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Authorization for Embassy to take initiative to discuss this point with Yugoslavs supersedes penultimate paragraph reference which instructs Embassies not to take any initiative in mentioning subject of waiver. END FYI.

2. Section 620(a)(3) of course applies to any future military sales under FAA on same basis as to unobligated balance existing program as discussed preceding point.

3. USG understands general GOY position regarding its shipping to Cuba as described previous discussions Belgrade and Washington. Nevertheless, Embassy is requested report in detail and as soon as possible on any steps that GOY takes as result this representation. BEGIN FYI. In view delay in requesting Embassy make this representation, reftel deadline of end January for reporting steps host country has taken or plans take extended to February 6. END FYI.

4. All countries receiving assistance under FAA being approached in same manner re this subject.

BEGIN FYI. We have set out below for your early comment issues involved balancing our Cuba policy and in this case our specific objective isolate Cuba against our policy interests in Eastern Europe.

In past discussions on subject Cuban shipping Yugoslav officials have made following points in defense fact that some Yugoslav ships remain in Cuba trade.

A. Yugoslavia committed in principle to freedom trade and navigation and these principles impose certain limitations on Yugoslav policy.

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B. In view quite substantial total volume Yugoslav shipping to Western Hemisphere could be expected that Yugo shipping with Cuba would be several times present level.

C. In fact actual Yugoslav shipping involving Cuba quite small, which implies that certain measures to restrict Cuban shipping must have been taken despite A and B.

D. Yugoslav-Cuban relations have not developed according Yugoslavia's initial hopes; Cuba's relations with other countries have developed in a way which Yugoslavia regards critically.

Yugoslav shipping to Cuba did decline from 26 calls in 1962 to 12 calls in 1963. Yugoslavs thus may have tacitly cooperated with us by limiting number voyages. However GOY probably considers open acquiescence our shipping policies and termination all shipping to Cuba would place it in position bowing openly to US pressure which it could not do.

Should Yugoslavs fail take appropriate steps completely halt shipping to Cuba, we would have to consider whether to invoke 614(a) waiver to make military sales. As you will recall, Presidential Determination of May 14, 1963 providing for military sales made following points:

1) disruptive influence which general GOY policies have had within Soviet bloc; 2) desirability forestalling Yugoslav dependence on USSR for arms; and 3) strengthening GOY elements favorable to US. These factors would be relevant in consideration any future waiver.

On other hand, we must give most serious consideration our Cuban policy including clear Congressional expression that non-bloc shipping

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to Cuba be halted. US activities against free-world economic ties with Cuba stem from basic policy isolating Cuba. This objective undertaken in large part to counter Cuban subversive activities in Latin America and, more lately, apparent Cuban involvement in Africa. In this respect, Cuba only communist country other than Soviet Union and Communist China which has been actively engaged in widespread subversive activities in other countries.

In sum, if GOY fails take appropriate steps terminate all Cuban shipping, we will be faced with problem weighing disadvantage to national interest of termination military sales to Yugoslavia against disadvantages asking President to grant waiver (which would inevitably create great pressure for waivers for other countries) and justify same in face of continuing and intense Congressional interest in termination shipping to Cuba.

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END

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