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Record Group/Collection: George H.W. Bush Presidential Records
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Series: Sununu, John, Files
Subseries: White House Offices Files

OA/ID Number: 29180
Folder ID Number: 29180-001

Folder Title:
National Security Council (Scowcroft) (1990)

Stack:	Row:	Section:	Shelf:	Position:
G	15	25	5	4

EVERY ADMIN. ~~W/~~ TEL -

THE WHITE HOUSE
WASHINGTON

BUDGET

CLEAN AIR ✓

CHILD CARE. / FAMILY ORIENT. / # BOK -

ADA

1/2 CRIME BILL -

FARM BILL

HOUSING BILL

IMMIGRATION BILL

CLEARED MAIN ITEMS OFF DECK

SOME LEFT

CIVIL RIGHTS
GROWTH / CAP GAINS

1/2 CRIME DEATH -
INTEGRALS -
EXCLUSIONARY

EDUCATION

CIVIL

FLAG

LINE ITEM / BAC

DEREGULATION

WITHIN RESTRAINTS

CUT. WASTEFUL PROGRAMS

→ GOOD

EMPOWERMENT

N.E.P.

TERM LIMITATION

Withdrawal/Redaction Sheet

(George Bush Library)

Document No. and Type	Subject/Title of Document	Date	Restriction	Class.
01. memo	From Ken Hill to James Cicconi Re: Presidential letter to Hosni Mubarak (with memo From Brent Scowcroft to POTUS on same topic, and a draft of the letter attached) SENT FOR AGENCY REFERRAL (3 pp.)	11/5/90	(b)(1)	C

Collection:

Record Group: Bush Presidential Records
Office: Chief of Staff to the President, Office of the
Series: Sununu, John H.
Subseries: *White House Office Files*
WHORM Cat.:
File Location: National Security Council (Scowcroft) (1990)

Document Declassified
(Document Follows)
 By DDZ (NLGB) on 04/01/2008

Date Closed:	12/15/2004	OA/ID Number:	29180-001
FOIA/SYS Case #:	1998-0004-F	Appeal Case #:	
Re-review Case #:	2005-0426-S	Appeal Disposition:	
P-2/P-5 Review Case #:		Disposition Date:	
AR Case #:	98-0004-F/1	MR Case #:	
AR Disposition:	Released in Full	MR Disposition:	
AR Disposition Date:	11/23/1998	MR Disposition Date:	

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P-1 National Security Classified Information [(a)(1) of the PRA]
 P-2 Relating to the appointment to Federal office [(a)(2) of the PRA]
 P-3 Release would violate a Federal statute [(a)(3) of the PRA]
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 P-5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA]
 P-6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

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

PRM. Removed as a personal record misfile.

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

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 (b)(9) Release would disclose geological or geophysical information

NATIONAL SECURITY COUNCIL

THE CHIEF of STAFF
has seen

90 NOV -5 PM 5:35

Jim -

Per Florence Gantt, Mr. Gates has shown the attached Presidential letter to the President and has received his approval.

Secretary Baker would like to deliver this, via cable, to President Mubarak on Tuesday, November 6.

K.H.

Ken Hill

1115
5:55pm
OK to do per Jim -
will send him a copy

To JHS

FYI

Jim

~~CONFIDENTIAL~~~~CONFIDENTIAL~~

8771

THE WHITE HOUSE
WASHINGTON

November 5, 1990

MEMORANDUM TO THE PRESIDENT

FROM: BRENT SCOWCROFT

SUBJECT: Letter to President Mubarak

Purpose

To inform President Mubarak of your success in obtaining Congressional approval of Egyptian FMS debt cancellation.

Background

We have drafted a letter to Hosni Mubarak (Tab A) informing him of the good news about Congressional passage of the Egyptian FMS debt cancellation and reminding him that this was not an easy chore for us. If you approve the letter, we can cable it to Cairo so that Jim Baker can deliver it personally to Mubarak tomorrow, November 6.

RECOMMENDATION

That you sign the letter at Tab A.

Attachment

Tab A Letter to President Mubarak

DECLASSIFIED
PER E.O. 12958
Case File No. 98-0004-F/1
2/12/94, JGP

cc: Vice Presidnet
Chief of Staff

~~CONFIDENTIAL~~

THE WHITE HOUSE
WASHINGTON

Dear Hosni:

I am writing with some good news.

Today I expect to receive for signature the legislation that provides authority for cancellation of Egypt's FMS debt. With passage of this law, the Administration and Congress have demonstrated their recognition of your courageous leadership and Egypt's vital strategic role in the region.

It was not an easy victory. Many Congressmen faced a very tough choice in this election year, with its focus on controversial domestic debt issues. But, in the end, we have come together to help Egypt, which in my view made it well worth the effort.

With best regards,

Sincerely,

His Excellency
Mohammad Hosni Mubarak
President of the Arab Republic of Egypt
Cairo

Withdrawal/Redaction Sheet

(George Bush Library)

Document No. and Type	Subject/Title of Document	Date	Restriction	Class.
02. Memo	From Brent Scowcroft to John Sununu Re: NSC Special Assistant Commission (1 pp.)	9/27/90	P-5	

Collection:

Record Group: Bush Presidential Records
Office: Chief of Staff to the President, Office of the
Series: Sununu, John H.
Subseries: White House Offices File
WHORM Cat.:
File Location: National Security Council (Scowcroft) (1990)

Open on Expiration of PRA
(Document Follows)
By DJC (NLGB) on 10/28/2005

Date Closed:	12/15/2004	OA/ID Number:	29180-001
FOIA/SYS Case #:	1998-0004-F	Appeal Case #:	
Re-review Case #:	2005-0426-S	Appeal Disposition:	
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THE WHITE HOUSE

WASHINGTON

THE CHIEF of STAFF
has seen

September 27, 1990

MEMORANDUM FOR THE CHIEF OF STAFF

FROM: BRENT SCOWCROFT *BS*

SUBJECT: NSC Special Assistant Commission

Request a Special Assistant Commission for David C. Gompert who will be the Senior Director of our European and Soviet Affairs Directorate. Mr. Gompert will replace Ambassador Robert D. Blackwill.

*OK per JHS
10.3.90*

Andy Card

*There should be no
net ~~increase~~ increase
in the no. of commissioned
officers in NSC. Condi's
commission should not
be filled when she leaves.*

Andy

**ECONOMIC INFORMATION FOR PRESIDENT CRISTIANI
AND PRESIDENT BUSH MEETING**

TOPIC: ECONOMIC AND MILITARY ASSISTANCE

1. The level of military assistance (grants) was projected at around US\$ 97 million in 1990. The Economic Support Fund (ESF), which is the balance of payments assistance program, was cut by US\$ 51 million in 1990 from its 1989 level.

If the military assistance is cut in half, El Salvador's aid would be reduced from its projected level by about US\$ 100 million in a one year period.

2. The Government Economic and Social Plan for 1989-1994, includes structural reforms to increase the country's export base and reduce its large dependency on foreign assistance. However, the result of this effort will take some years to materialize. Presently, the external sector of El Salvador shows a large disequilibrium. Despite a recovery in coffee production, the significant drop in coffee prices in the international market will entail a loss in exports earnings of about US\$ 130 million in 1990. International reserves are at a critical level and inherited external arrears surpass US\$ 110 million.

The reduction in ESF assistance further enlarged the projected external sector deficit. This gap is expected to be financed mainly with resources provided through programs with the IMF and the World Bank. However, a cut in military assistance would be a serious blow to the recently negotiated stand-by program with the IMF and puts in jeopardy the Structural Adjustment Loan that is being negotiated with the World Bank. These programs assume a certain level of external resources to support the Government's effort to reorient the economy, finance the government budget, and to reduce the initial social and economic costs of the adjustment.

3. Considering the difficult economic situation, the strong commitment of the GOES to reduce the social and macroeconomic disequilibria, and the fragile social balance, it is necessary for El Salvador to receive the volume of U.S. assistance as originally programmed. In the event that the military assistance cut is approved by the U.S. Congress, there would

be the need to increase the ESF program assistance by the same proportion. This increase in ESF is critical to avoid the collapse of the GOES economic program including a reduction in social expenditure to finance defense outlays.

The GOES is committed to improve the economic, social and legal conditions in El Salvador because it is fully aware that this is the only way to strengthen the democratic process and to build a solid base towards a long lasting peace. A further cut in U.S. aid at this critical moment may create social unrest and make the peace process even more difficult.

Withdrawal/Redaction Sheet

(George Bush Library)

Document No. and Type	Subject/Title of Document	Date	Restriction	Class.
04. Memo	From Nicholas Rostow to Robert M. Gates Re: Draft Executive Order on Personnel Security (3 pp.)	3/6/90	P-5	

Collection:

Record Group: Bush Presidential Records
Office: Chief of Staff to the President, Office of the
Series: Sununu, John H.
Subseries: White House Offices File
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NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

March 6, 1990

INFORMATION

MEMORANDUM FOR ROBERT M. GATES

FROM: NICHOLAS ROSTOW *NR*

SUBJECT: Draft Executive Order on Personnel Security

Attached at Tab I is a draft Executive Order on personnel security, prepared by an interagency committee under my chairmanship. The Reagan Administration had prepared a draft order on the same subject but did not issue it. When that draft was circulated in the OMB process, it leaked and became controversial. I was asked to chair a committee to examine the issue for the Administration and to report back in six months.

The new draft Executive Order would:

- establish uniform, minimum standards in connection with determining eligibility for access to Top Secret, Secret, and Confidential national security information; the same standards would apply with respect to special access programs, including sensitive compartmented information, unless the head of the agency creating the program certifies in writing that an exemption for specified procedures is necessary to the national security;
- require each agency to accept another agency's eligibility determination unless it is not current, the accepting agency has substantial conflicting information, or the agency head certifies in writing that to do so would not be in the national security interest;
- require reinvestigations every five years;
- establish procedures for notice and appeal when an agency proposes to deny or revoke an employee's eligibility for access and authorize agencies to retain procedures that meet or surpass the standards established by this Order; and
- designate the Information Security Oversight Office (ISOO) as the Executive branch oversight entity with respect to compliance with the Order and the issuing of implementing regulations and forms. ISOO will take policy direction from the National Security Council; it will not have the power to intervene with respect to specific determinations regarding an individual's eligibility for access.

At Tab II is a draft committee report that might serve as the basis for a press release in the event the Order is issued.

The interagency committee consisted of lawyers from Justice, FBI, CIA, NSA, State, DOD, Energy, Treasury, OPM, ISOO, OMB, OVP, and Counsel to the President. The committee has worked with as much detachment from its home agencies as possible, and those agencies have not cleared the text.¹ The committee's method of operation seemed most likely to result in a product without leaks along the way, and I am pleased to report that there have been no leaks, although the fact of the committee's existence is a matter of public record.

The proposed Order represents the committee's best effort to achieve a "good government" recommendation within the most obvious political constraints. The committee anticipates that alternative options may emerge in subsequent Administration deliberations. A large majority concluded that the committee should submit its best recommendation at this time, rather than a menu of options.

Boyden Gray's representative provided the following comment: "This draft includes new procedural rights, which, while inherently unobjectionable, perhaps should not be granted by Executive Order unless the Order also simultaneously creates more important new safeguards for national security information than are provided in this draft. He suspects that even if the new procedural rights section were deleted from this draft, the Order would impose political costs on the President that are not justified by the draft's relatively modest improvements in the personnel security system. He suggests that other options be considered, for example: (1) imposition of the draft's non-controversial improvements through discrete Presidential directives (rather than an Executive Order); or (2) the drafting of an Executive Order with substantially more significant new safeguards for national security information than this draft contains (thus providing the Administration with an initiative worth fighting for); or (3) continued study of the matter while the Administration monitors developments on the Hill."

OMB's representative notes that the Acting General Counsel of OMB believes no Order should be issued absent a clear risk of unacceptable legislation because any such Order is bound to be controversial. The committee as a whole thought it proper to

¹ Accordingly, OMB has not been asked to estimate the cost of implementing the proposed Order. OMB estimated the cost of implementing the Reagan Administration draft Order at \$30-40 million. A Defense Department lawyer on the committee believes DoD will find the cost and the proposed role of ISOO to be matters of substantial concern.

note these views while transmitting the draft for Administration-wide consideration.

Those who were steamed up about the Reagan Administration draft order can be expected to take a great interest in this one. Further, at least ten committees of Congress have expressed interest in this subject: Judiciary, Government Operations, Post Office and Civil Service, Intelligence, and Armed Services in both Houses. In the House, a bill is being drafted by the Post Office and Civil Service subcommittee and the Civil Rights subcommittee that would grant extensive due process rights in connection with the denial or revocation of clearances. We have heard that a bill could be introduced this month. A committee of the American Bar Association also is working toward the same end.

I recommend that we discuss soon how to proceed. I have the following course of action in mind:

That you and I meet with Andy Card, Boyden Gray, Ginny Lampley, Fred McClure, and Bill Diefenderfer to develop a strategy. Among the issues to discuss are:

- Developing a White House staff position on the proposed Order.
- Briefing the President. (Action or inaction likely will be controversial. The President's willingness in principle to go forward with an Executive Order despite anticipated controversy should be established before launching interagency coordination and congressional consultations because, unless he is prepared to take on controversy, we probably should not go forward.)
- Interagency coordination through a Deputies Committee meeting. (In order to ensure that the right people in each agency review the draft, I recommend that the members of the interagency committee act as points of contact in their respective agencies. Thus, we could hope to obtain high level consideration of the Order before the security professionals weigh in with their particular interests. To try to limit the likelihood of leaks, I recommend that papers sent to agencies be numbered.)
- Strategy for entering into a systematic dialogue with appropriate Members of Congress and Senators (and staff) so that, should the President issue the Order, it is received with a minimum of controversy.

Concurrence by: Virginia A. Lampley

Attachments

Tab I Draft Executive Order
Tab II Committee Report

Executive Order ____ of ____, 1990

Eligibility for Access to National Security Information

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- 4.4 Waiver

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- 5.2 Information Security Oversight Office
- 5.3 Agency Responsibilities
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- 6.1 Definitions
- 6.2 General

This Order provides uniform standards and procedures governing eligibility for access to national security information, as defined by Executive Order No. 12356.

NOW, by the authority vested in me by the Constitution and laws of the United States of America and in order to enhance the national security of the United States, it is hereby ordered as follows:

Part 1

Access Determinations

Section 1.1 Need for Access

(a) Each agency head shall ensure that the number of individuals having a need for access to national security information is kept to an absolute minimum. Each agency head further shall ensure that the level of access authorized for each individual shall be no higher than necessary for performance of that individual's official duties.

(b) Responsible officials shall grant access to national security information only to individuals who such officials determine require such access in order to perform functions authorized by law. Responsible officials shall review an individual's need for access at least annually.

(c) Where the functions of the agency or any component thereof require every individual to have access to national security information, an agency head may satisfy the requirement of section 1.1(b) by so certifying in writing. A copy of such certification shall be submitted to the Director of the Information Security Oversight Office. Such certification shall be renewed at least every five years.

(d) Responsible officials may review and revise the determination of a need for access at any time. A need for access determination is entirely within the judgment of the responsible official and shall be conclusive.

Section 1.2 Eligibility for Access

(a) An individual shall be eligible for access to national security information only if:

(1) that individual is to perform a function authorized by law for which access to national security information is required; and

(2) a responsible official determines that granting the individual access to national security information is clearly consistent with the national security of the United States.

(b) Among the factors to be considered in determining eligibility for access are whether the individual:

(1) has provided such information and consented to access to pertinent records as may be necessary to satisfy the investigatory requirements of Part 2 hereof;

(2) has engaged in conduct or behavior (including, but not limited to, criminal or dishonest activity, or alcohol or substance abuse), or has ties of affection, citizenship, family, or finances to persons or groups, that may make the individual susceptible to undue influence or coercion;

(3) has demonstrated trustworthiness, reliability, judgment, and a history of mental, emotional, and financial stability; and

(4) has unquestioned loyalty to the United States.

(c) A responsible official shall accept a determination of eligibility for access to national security information classified at a given level made by another agency except when the accepting official has substantial information indicating that the individual may not satisfy the provisions of section 1.2(b) or Part 3 hereof, or the agency head determines in writing that to accept the determination would not be in the national security interest of the United States.

Part 2

Eligibility Investigations

Sec. 2.1 Access to Confidential and Secret Information

(a) With respect to access to Confidential and Secret information, the responsible official's eligibility determination under section 1.2 shall be based on, at a minimum, a background investigation covering at least the prior seven years of the individual's life (but typically not earlier than the individual's sixteenth birthday) and including, but not limited to:

(1) review of records in the possession of appropriate departments and agencies of the United States;

(2) review of the Security Investigations Index;

(3) review of FBI fingerprint and investigative files;

(4) written inquiries of, or personal contacts with,
 (A) financial and credit sources,
 (B) state and local agencies,
 (C) present and former employers and coworkers; and

(5) verification of academic records.

(b) With respect to access to Confidential and Secret information, the responsible official's eligibility determination under section 1.2 shall take into account, in addition to information provided pursuant to section 2.1(a), information derived from other lawful investigative procedures such as a personal interview of the subject or inquiries of neighbors or other persons who are familiar with the subject, in the event use of such additional procedures is determined to be in the national security interest of the United States.

Sec. 2.2 Access to Top Secret Information

With respect to access to Top Secret information, the responsible official's eligibility determination under section 1.2 shall take into account, at a minimum, the investigation described in section 2.1 and a personal interview of the subject. The responsible official shall require personal contacts with, rather than written inquiries of, employers and coworkers and such other sources of information as may be relevant.

Sec. 2.3 Temporary Access

(a) In the event the responsible official determines that access to Secret and Confidential information is required prior to the fulfillment of the requirements set forth in section 2.1, such responsible official may grant temporary access based on an investigation, including:

- (1) a review of FBI fingerprint and investigative files;
- (2) a review of the subject's personal history statement; and
- (3) contact with the subject's last employer or other persons who are sufficiently familiar with the subject to attest to the subject's trustworthiness.

(b) When the responsible official determines that access to Top Secret information is required prior to the fulfillment of the requirements set forth in section 2.2, such responsible official may grant temporary access on fulfillment of the requirements of section 2.3(a) and after a personal interview of the subject.

(c) A temporary access determination under this section shall remain valid no longer than 120 days. Continued eligibility for access beyond 120 days can only be based on a determination taking into account information described in either section 2.1 or 2.2.

Sec. 2.4 Waivers

(a) An investigative requirement under sections 2.1 or 2.2 may be waived if a responsible official determines in writing that the requirement cannot be satisfied in a given case due to circumstances, other than lack of resources, beyond the control of the agency.

(b) Nothing in this Order shall prohibit an agency head from waiving the requirements of section 2.1 or 2.2 and granting limited access to national security information if that agency head determines that such access is necessary to perform functions authorized by law.

Part 3**Eligibility Reinvestigations****Sec. 3.1 For Cause Reinvestigations**

Any individual who is eligible for access to national security information may be reinvestigated any time a responsible official has reason to believe that the individual may no longer meet the requirements of section 1.2. The agency head may suspend such individual's access to national security information pending the outcome of such reinvestigation.

Sec. 3.2 Access to Confidential and Secret Information

With respect to access to Confidential and Secret information, every determination under section 1.2 shall be revalidated at least once every five years by a responsible official who shall take into account, at a minimum, a current investigation described in section 2.1.

Sec. 3.3 Access to Top Secret Information

With respect to access to Top Secret information, every determination under section 1.2 shall be revalidated at least once every five years by a responsible official who shall take into account, at a minimum, a current investigation described in section 2.2.

Part 4**Denial and Revocation****Sec. 4.1 Notice and Opportunity to Respond**

Any determination to deny or revoke an individual's eligibility for access to national security information, which involves a

Federal employee or an employee sponsored for access by a contractor, licensee or grantee of that agency, shall be communicated in writing to the concerned individual before the agency takes final action on the determination. This notice shall:

(a) contain, to the fullest extent consistent with national security, a detailed and comprehensive statement of the specific reason or reasons for the determination to deny or revoke the individual's eligibility for access; and

(b) provide the individual with a reasonable opportunity to reply in writing, including the submission of supporting documentation, to the official making the determination.

Sec. 4.2 Appeal

(a) An individual covered by section 4.1 who makes a timely written reply under that section and who subsequently receives an adverse determination shall be provided a reasonable opportunity to appeal this determination to the agency head. Such an appeal shall ordinarily consist of the affected individual's written statement, including supporting documentation, addressed to the agency head.

(b) The agency head shall take whatever additional measures, which may include (i) further investigation, (ii) personal appearance by the affected individual, other interested parties, or legal counsel, or (iii) a formal hearing, that the agency head determines are necessary to resolve all issues raised on appeal.

(c) All determinations of the agency head under this section shall be final.

Sec. 4.3 Effect on Existing Procedures

(a) This Part authorizes the continuation of agency procedures in effect at the date of this Order by which an individual may challenge the denial or revocation of eligibility for access to national security information, provided that such procedures satisfy at a minimum the requirements of this Part, and nothing in this Part shall be construed to require the reduction of any such procedures.

(b) Nothing in this Part shall be construed to grant (i) access to national security information to any individual as a matter of legal right, or (ii) any procedural rights beyond those provided for in this Part.

Sec. 4.4 Waiver

The procedures set forth in sections 4.1 and 4.2 may be waived in whole or in part if the head of an agency personally determines in writing that providing such procedures would be inconsistent with the national security interests of the United States. Such written determinations shall be preserved consistent with applicable law and regulations. Notwithstanding section 6.1(b), the head of an agency may not delegate this responsibility.

Part 5**Implementation and Review****Sec. 5.1 Policy Direction**

The National Security Council shall review and provide policy direction with respect to eligibility for access to national security information.

Sec. 5.2 Information Security Oversight Office

(a) In addition to the duties set forth in Executive Order No. 12356, the Director of the Information Security Oversight Office (ISOO) shall oversee agency programs to ensure compliance with this Order and ISOO implementing directives. In carrying out this function, the Director shall:

- (1) develop, in consultation with affected agencies, and promulgate, subject to the approval of the National Security Council, directives and forms for the implementation of this Order, which shall be binding on the agencies;
- (2) review all proposed agency implementing regulations and require any proposed regulation to be changed if it is not consistent with this Order or implementing directives; any such decision by the Director may be appealed to the National Security Council;
- (3) conduct on-site reviews of the personnel security program of each agency and require of each agency such reports, information, and other cooperation as may be necessary to fulfill the Director's responsibilities;
- (4) convene and chair interagency meetings on matters pertaining to this Order; and
- (5) report at least annually to the President through the National Security Council concerning implementation of this Order.

(b) Nothing in this Order shall confer authority on the Director of ISOO to take action on specific agency determinations concerning the eligibility of individuals for access to national security information.

Sec. 5.3 Agency Responsibilities

The head of each agency:

(a) may designate a senior agency official to direct and administer the agency's implementation of this Order, which shall include an active oversight and education program;

(b) shall notify ISOO of any designation made pursuant to section 5.3(a); and

(c) shall promulgate implementing regulations that are consistent with the standards and procedures established by this Order. Unclassified agency implementing regulations shall be published in the Federal Register to the extent that these regulations affect members of the public.

Sec. 5.4 Sanctions

(a) If ISOO finds that a violation of this Order or its implementing directives may have occurred, the Director shall make a report to the agency head so that corrective steps, if appropriate, may be taken.

(b) Officers and employees of the United States Government and its contractors, licensees, grantees, and military personnel shall be subject to appropriate sanctions if they:

(1) knowingly, willfully, or negligently grant eligibility for, or allow access to, national security information in violation of this Order; or

(2) knowingly and willfully violate any other provision of this Order or its implementing directives.

(c) Sanctions shall be imposed promptly by the responsible agency in accordance with applicable law and regulations.

(d) Each agency head shall ensure that appropriate and prompt corrective action is taken whenever a violation under section 5.4(b) occurs.

Part 6General Provisions**Sec. 6.1** Definitions

- (a) "Agency" has the meaning provided at 5 U.S.C. 552(f).
- (b) "Agency head" means the head of an agency or a senior agency official designated by the head of the agency to carry out the agency head's responsibilities under this Order.
- (c) "National security information" means information that requires protection against unauthorized disclosure pursuant to Executive Order No. 12356.
- (d) "Responsible official" means each agency official authorized to perform specified duties pursuant to this Order.

Sec. 6.2 General

- (a) Access to national security information relating to special access programs established under Executive Order No. 12356, including all sensitive compartmented information, shall be granted in accordance with procedures established for each such program. Such procedures shall conform to the provisions of this Order. The agency head may exempt specified procedures from conformity with this Order provided that the agency head makes a written determination that such exemption is necessary to the national security of the United States and submits a copy of such determination to the Director of ISOO.
- (b) Nothing in this Order shall prohibit any agency from utilizing any lawful investigative procedure in addition to the minimum investigative requirements set forth in this Order.
- (c) Nothing in this Order shall supersede any requirement made by or under the Atomic Energy Act of 1954, as amended, and regulations issued under that Act.
- (d) Nothing in this Order shall limit the authority and responsibility of the Director of Central Intelligence to protect intelligence sources and methods from unauthorized disclosure.
- (e) Nothing in this Order shall affect determinations regarding the suitability of employees or applicants for employment with the federal government made under Executive Order No. 10450.
- (f) Each agency is authorized to grant or deny access to an area or a facility based on an appropriate level of investigation as determined by each agency head, where the individual having

access may be exposed incidentally to national security information in the course of official duties not specifically requiring access to such information, or where there is a potential risk to the national security posed by the general access of an individual independent of access to any specific national security information.

(g) Except where expressly provided, nothing in this Order or its implementing regulations confers any substantive or procedural rights or privileges on any individual or organization.

(h) In order to facilitate investigations on behalf of the United States and in the interest of foreign relations, the Federal Bureau of Investigation and the Department of State are authorized to conduct personnel security-related inquiries in the United States when requested by a foreign government and with the written consent of the individual to both the conduct of the inquiries and the dissemination of the results to the foreign government.

(i) Executive Order No. 10865 is hereby superseded.

(j) This Order shall become effective on (120 days after signing).

Committee Report: Draft Executive Order on
Eligibility for Access to National Security Information

Summary

In brief, the accompanying proposed Executive Order would:

- establish uniform, minimum standards in connection with determining eligibility for access to Top Secret, Secret, and Confidential national security information; the same standards would apply with respect to special access programs, including sensitive compartmented information, unless the head of the agency creating the program certifies in writing that an exemption covering specified procedures is necessary to the national security;
- require each agency to accept another agency's eligibility determination unless it is not current, the accepting agency has substantial conflicting information, or the agency head certifies in writing that to do so would not be in the national security interest;
- require reinvestigations every five years;
- establish procedures for notice and appeal when an agency proposes to deny or revoke an employee's eligibility for access and authorize agencies to retain procedures that meet or surpass the standards established by this Order; and
- designate the Information Security Oversight Office (ISOO) as the Executive branch oversight entity with respect to compliance with the Order and the issuing of implementing regulations and forms. ISOO will take policy direction from the National Security Council; it will not have the power to intervene with respect to specific determinations regarding an individual's eligibility for access.

Part-by-Part Analysis

Part 1 establishes that the agency head is responsible for ensuring that the number of individuals having a need for access is kept to an absolute minimum, that an individual's official duties shall determine the level of access authorized, that need for access shall be reviewed annually, and that determinations of a need for access shall be conclusive. Where the functions of an entire agency or component thereof require that each employee be granted access, the agency head may satisfy the annual review requirement by a written certification of the need. This certification shall be renewed once every five years.

Part 1 also establishes the factors to be considered in determining whether an individual is eligible for access to national security information and requires an agency to accept another agency's determination of eligibility unless it is not current, the accepting agency has substantial information that the individual does not satisfy the requirements of this Order, or the agency head determines in writing that to accept the determination would not be in the national security interest of the United States. The committee concluded that standardizing investigations requiring revalidation of an individual's eligibility for access to national security information at least once every five years should provide sufficient protection for agencies that presently do not accept access determinations by other agencies. Permitting an agency head to certify in writing that accepting another agency's eligibility determination is not in the national interest preserves the interests of agencies that require additional investigation as a condition of employment.

Part 2 establishes minimum investigative requirements in connection with determining eligibility for access to Top Secret, Secret, or Confidential information. Part 2 also establishes standards for granting temporary access when a need for such access exists. Temporary access is limited to 120 days.

Part 3 establishes both the requirement that eligibility for access be revalidated every five years and the standards for such revalidation.

Part 4 establishes notice and appeal rights in connection with denying or revoking eligibility determinations. Part 4 provides that Federal employees or employees sponsored for access by a contractor would be given notice and an opportunity to respond to a determination to deny or revoke access, that, to the extent consistent with national security, such notice should contain a detailed and comprehensive statement of the reason or reasons for the determination, and that the individual should have a reasonable opportunity to reply in writing. An appeal to the agency head from any adverse determination would be in order. Part 4 also would authorize the continuation of existing agency procedures with respect to such rights provided such procedures conform to the minima set forth in this Part; implementing directives would spell out the details of this regime. The requirements in Part 4 can be waived only if the head of an agency determines in writing that providing such procedures would be inconsistent with the national security interests of the United States. This waiver authority may not be delegated.

Part 5 states that the National Security Council shall provide policy direction with respect to the implementation of the Order and that ISOO would have operational responsibility for oversight within the Executive branch. The committee concluded that the

Executive branch needed an entity with oversight responsibility and that such entity should not have any interest apart from ensuring compliance with the Order. ISOO meets this criterion. Part 5 further grants authority to the head of each agency to delegate to a senior agency official agency head responsibilities to administer implementation of the Order. ISOO would have to be notified of such delegation. The purpose of requiring notification to ISOO is to ensure consistency with the Order. The diversity of agencies within the Executive branch does not permit a generalization about the rank of the appropriate senior agency official.

Part 6 contains definitions and general provisions. The latter govern such areas as sensitive compartmented information, the right to use other lawful investigative procedures, the DCI's responsibility to protect intelligence sources and methods, the distinction between suitability for employment and determinations of eligibility for access to national security information, and other matters. Part 4 authorizes the continued use of procedures established pursuant to Executive Order No. 10865, issued by President Eisenhower, which this Order would supersede.

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financial institutions [(b)(8) of the FOIA]
(b)(9) Release would disclose geological or geophysical information

SOVIET-JAPANESE RELATIONS: PROSPECTS FOR CHANGE AND IMPLICATIONS

1. U.S. interests in Soviet-Japanese relations

*U.S. Beneficiary in Stalemate.
Some evidence Soviets may want
to end stalemate.
Ocean access / Sub. action. CKH:TSK*

2. What accounts for the stalemate in relations?

3. Prospects for change

4. Economic interests and constraints

5. Consequences of improved relations

6. Implications for U.S. policy

*Japanese want consultation
on Soviets w/ U.S.*

RAND

SOVIET-JAPANESE RELATIONS: PROSPECTS FOR CHANGE AND IMPLICATIONS

- 1. U.S. interests in Soviet-Japanese relations**
 - 2. What accounts for the stalemate in relations?**
 - 3. Prospects for change**
 - 4. Economic interests and constraints**
 - 5. Consequences of improved relations**
 - 6. Implications for U.S. policy**
-

U.S. Interests In Soviet-Japanese Relations

U.S. benefits from impasse

Japanese concerns about isolation

Soviet interests in improving relations

What Accounts For the Stalemate In Relations?

Soviet position

- Limits on flexibility

Japanese position

- Limits on flexibility

Prospects for Change

Evolution of policy under Gorbachev

- Overtures to Japan
- Options for Northern Territories

Japan's current bottom line

Economic Interests and Constraints

Soviet economic interest in improved relations

- **Japan as potential source of capital and technology**

Limited Japanese economic interest

- **Diminishing economic complementarity**
- **Uncertainty about Soviet reform prospects**

Consequences of Improved Relations

Lifting of political restrictions on trade and investment

- **Massive expansion unlikely**

Reduced "Soviet threat" perceptions

- **Greater public resistance to defense**
- **Greater sensitivity of U.S. security ties**

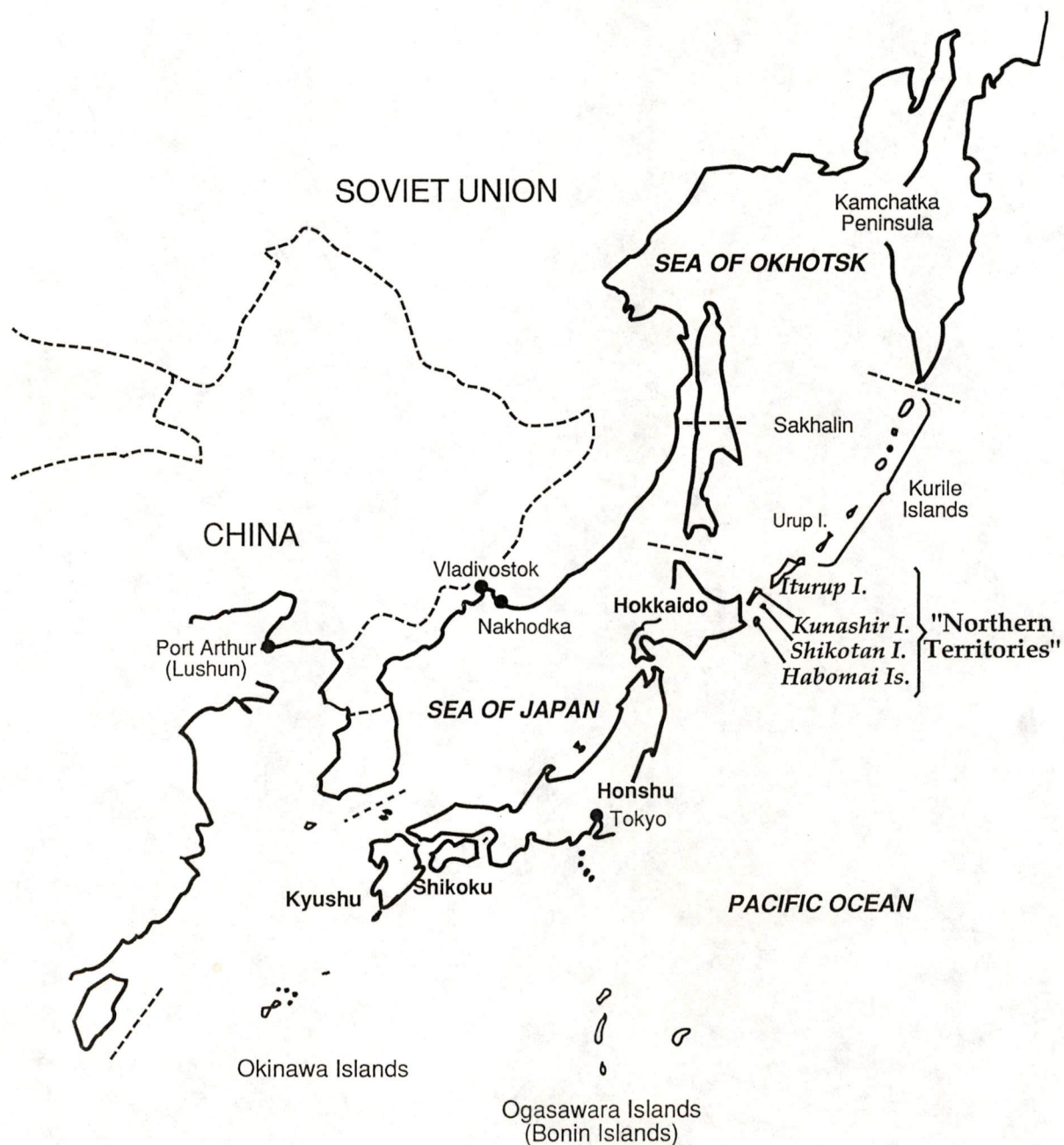
Manageability of adverse trends

Implications for U.S. Policy

Chance of territories breakthrough in 1991

U.S. options for influencing outcome

Need to improve U.S.-Japan coordination on Soviet Union



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has seen

NSE

The RAND Corporation

March 1990

Briefing Notes

Soviet-Japanese Relations: Prospects for Change and Implications

I. U.S. Interests in Soviet-Japanese Relations

1. Long Soviet-Japanese stalemate has helped perpetuate an Asian balance that is comfortable for U.S.
 - Limits Soviet influence in Japan.
 - Helps keep Japan in the defense game and more firmly tied to security relationship with U.S.
 - Dampens effects of economic strains in U.S.-Japanese relations.
 - Minimizes pressures on U.S. to respond to Soviet naval arms control proposals.
 - Soviet-Japanese relations are not good, but also not dangerous.
2. But there is a downside for Japan.
 - The Japanese are concerned they are being "left out" of dismantlement of Cold War.
 - Everyone except Japan benefits (including especially Japan's World War II axis partner, Germany).
 - Concerned their interests (getting Northern Territories back, sustaining domestic support for defense buildup) being neglected, even adversely affected, by U.S.-led Western efforts to "help Gorbachev," who has so far not "helped Japan."
3. But at the same time Soviet interest in breaking the stalemate may be growing.
 - Japan is only major power with which Gorbachev has not yet succeeded in substantially improved relations.
 - He want to remove political obstacles to more substantial Japanese investments.

- Although Soviet leadership is now preoccupied with its severe domestic crisis, Gorbachev's circle appears to have begun exploring possible compromises for Northern Territories problem in anticipation of Gorbachev's 1991 Japan visit.

II. What Accounts For The Stalemate in Soviet-Japanese Relations?

A. Soviet Position

1. There is long legacy of hostility and distrust, dating back in this century to the Russian defeat in Russo-Japanese war.
 - Military and many civilians see the Southern Kuriles/Northern Territories (NT) as war booty legitimately taken from Japanese in World War II which USSR should not abandon.
2. Since Sea of Okhotsk became SSBN bastion area in 1978, "SSBN sanctuary" argument against secession of the islands has grown in importance for Soviet military.
 - Concern about potential U.S./Japanese use of the islands for ASW purposes against Soviet SSBNs that target U.S. from Sea of Okhotsk.
 - Military interest in NT probably bolstered by general sense of vulnerability and relative isolation of Soviet Far East, and difficulty of reinforcing Soviet positions there.
3. In addition, Soviets probably inhibited from concessions by pessimism about the payoff.
 - Have always feared they would not get commensurate quid pro quo from Japanese, either in economic help or disruption of the Japan-U.S. military relationship.
 - In past, concessions the Soviet leadership could agree on have been poorly timed or too small, while those concessions the Japanese wanted could not get through the Soviet consensus. Result: impasse.

B. Japanese Position

1. Long legacy of enmity and distrust, with Russia (USSR) seen as pursuing expansionism vis-a-vis Japan since mid-to-latter 19th Century.
 - Never reconciled to Soviet seizure of NT after what Japanese see as Soviet stab in the back campaign at end of World War II.
 - USSR consistently ranks at top of Japanese public opinion polls as most disliked/least trusted nation.
2. Basic Japanese conservatism: attitudes change slowly in Japan in general, especially so regarding USSR given its history, policies, and behavior toward Japan.
3. Soviet inflexibility and heavy-handedness have strengthened Japanese conservatism and hardline stance.
 - Japanese resent traditional Soviet treatment of Japan as inferior; style and approach important in Japan; boorish Soviet attitude insults Japanese pride.
4. Key factor: perception of mutually incompatible security interests.
 - Japan seeks reduction of Soviet military power in Far East, including on NT: focus on aircraft close to Japan and ability of Soviet Pacific Fleet to threaten Japan's SLOCs.
 - Soviet Asian reductions so far have not been in areas close to Japan.
 - Tokyo wants to limit Soviet political influence in region generally.
 - Wants Soviets to end efforts to undermine Japanese self-defense efforts and U.S.-Japan security arrangements; concerned that Soviet policies could precipitate U.S. disengagement from region.
 - Wants to reduce Soviet support for North Korea, especially Pyongyang's military modernization and hardline policies toward South Korea.

- Wants USSR to treat Japan as an equal
5. Factors limiting Japanese flexibility.
- Japanese suspicion about Soviet intentions.
 - Japanese concern not to undermine U.S.-Japan Security Treaty (hence minimal interest in Soviet arms control proposals, etc.).
 - Japan sees only minimal changes thus far in overall Soviet Far East policies (except regarding China).
 - Japanese reluctance to legitimize Soviet role in Asia (certainly without Soviets first paying a "price").
 - Wide consensus within Japan on demand for return of all four northern islands
 - Position of some opposition parties even stronger than that of LDP.
 - Strong bureaucratic support for hardline posture.
 - Bureaucracy still runs Japanese government.
 - Present weakness of LDP leaves it without political strength and leadership for major policy flexibility/initiatives.
 - Having taken such a hard line so long, "flexibility" now could have negative domestic political ramifications (split LDP, give issue to opposition, help polarize political opinion and domestic debate, etc.) unless accompanied by major and probably prior Soviet concessions.
 - Soviet economic weakness inclines Japanese to wait for pressures to build, forcing Soviet concessions on NT as elsewhere; disinclined, in recently-begun process of "feeling each other out," to soften Japanese position prematurely.
6. But, expressed Japanese willingness to improve overall relations with USSR reduces somewhat Japanese leverage on Moscow to make concessions.

III. Prospects For Change

A. Evolution of Policy Under Gorbachev

1. Having improved relationships with U.S., Chinese, and Europeans, Gorbachev probably sees impasse with Japan as last major obstacle to general normalization with all adversaries around periphery.
2. As Soviet internal economic situation has worsened, Soviet perception of importance of getting bigger Japanese economic input may have grown.
3. In last two years, Gorbachev has opened multiple channels of dialogue with Japanese.
 - He has replaced leading Soviet obstructionists Kapitsa and Kovalenko.
 - He has stopped flatly refusing to discuss NT issue, as under Brezhnev, and has, at least implicitly, acknowledged it as an issue.
 - He has sent his closest political allies, Shevardnadze and Yakovlev, to Tokyo to probe terms for a compromise.
 - He has made symbolic gestures such as allowing visits by Japanese to grave sites in the Northern Territories.
 - He has set up joint commission to discuss future of the relationship and the question of a bilateral peace treaty, providing a forum to consider territorial issue.
 - And he has pledged to visit Japan in 1991 after refusing for four years to commit himself to a visit. Public commitment turns heat up for both sides to find resolution of NT issue as visit approaches.
4. In meantime, Gorbachev continues previous efforts to pressure Japanese:
 - Maintains pressure on Japan and the United States with proposals for CBMs and mutual naval limitations and reductions in NE Asia.

- These proposals all designed (a) to constrict or embarrass US-Japanese military cooperation and (b) to obtain asymmetrical effects on balance in East Asia through reductions in US naval power that offsets Soviet land and air predominance in region.
- Both Washington and Tokyo have responded negatively, but Japanese Foreign Ministry fears US might some day agree.
- Soviets also continue to press Tokyo to agree to expand trade and investment in the Soviet Union in absence of the fundamental concessions Japan asks on NT.

5. Soviet Options Re Northern Territories

- A wide range of ideas for dealing with the NT issue has been floated to the Japanese in recent years by various official and non-official Soviets.
 - The most persistent is the possibility of a return of the two least important of the four islands (Old idea originating in Khrushchev years, withdrawn after Japanese adherence to MST, and resurrected periodically thereafter by various Soviet officials).
 - The possibility that joint Japanese and Soviet investment in the NT could lead eventually to some kind of more far-reaching solution was broached by Soviet sources in connection with Yakolev's visit to Japan last year. (A variant of this idea, to which demilitarization of the islands was added, was suggested in Japan by Boris Yeltsin.)
- Because of glasnost, many other scenarios have emerged from various Soviet scholars and journalists which do not seem to have been prompted by the Soviet leadership. Examples include:
 - a) Returning the islands forthwith;
 - b) Allowing Japan to "lease" all the disputed islands while the USSR retains sovereignty;
 - c) Granting Japan "residual" sovereignty over the islands while the Soviet Union retains some military rights in the islands analogous to those the United States has in Okinawa.

- All of these suggestions appear unacceptable to the Soviet or Japanese governments or both.
6. Meanwhile, two ways Gorbachev could sweeten any NT offer:
- a) Announce some symbolic reductions in the Soviet forces stationed in the NT.
 - Would have little meaning for regional force balance, but might have disproportionate political effects in Japan, just as initial Soviet withdrawal of one division from Mongolia in 1987 did with Chinese.
 - b) Hold out to Japan possibility of some more significant unilateral drawdowns of the total Soviet naval and air forces confronting Japan and the United States in northeast Asia as sequel to a mutually acceptable settlement of NT issue.
7. For time being in light of their domestic troubles and European preoccupations, the Soviets have probably placed the NT issue on backburner. Prospects for 1991 may depend on how successful Gorbachev is this year in restoring political stability at home and at least arresting the country's economic slide.
- A large new uncertainty is whether domestic political factors -- namely Russian nationalism and parliamentary involvement in foreign policy -- will preclude Gorbachev from offering concessions involving detachment of Russian territory.
 - A second question is how much Moscow will fear setting precedent for territorial claims by others (e.g., China) at a time when the Soviets feel vulnerable and deeply concerned that others perceive them so. Prior settlement of border issues with China might relieve some of those concerns.
8. Gorbachev's key hope: that spread of detente elsewhere will bit by bit increase Soviet leverage on Tokyo.
- Gorbachev suggests Japan is being left behind by Soviet-American detente, Sino-Soviet rapprochement, and new situation in Europe. Soviet message: Japanese run the risk of becoming isolated if they do not accept detente with the USSR essentially on Soviet terms.

9. Soviet-Japanese situation is thus a race between Gorbachev's concerns over deteriorating economy and Tokyo's concerns about becoming isolated.
- B. Japanese position
 1. Japanese currently still inclined to "wait and see."
 - See Soviet moves so far as almost entirely cosmetic.
 - Japanese generally feel in stronger bargaining position: Soviets need them more than they need Soviets.
 - Public pressure for more flexibility in dealing with Gorbachev increasing somewhat, but still small and manageable.
 - Japanese "new thinking" minuscule, modest in scope, and confined to academic fringes.
 2. The main impetus for change is a growing sense of geo-strategic isolation.
 - With superpowers improving their relations, EC moving rapidly toward regional integration, and U.S. "tilting" toward Europe, Japanese increasingly feeling left out politically
 - Lacking any "natural" allies and buffeted by changing attitudes toward Japan in the United States, Japanese fear being "orphaned."
 - Soviets clearly playing on this historic Japanese fear.
 - Barring major rupture in U.S.-Japan relations, economic incentives not sufficient in themselves to cause major Japanese policy change.
 3. Sense of geo-strategic isolation may be starting to have effect: signs of wavering on historic Japanese refusal to separate politics and economics (minor agreements with Soviets on environmental protection, technical cooperation, cultural exchange, recent Abe visit to Moscow, etc.)
 4. For Japanese, resolution of NT issue is not the end of the game, but rather a prerequisite for major things to happen; would have to be accompanied by other things (reductions in Soviet military

threat, etc.) for radical changes in Soviet-Japanese relations to occur.

5. Present Japanese bottom line: Explicit Soviet acceptance of principle of Japanese sovereignty on NT -- probably also some timetable or at least commitment for eventual return of all four islands.
 - Japan probably could agree to give assurances of non-militarization of NT in context of Soviet agreement to return all islands.
6. Recent Japanese elections unlikely to have major effects on Japanese policy toward USSR.
7. Conditions which might alter mainline projection:
 - Precipitate U.S. military withdrawal from region
 - Major rupture in U.S.-Japan relations

IV. Soviet-Japanese Economic Relations: Prospects and Constraints

1. Soviet interests in expanded relations are probably appreciable, but not overwhelming.
 - As world's largest source of external capital, Japan might contribute financing for development of strained Soviet economy, and technology to help chronic problem of low and declining productivity
 - This appeal relates to Soviet economy in general, and Siberia in particular, although East Siberia not now high in Soviet priorities.
 - Expanded economic relations with Japan also of interest to Soviets as potential counterweight to Western capital and business.
 - By widening pool of potential participants, Japanese may enable Soviets to improve terms they can negotiate.
2. Japanese interests in expanded economic relations with USSR are quite limited and constrained from an economic standpoint; and more promising from a political standpoint.

- Structural changes in Japanese economy (from resource-intensive to technology-intensive industry and services) make USSR's rich natural resources less attractive than previously.
 - Inaccessible location of Soviet resources and weak infrastructure, and comparatively high costs of extraction and commercial exploitation.
 - Migration of Japanese industry to offshore locations with location-specific resource needs and access problems unrelated to the Soviet resource base.
3. Possibly more promising is potential role for Japan in Soviet economic development as participant in an international financial consortium, rather than on basis of bilateral trade-related considerations. But prospects for this role also complex and constrained:
- On one hand, Japanese motivation to participate may spring from increasing recognition of its role and responsibilities as an economic superpower, and it would surely be stimulated by prior Soviet concession to resolve NT issue.
 - On the other hand, Japanese are aware that more capital for the USSR means less for other potential recipients where Japan's interests or commitments may be more heavily engaged (e.g. China, Middle East, Pakistan, Latin America, etc.), and Soviet debt service capacity looms as increasing constraint, especially in absence of major systemic economic reform in the Soviet Union.
 - Japanese interests, in general, severely constrained by uncertainties regarding systemic Soviet economic reform, and Japanese assessment of prospects along these lines (e.g. price decontrol, privatization, currency convertibility) are strongly pessimistic.
4. Overriding these considerations is the NT issue: a sharp change in Soviet position is a precondition for the uncertain payout of above conflicting considerations.

- Japanese assessment of the balance would be influenced by expected U.S. attitudes, reactions, policies.

V. Political-military consequences of improved Soviet-Japanese relations:

1. Would depend on extent of improvement and state of U.S.-USSR and U.S.-Japan relations.
2. Immediate impact in Japan (assuming major Soviet concessions) would probably be substantial at popular level, but small at official, policy level.
 - Would strengthen public opposition to continued increased Japanese defense buildup and raise interest in regional arms control.
 - The more "provocative" -- especially nuclear -- aspects of U.S.-Japan military ties would probably become more sensitive politically.
 - So long as basic strategic situation in Far East continued, however, these popular sentiments would probably be manageable by Japanese government.
3. Japanese government unlikely to agree to alter existing security agreements and arrangements with U.S. for Soviet concessions on NT.
4. Government would probably agree to some expanded economic dealings with Moscow, but not to "reward" USSR with massive economic concessions.
5. Over the long-term, the impact of NT settlement could be greater: perceived reduction in Soviet "threat" and hostility could weaken ruling conservatives and heighten public pressures for U.S. military disengagement.

VI. Conclusions

1. A breakthrough on the NT is still not imminent, but Moscow may be weakening and an agreement largely on Japanese terms during Gorbachev's visit in 1991 is not to be excluded.
2. Realistically, U.S. can influence the outcome only marginally.
 - By putting pressure on the Soviets to surrender the islands.
 - This might please Tokyo and irritate Moscow, but would not make much difference unless U.S. was prepared to make NT a major issue in U.S.-Soviet relations on which other issues of mutual U.S.-Soviet concern were made to depend.
 - By encouraging Japan either to "hang tough" or explore compromise with the Soviets.
 - *Encouraging hardline* could be seen in Tokyo as cynical U.S. stratagem to keep issue from being resolved so as to keep Japan tied to U.S.
 - *Encouraging compromise* might be seen as U.S. readiness to have Japanese national interests sacrificed to "help Gorbachev."
3. While U.S. interests are probably best served by perpetuation of the stalemate, U.S. should stick closely to whatever position Japan chooses on the NT, making clear to Japan that we support its position both officially and in private deliberations with the Soviets.
 - Japanese do not expect U.S. to make return of NT a make-or-break issue in U.S.-Soviet relations, but will want U.S. to keep raising issue with Soviets in appropriate circumstances.
 - Tokyo reportedly greatly disappointed circumstances prevented President Bush from raising issue with Gorbachev at Malta, as expected.
4. In general, U.S. should institute more systematic consultations with Japan, regularly and at high levels, regarding relations with the USSR.

- Especially in light of European events and close collaboration of U.S. with Germany, UK, France and other NATO allies on CFE, German unification, etc., Japan feeling increasingly left out.
 - Contrast Presidential post-Malta briefing of NATO leaders in Brussels and Scowcroft-Eagleburger in China with Tokyo briefing by Assistant Secretary of State who was not at Malta.
 - Reportedly upset that even on international economic issues where Japan has a major role, such as possible GATT association for Soviet Union, Japan was not consulted about the U.S. offer at Malta.
5. Japanese concerns could be assuaged by more frequent and high level consultations regarding developments in the USSR and Western policy interests and interactions with and regarding the Soviets.
- Would help reduce Japanese sense of isolation if Soviet-Japanese relations remain in limbo.
 - Would help minimize Japanese incentives to seek improvements in relations with Soviets at cost of relations with U.S.
 - Would provide basis for coordinated response to potential changes in USSR and Soviet foreign policies affecting U.S. and Japanese interests.

ECONOMIC ASSISTANCE FOR POLAND

1. Historic moment: With our help Poland can move to a democratic political system with a market-based economy that will change the face of Eastern Europe.
2. People and government of Poland face immediate economic crisis and the need for fundamental reform.
 - Inflation rising rapidly -- now estimated at over 300 percent this year.
 - Budget deficit ballooned from near balance last year to an estimated 8 percent of GNP in 1989.
 - Non-agricultural production and prices largely controlled by the government. 90 percent of industry now state-owned, virtually all monopolies; 30 percent of the labor force is employed in agriculture.
 - Prices unrelated to market forces and do not reflect costs.
3. Polish authorities are committed to dealing with these problems, but there will be transitional costs as stability is restored and labor and capital are shifted in response to market forces.
4. To minimize these costs, restructuring must take place hand in hand with financial stabilization so that whole program is growth-oriented.
5. U.S. assistance must be based on a comprehensive assessment of the long-term needs of the Polish economy during this period of fundamental reform.
 - Our response should not be driven by ad-hoc requests and Congressional pressures each time the economy runs into trouble.
 - We should avoid responding to demands for short-term financial fixes that would undermine a comprehensive long-term approach.
6. We want people to be able to look back a year from now and say that the President of the United States repoded with a far-sighted program for aiding the transition in Poland.
7. Current efforts are fragmented; there is a need now for real Presidential and U.S. leadership.
 - The EC Commission can contribute limited types of assistance but it does not have the ability to orchestrate an innovative long-term program of Western assistance.
 - Congress is going off on its own.

7. The President should present the Administration's proposals in the context of responding to both the short-term crisis and the long-term needs of the Polish economy with a program to integrate bilateral and multilateral assistance with Poland's stabilization and restructuring efforts.
8. The Administration's program should recognize the likely path of reform:
 - (a) the first year, with IMF standby, concentrating on reducing inflation and making necessary institutional changes (establishment of bankruptcy laws, banking system, safety net, etc.); and
 - (b) this would make possible phase two, the conversion of economy to a market-based system with assistance of three-year IMF extended arrangement.

8. The President could:

- Propose high-level meeting to develop Western "Marshall Plan" to coordinate all international assistance. (This could be done by elevating the EC Commission effort to Ministerial level. World Bank could be given a prominent role.)
- Announce appointment of a special bilateral Bush Commission for Poland and Hungary (with a prominent U.S. coordinator) involving government, business, Congressional, and academic leaders.

The Commission would (1) advise the President; (2) mobilize private and public resources; and (3) match that support to the needs of the Polish restructuring program.

The Commission could also focus on assistance to retrain, relocate, and assist workers displaced by the shift to a market economy.

- Announce U.S. support for immediate Paris Club rescheduling, without waiting for an IMF program.

One possibility we could explore would be a standstill.

- Announce U.S. will contribute to a stabilization and restructuring fund after further consultation with the allies on the appropriate size and uses of such a fund. The fund would follow agreement on an IMF program.
- Announce U.S. willingness to participate in multilateral bridge loan to an agreed IMF program.

- Call on the IMF and the World Bank to play a strong role in providing policy advice and financial support.
 - o IMF could provide a one year stand-by loan of \$400 to \$700 million, followed by a three year program of between \$1.6 and \$2.1 billion.
 - o World Bank could move \$500 million in project loans relatively soon and then could negotiate a structural adjustment loan on the order of \$500 million in late 1990 or 1991.
- Call on the World Bank could be given the additional, special responsibility of coordinating a phalanx of technical assistance by bilateral donors.

Withdrawal/Redaction Sheet

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Date Closed:	12/15/2004	OA/ID Number:	29180-001
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