefer to avoid sudden default and spread the losses over time. But there is far from anything that sounds like a prediction of catastrophe if this is not done.

Even from the financial perspective, Mr. Burns's judgment call depends crucially on his estimate that the Western banks have already learned their lesson. We wish we were sure. For one thing, banking regulators have not yet instructed the banks to start reserving against Polish loans. New credits are rolling forward in the pipeline deal. The Communists may well be right in their calculation that six months from now everyone will be back at the same bazaar stalls.

More fundamentally, though, the reasons for default transcend mere commercial considerations. The Soviet system does not disturb us because it cannot pay its bills. The Soviet system disturbs us because it has devoted its economy primarily to a military buildup that threatens our national security. Because of inherent inefficiency and the demands of its military sector, that economy is now staggering. Its dependence on the West is epitomized in the Polish debt, and the effects of default in inhibiting further credits and trade would be a punishing blow at its most vulnerable point.

More broadly, default would make clear the message that we will no longer finance a military machine that threatens our own well-being. It would prove that we are not without means to exert in this struggle, nor without the will to do so. If we let the opportunity slip by, we will only confirm the commissars' estimate that they have little to fear from the West, that there is no reason to slow their military buildup or moderate their aggressive foreign policy. And the confirmation would come with double force from a President elected with a mandate to restore some spine to our position in the world.

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