

DECLASSIFIED

E.O. 12958, as amended, Sect 3.5

NSC/Boabers to Smith 09/06/2002

By LR Date 02/08/07

THE WHITE HOUSE

WASHINGTON

~~SECRET~~

March 5, 1974

National Security Study Memorandum 197
Council on International Economic Policy Study Memorandum 33

TO: The Secretary of Defense
 The Secretary of the Treasury
 The Secretary of Commerce
 The Secretary of Agriculture
 The Secretary of the Interior
 The Deputy Secretary of State
 The Director of Central Intelligence
 The Administrator, General Services
 Administration
 The Director, Office of Management and Budget
 The Executive Director, Domestic Council

SUBJECT: Critical Imported Commodities

The President has directed a further examination of the potential threat posed by foreign manipulation of the supply or price of critical non-fuel commodities. This study is to complement, and be coordinated with, the work on critical commodities being carried out by the domestic agencies under the chairmanship of Secretary Morton.

This study will use as a starting point the list being prepared in the domestic study of those imported basic commodities and intermediate products which are essential to the normal operation of the economy and to national defense preparedness and which are also vulnerable to artificial or natural shortages. The study should also utilize domestic agency work on the particular economic condition of each of these vulnerable commodities during the next three to ten years.

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The study should be conducted in two phases. In the first phase each commodity and intermediate product on the above list should be reviewed for its potential effect on the U. S. economy, foreign economies and on the national defense. The first phase should also:

- Identify key producers and the forms producer action might take individually or collectively, such as cartel formation, export embargoes and price manipulation. The possibilities for natural shortages should also be identified.
- Identify the range of circumstances which might trigger adverse producer actions.
- Analyze the time frame within which producer country actions could make themselves felt.
- Assess the impact of commodity shortages or price increases on the economies of producers and consumers, including the impact on likely trade and investment patterns and on foreign policy trends.

The second phase of the study should consist of an evaluation of U. S. policy options. This evaluation should include examination of measures the U. S. can take, individually or with other states, to safeguard against supply or price manipulation or natural shortages of critical commodities, such as:

- developing self-sufficiency; e. g. , by encouraging development of domestic alternatives and substitutes;
- diversifying foreign sources of supply;
- developing an economic stockpile, perhaps as an adjunct to the strategic stockpile;
- consumer-producer cooperation; e. g. , possible commodity stabilization agreements; and
- alternative responses to artificial price increases.

The study should be prepared by an Ad Hoc Group comprising representatives of the addressees and of the Assistant to the President for National Security Affairs and the Assistant to the President for International Economic Affairs, and chaired by the representative of the Secretary of State. The study should be forwarded not later than May 10, 1974 for consideration by the President.



Peter M. Flanigan



Henry A. Kissinger