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MEMORANDUM

TO:

EUR - Mr. Foy D. Kohler

FROM:

SOV - John C. Guthrie To

SUBJECT:

Suggestions for Economic measures to be used in dealing with the Berlin problem.

It will be recalled that, in the autumn of 1960, the interruption of interzonal trade by the Federal Republic apparently was more effective than had been expected. This led to efforts on the part of the East Germans to reduce their dependence on imports from West Germany and to obtain from the U.S.S.R. new guarantees of support in the event of future economic action on the part of West Germany. It also led to East German efforts to substitute other West European suppliers for the Federal Republic. Premier Khrushchev has told a number of Westerners (e.g., Ambassador Thompson) that, should a separate peace treaty be signed with East Germany, he would anticipate a period of tension during which some economic counter measures might be taken by the West; however, he has expressed confidence that the period of tension would be relatively short and that the U.S.S.R. and East Germany could easily absorb the strain.

From past experience we have learned that in planning any economic pressures against East Germany, we face a number of basic problems:

- a. It is difficult to take any action quickly.
- b. It is difficult to obtain multi-lateral agreements on common actions.
- c. There is a need to acquire considerable flexibility in our planning since most, if not all, West European nations oppose any resort to general embargo short of war or comparable emergency conditions. For example, the Federal Republic apparently feels that even the signing of a separate peace treaty would not in itself justify a cessation of all interzonal trade.
- d. All nations insist on the necessity for some equitable sharing of the "costs" involved in any economic move.

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e. There is no practical agreement as regards the real purpose of economic pressures: i.e., should such pressures be designed to retaliate for actions already taken by the East or should they be used to deter future action by the East.

East German dependence on the importation from the West of certain metal products, chemicals, chemical machinery and technology. The degree of vulnerability still seems to be particularly high in the petro-chemical industry, in which there is close coordination of East German and Soviet economic plans, despite steps taken by the U.S.S.R. and East Germany subsequent to December 1960. It will be recalled that the large-scale increases in production in this industry comprise a particularly important part of the current Soviet Seven-Year Plan and that Soviet dependency on sources outside the bloc for the technology to make good on the plan was specifically acknowledged by Khrushchev when the plan was announced.

Having in mind the difficulties faced in planning multi-lateral action outlined above, and the desirability of selecting areas in which both East Germany and the U.S.S.R. are sensitive, we would propose that immediate attention be given to plans for invoking, as the need arises, economic measures selectively directed against key commodities, industries and technological know-how. As a first step, it is recommended that the Department study the available material covering the general economic vulnerability of East Germany to pin point specific targets against which action might be taken. As a second step, we propose early consultation with the British, French and West Germans, not only to seek further information concerning specific targets but also to reach agreement on moves which might be taken quickly to bring home to the Communists the willingness and ability of the Western powers to act decisively in the economic field against targets where Eastern vulnerability is relatively high. Ideally such targets would include either products or technological skills available from only a few suppliers and preferably available only from Federal Republic, France, UK or US.

Under this approach, we would envisage maximum use of psychological factors. For example, where a western supplier is under contract to build a specific plant in East Germany (or even the U.S.S.R.), the contract need not be broken abruptly since, on the one hand, considerable domestic pressure would be generated against the Western government concerned. On

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the other hand, a clear-cut abrogation of a contract would merely lead to an awarding of the contract to some other supplier. However, the slow arrival of technicians, delays in the delivery of essential materials, references by Western companies to business uncertainties arising from Soviet and GDR political moves, etc., would readily convey a political message. While implementing quickly economic action against selected targets, efforts could proceed within NATO to reach agreement on a broadly based common program (e.g., the reduction of trade credits to East Germany, etc.). This common program should also make provision for: tightened TTD controls and a stricter policy for the issuance of visas to East German Nationals traveling for the purpose of promoting trade.

It seems to us that it is both psychologically and tactically unwise to plan on the assumption that action in the economic field should be considered only as a reprisal for action which might be taken by the East. The U.S.S.R. already has re-kindled a Berlin crisis and @DR leaders already have begun to implement the war of nerves. Presumably our major objective is to achieve a mutually acceptable resolution of the current crisis without letting the matter develop into an active confrontation of military forces. Therefore, economic actions should acquire an enhanced importance as measures seeking to deter the East from acutely aggravating the situation. Some action should come promptly when the East makes its first move; public protests are not sufficient. We would urge, therefore, that we ascertain where the sensitivity is greatest and aim for those targets in a calm purposeful manner.

cc: GER

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