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May 15, 1964

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SUBJECT: The Rumanian Negotiations

The key issue on which the Rumanian discussions hinge is our ability and willingness to sell to them two synthetic rubber plants; plants which would permit them to use petroleum for the manufacture of rubber and lessen Rumanian dependence on the importation of natural rubber.

At the present time, the U.S. controls this technology (although it has licensed the production processes to the Netherlands, UK, West Germany and Canada). However, our monopoly of this technology is a wasting asset and according to the experts we only have 9 to 12 months remaining during which we will have an exclusive on it.

DOD is somewhat concerned that these plants will enable the Rumanians to produce tires for aircraft which would be made available to the Soviet Union. Commerce in turn feels that these facilities should be traded for Rumanian commitments to purchase an agreed quantity of durable consumer goods. Some such purchases are possible, but the Rumanians are hamstrung by limitations on convertible currency.

Rumania can get all the natural rubber it wishes without impediment or hindrance. Synthetics are a substitute for natural rubber, not an esoteric material. Anything the Rumanians can do with synthetics they can do with a natural product. We are not giving them a tire factory -- we are thinking about selling a plant that produces synthetic rubber.

Moreover, as far as Soviet needs are concerned, CIA believes that there will be similar Soviet rubber plants in operation before this year is over, so that the Soviets are unlikely to be dependent upon the Rumanians for synthetic airplane tires -- a matter of apparent concern to certain parts of DOD.

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Stated briefly, the two rubber plants do not have all the qualities Defense and Commerce attribute to them. They are available for sale. The Rumanians want them badly. They can buy us an improved position with Rumania and help Rumania in its movement toward greater independence from the Soviet Union. Moreover, we can and should insist upon necessary assurances from the Rumanians to protect our interests, i. e., restricting trans-shipments, re-exports, etc.

The important thing is to let Harriman explore the problem without silly encumbrances to determine the Rumanian quid for this economic quo.

For your use at today's luncheon I am enclosing a paper Phil Trezise prepared for Governor Harriman on this problem. It answers some of the questions that have been raised.

David Klein

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