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DOCUMENT NO. & TYPE	SUBJECT/TITLE	DATE	RESTRICTION
~~1. memo~~	~~Wm. Martin to Wm. Clark re East- Westenergy studies (0852) 3 p.~~ R 5/30/06 F99-078/1 #59	~~2/4/83~~	~~P1, F1~~
~~2. paper~~	~~re energy study terms of reference 4 p.~~ R " " #60	~~nd~~	~~P1, F1~~
3. memo	re report 2 p. PART " " #61	1/24/83	~~P1, F1~~ B3
~~4. paper~~	~~re Commerce comments on report 6 p.~~ R " " #62	~~nd~~	~~P1, F1~~
~~5. cable~~	~~4 p.~~ R " " #63	~~1/25/83~~	~~P1, F1~~
~~6. paper~~	~~NSDD 66 East-West study program summary 2 p.~~ R " " #64	~~nd~~	~~P1, F1~~
~~7. paper~~	~~re east-west trade studies follow-up to summary of conclusions 2 p.~~ R " " #65	~~1/10/83~~	~~P1, F1~~
~~8. paper~~	~~re energy study 2 p.~~ R " " #66	~~nd~~	~~P1, F1~~
~~9. paper~~	~~re credit flows study 2 p.~~ R " " #67	~~nd~~	~~P1, F1~~
~~10. paper~~	~~re CoCom 2 p.~~ R " " #68	~~nd~~	~~P1, F1~~
~~11. paper~~	~~re high technology exports 2 p.~~ R " " #69	~~nd~~	~~P1, F1~~

RESTRICTIONS

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F-8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA].
F-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA].

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DOCUMENT NO. & TYPE	SUBJECT/TITLE	DATE	RESTRICTION
~~12. draft paper~~	~~re draft strategy and terms of reference for east-west economic study 6 p.~~ R 5/30/06 F99-078/1 #70	~~nd~~	~~P1, F1~~
13. bibliography	re USG studies available as source material 2 p. PART " " #71	nd	~~P1, F1~~ B3
~~14. paper~~	~~terms of reference and strategy for credit flows study 5 p.~~ R " " #72	~~nd~~	~~P1, F1~~
~~15. paper~~	~~re status and outlook. energy requirements study 3 p.~~ R " " #73	~~1/7/83~~	~~P1, F1~~
~~16. paper~~	~~re terms of reference energy requirements and alternatives study 2 p.~~ R " " #74	~~nd~~	~~P1, F1~~
~~17. paper~~	~~re folow up on energy requirements study and natural gas security study 2 p.~~ R " " #75	~~nd~~	~~P1, F1~~
~~18. paper~~	~~re strengthening CoCom 9 p.~~ R " " #76	~~nd~~	~~P1, F1~~
~~19. paper~~	~~re high technology exports 6 p.~~ R " " #77	~~nd~~	~~P1, F1~~
~~20. paper~~	~~re other high technology exports 2 p.~~ R " " #78	~~nd~~	~~P1, F1~~
21. memo	Donald Goldstein (DOD) to Tim Hauser (State) re draft cable on ex post review of east-west trade and financial developments 2 p. R 4/30/08 " #79	1/21/83	~~P1, F1~~
22. memo	from Allen Wallis (State) re support for east-west study program PART 5/30/06 F99-078/1 #80	1/13/83	~~P1, F1~~ B3

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MEMORANDUM

NATIONAL SECURITY COUNCIL

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INFORMATION

February 4, 1983

MEMORANDUM FOR WILLIAM P. CLARK

S-WT.

FROM: WILLIAM F. MARTIN wfm

SUBJECT: East-West Energy Studies

1. We have seriously lost momentum on the natural gas studies and alternatives to Soviet energy.

2. Contacts today with CIA, OMB and DOE officials confirm that technical coordination of alternative energy issue is off track. Due to weak role of coordination by State, my former technical team has now turned to other, more "pressing" issues. They are submitting off the shelf studies. No new thinking has been activated.

3. State DAS (Wendt) in charge of the East West energy study group has one year of experience in energy and no technical background. While he is a fine foreign service officer, he is not capable of coordinating technical issues. This weakness could prove fatal in our race to move Europeans toward the North Sea and away from the Soviet Union.

4. Given present situation, I have called an emergency technical meeting on Friday at the CIA to get things going again. We will undertake a crash program to get material in shape for the next critical meeting with the Allies, now scheduled for February 23-24. Each of the five parts of the energy study terms of reference will be examined from the following perspective:

a. What shadow USG studies are we preparing so that IEA results can be checked against our figures? (I want the CIA to do the same study as the IEA. State, however, has dropped my earlier request from their tasker, that the CIA produce a detailed European gas security study.)

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b. What analytical studies and technical facts can the USG contribute to the IEA Secretariat? How can we most effectively collect, organize and present data to the Secretariat? (We are very fortunate that the IEA has encouraged us to provide them with technical information. However, State is handing over material in a piecemeal fashion.)

c. What are our talking points for the upcoming Summit country energy meeting in Paris?

d. Despite our request to State to give NSC alternative representative status (same level as DOE DAS), our representation as key IEA working dinner last December was limited to State and DOE DAS level participants -- both of whom are civil servants. Unless we press State to give NSC more prominence on delegation list, we will miss opportunity to participate in future restricted meetings where key policy decisions will be taken regarding the East-West energy study.

5. In conclusion:

-- our technical work at the moment is totally disorganized and basically at a standstill. We have lost at least two months. Now we must crash to prepare for the extremely important Summit country energy meeting in two weeks.
-- NSC has been excluded from restricted dinners where key policy issues are discussed. We are represented by civil servants.

-- I often hear of technical problems second-hand. State has not kept me sufficiently informed, primarily because they do not fully grasp the problems.

6. In the future we must bank on our strengths:

-- technical excellence. My approach in chairing the alternative energy technical working group in the past was to develop the best and most detailed technical studies our government could collectively produce. We must go back to that approach if these energy studies are to achieve the objectives of NSDD-66. If the IEA study is a disappointment, then we must be able to put own own analysis on the table and discuss it with the Allies.

-- senior representation. At my urging, Dick Fairbanks will lead our three man delegation to Paris for the next Summit energy meeting. Dick will do a great job, but we must have our technical work in decent shape. My recommendation is that Dick and I be the senior delegates to these meetings. DOE can take a back seat.

-- my close personal relationship with IEA Executive Director Lantzke. If things are not going correctly, then we can use this link to get them back on track in the international arena. Lantzke knows what he must provide us in the way of conclusions (i.e., getting Troll going), and he will work hard for this objective.

8. One final comment. I do not dispute State's right to lead delegations. However, a very serious mistake was made to let State chair most of the East-West study groups. The subjects of credits, technology transfer and energy are complex. The study groups should provide the technical underpinings to our efforts abroad. I would recommend that at this stage we assess the technical work of the other East-West study groups. I strongly suspect that there may be many similarities to the problems we face in the energy groups, and we should reappraise the role of Robinson and Blair on the all important Wallis-chaired Steering Committee which to our knowledge has never met.

I would welcome an opportunity to discuss these matters with you as time is now critical.

P.S. I just returned from my meeting at the CIA where I raised these issues with State, DOE, OMB and CIA officials. While recognizing some of the problems, the State official said, "Well, at least the energy study is in better shape than all the other studies."

cc: Norman Bailey
Dennis Blair
Roger Robinson
Charles Tyson

Energy Study Terms of Reference
(and Framework for USG work)

Outline	USG Contributions to IEA	USG Internal Analysi
Introduction: Definition of terms, risks, justification for concentration on oil and gas.		
I. Energy Requirements		
1. Pattern of present energy consumption in OECD countries. a) analysis by fuel source in major OECD countries b) sectoral demand patterns		
2. Examination of demand patterns-three scenarios, with price and growth assumptions a) analysis by fuel source in major OECD countries b) likely sectoral demand patterns (i.e. increasing use of gas in premium markets, coal/nuclear penetration in electricity generation)		
II. OECD Indigenous Study		
1. Pattern of present indigenous energy supply situation in major OECD countries and regions by fuel source. 2. Analysis of future supply prospects for indigenous fuels in major OECD countries and regions, given current policies, demand and price scenarios. 3. Intra-OECD energy trade, present and projected.		

Outline	USG Contributions to IEA	USG Internal Analysis
Import Dependence Integration of supply and demand analysis in each of three scenarios for oil and gas. Focus only on current and projected import dependence from non-OECD sources in <u>each major OECD country</u> and <u>region</u>. **Vulnerability on a Regional and Country Basis** Risk analysis of supply flows and sources a. Current situation b. Implications of likely future energy supply/demand developments for energy security. - by major OECD countries - by OECD regions - by fuel source (oil, gas and coal) c. Assessment of risks of interruptions, including analysis of combined oil and gas disruptions (Persian Gulf plus USSR gas) resulting from related incidents. Physical systems for coping with disruptions - current a. oil - level of emergency reserves - IEP oil sharing system - approaches to pricing allocated oil b. gas - findings of IEA Natural Gas Security Study c. coal and nuclear - electric generation over-capacity by country - coal stock levels		

[illegible]	USG Contributions to IEA	USG Internal Analysis
Economic Impact of likely disruptions, particularly effects on key sectors		
Evaluation of means to improve energy security - lonG term measures a. better balanced and more efficient energy economies b. increased indigenous production and OECD-indigenous production c. diversification of import sources		
Evaluation of means to improve energy security - contingency plans		
a. oil: consideration of - approaches to pricing of allocated oil - level of emergency reserves - disruptions not covered by IEP		
b. gas - arrangements for access to shut-in capacity - storage, demand restraint - enhanced pipeline flexibility (to flow from IEA Natural Gas Study) c. coal - stock levels d. nuclear - emergency cooperation plans		

Outline	USG Contributions to IEA	USG Internal Analysis
'. Alternatives/Conclusions Identify most serious energy security risks (from Section IV) and present most important energy supply security options (from discussion in sections IV 4 and 5). Discussion of institutional, policy, financial and technical aspects of: 1. possibilities for enhancing development of indigenous OECD energy sources 2. potential for inter-fuel substitution 3. possibilities-for ehancing intra-OECD energy trade 4. safety net preparedness 5. externalities.		

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Dr. Norman Bailey

S-WT.

JAN 24 1983

FOIA(b)(3)

MEMORANDUM FOR [redacted]
Director of the Office of Global Issues
CIA

FROM: Lionel Olmer

SUBJECT: CIA Report, "Economic Sanctions: An Historical and Conceptual Analysis"

I have long felt that too little empirical research has been done to examine the far-reaching effects of economic sanctions, so I welcome the fact that the CIA undertook this particular study. The study uses the only formal methodology available for such an inquiry, but I question the validity of drawing any final conclusions from a conceptual model based on thirteen case histories involving different countries and different foreign policy objectives. The variables in each case are just too unrelated to draw from them definitive principles or rules about all sanctions policies. It would therefore appear necessary to evaluate each new case on its own merits. Each one can generate valuable questions and information on economic sanctions policy, even though case histories do not seem to lend themselves to general rules for future success or failure.

As the study admits, there is little relevant quantitative data, and evaluating the effects of sanctions is almost totally a judgmental process. This Department and others have been involved in the formulation and implementation of economic sanctions policies for some time. We would be most happy to offer the benefit of our expertise to augment the authors' judgments for future CIA studies on sanctions. In this regard, I believe it would be useful to the CIA, Commerce and other agencies to have mutual consultations during the preparation of studies on this subject.

We note that the study, perhaps because of the lack of quantitative data, has focused on the idea that the primary objective of sanctions is that of reversing the offending action of the target country. It acknowledges that sanctions are frequently imposed to achieve objectives less ambitious than action reversal, but never analyzes other objectives or the conditions for their attainment.

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Declassify on: O.A.D.R.

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We believe that a number of other factors must be considered to achieve the kind of comprehensive treatment of the effects of economic sanctions required for policymaking. While an analysis of action reversal is useful, all of the other motivations for imposing sanctions must be examined. Some of the objectives that should be studied include: punishment through cost extraction; improving the defensive posture of the sponsor country; improving the balance of power of the sponsor country; expressing disapproval; discouraging future actions by the target country or other countries. We should analyze the degree of success in achieving the various objectives. Further, we should consider the question of whether various mild economic sanctions might be as effective as severe economic sanctions in achieving objectives other than action reversal.

We also believe that the study underestimates the effect of economic sanctions in some cases. Commerce staff particularly thinks the study underestimated the effects of sanctions in the cases of Cuba and Rhodesia.

Even though the study has been completed, I feel you will find Commerce's attached comments useful. I hope that CIA will not let the analysis rest, but that further analysis will be undertaken which will explore the effects of attempting to achieve a variety of sanction objectives. Commerce's more detailed comments follow below, and I hope these will be considered in a future CIA study.

Attachment

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Commerce Comments on CIA Sanctions Paper

GENERAL COMMENTS:
Sanction Objectives

1. The study mentions objectives other than action reversal, but does not explore the extent to which sanctions may fail or succeed in meeting those other objectives. In fact, all the study's lists of factors leading to the success or failure of sanctions are cast only in terms of their effectiveness in reversing the target country's actions. Thus, the study's conclusion that sanctions "failed" in all 13 cases is open to question.

2. The body of the paper is sprinkled with references to the fact that sanctions have at times been able to achieve some objectives other than action reversal. Nonetheless, the study projects the implicit value judgment that these objectives are lower in priority than action reversal. For example, p. 11 of the study mentions that sanctions are more likely to achieve the objectives of punishing the target country, or expressing symbolic disapproval because no target country response is required. But rather than conducting an analysis of cases in which these objectives were sought, the study merely speculates that, "...These two objectives may be more difficult to sustain because people in countries imposing sanctions may be less willing to bear even a small cost in order to achieve a 'symbolic' victory."

It would also have been valuable if these other objectives and the trade-offs necessary to achieve them had been analyzed in the context of short and long-term time frames.

3. Objectives are necessarily more difficult to identify than costs and sacrifices, because they are more abstract. The study would have performed a valuable service by conceptualizing the various types of national security and foreign policy objectives every country has as well as those peculiar to the superpowers. It is actually in the realm of reevaluating and setting new objectives that much conceptual work remains to be accomplished.

4. Along these same lines, the study's conceptual model, while an excellent idea, is difficult to apply because all of its input factors have a zero correlation with the one output factor considered--action reversal. The model disaggregates the theoretical success of sanctions into eight contributing factors allowing a probability judgment that a particular sanction will succeed in reversing the target country's action. But since there were no successful cases of action reversal, the model's judgments of low, moderate, or high probability of success have little meaning.

5. The model could be more useful if modified to examine a matrix of sanction objectives. The model could array sanction objectives in order of difficulty to carry out and then examine

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conditions leading to success or failure and the time frame in which success might reasonably be expected. Highly valuable insights may result from such a model, although it would be difficult to transfer from one country to another, and from one set of complex circumstances to another.

6. It would also be useful to perform some sort of cost/benefit analysis. This methodology, too, however, runs the risk of being highly judgmental. The costs explored should in any event be those that redound to the entire country, as well as to certain parties or interest groups.

7. One thing that is not mentioned in the study, but appears to be true in any sanctions policy, is that one hundred percent success is never expected. Often, the sanctions themselves are only partial sanctions. This important aspect of the sanctions concept can only be analyzed if the intentions of the sponsoring country are carefully evaluated.

8. On Page 3, the study examines "hidden objectives." We feel this term is not sufficiently defined or explained. The use of economic sanctions may have "unspoken" objectives, but they are rarely kept a state secret. In fact, it seems more probable that unspoken objectives achieve their effect precisely because they are unspoken. The three disadvantages to unstated objectives we, therefore, find inconclusive and unsupported by the evidence.

9. An investigation should be made of the number of times in which the objective of sanctions has been to exact cost from the target country's actions, and to signal the willingness to continue to raise the cost whenever such actions are taken in the future. This objective is touched upon in the study but not thoroughly explored. The cost extraction objective, rather than behavior modification or action reversal would seem to be the key objective in all sanctions policies and, therefore, a very important factor in the success or failure of sanctions. The kind of "cost" to be exacted is another consideration. It may be: a) loss of face; b) loss of political power and influence; c) a possible loss of economic influence or leverage over time; d) loss of advantageous "interdependence;" e) loss of access to alternate sources of supply or markets; and many other important deprivations. Another factor to be explored is that often the items withheld by the sanctions policy are part of a larger denial objective, and many unknown variables can have an impact on that larger denial objective, such as the actions of other countries. A partial list of optional objectives to be sought through economic sanctions includes:

- Punishing a country by imposing an economic cost for its actions;

- Positioning the sponsor country in a better defensive posture vis-a-vis a potential adversary;

- Trying to maintain or improve the balance of power between the sponsor country and the target country;

- Introducing a disturbing event into the international environment that could lead to further improvement in the sponsor country's international position;

- Keeping the target country's action in the spotlight of global publicity;

- Providing encouragement to people within the target country being oppressed by definition of the sponsoring country's and international values;

- Expressing disapproval or outrage, and disassociating the sponsoring nation from the actions of another nation.

- Keeping the price of unreasonable actions high.

- Indicating the disposition and will to resist superpower's actions through non-military means.

- Discouraging future action on the part of the target country; and

- Discouraging other countries from acting in a manner similar to the target country.

Too often, it is assumed that sanctions are imposed only to meet a discreet, concrete objective. It is also frequently assumed that economic sanctions must respond only to a "clear and present" danger to the sponsor country. Contrary to these assumptions, sanctions may have many objectives at one time (political, security, and economic), especially as the balance of power becomes more critical to national security interests. The role of economic sanctions in seeking to fulfill the combined security, foreign policy and economic objectives of the 1980's, in contrast with other policies available to the country, needs to be explored more thoroughly.

Behavior discouragement, as described in the last two examples above, also deserve more in-depth exploration. Whereas a target country may be willing to endure a high economic cost rather than reverse its action, it may be less willing to take future actions which would subject it to further economic costs. Would, for example, Soviet action in Poland or Lebanon have been more aggressive, had the U.S. not imposed economic sanctions after the invasion of Afghanistan?

Other countries may also derive a reduced propensity to follow the policies of the target country, in the knowledge that they too might face high economic costs.

Difficulty in Applying Sanctions

1. The study heavily emphasizes the fact that sanctions are "extremely complex" which makes them difficult to use. We suggest that this point is overemphasized. After all, every major policy action carries numerous possibilities for complex repercussions to occur. Consider, for example, the complex economic and political repercussions of raising prime interest rates, or of subsidizing export credits, or even of cutting the federal budget. Complexity in and of itself does not constitute sufficient reason for a government to avoid taking policy actions.

2. The difficulty or ease with which sanctions can be applied is related to the difficulty or ease with which other options can be applied. This includes alternative political, economic and military options. This point should be thoroughly analyzed. A model presenting options considered in each of the 13 cases would have been helpful.

Ability of Target to Adjust

1. The study only briefly addresses the ability of the target country to adjust internally, (p. 7) but this is a complex economic phenomenon requiring a great deal more study. The difficulty in determining how well a country is able to adjust lies in the fact that the country often tries to hide the real problems it may be encountering. The adjustment itself may cause problems in unrelated areas of the economy that in turn continue to exact a cost for the action which initially triggered the sanction.

Unintended Results:

1. We find this section of the study (pp. 10-11) to be questionable in the accuracy of its examples and in the validity of its implications and conclusions. It is impossible to prove, and risky to imply, for example, that U.S. sanctions caused Castro to turn to the Soviet Union. There were many other causes which had been established long before the sanctions.

2. We find that unintended results are an acceptable and expected aspect of any policy action. Sometimes the policy can have unexpected or unintended positive results or unintended negative results. Such "after effects" can only be assessed with hindsight and usually long after the policy has been established and implemented.

COMMENTS ON INDIVIDUAL CASES:

Appendix B. ARAB LEAGUE BOYCOTT OF ISRAEL, 1948-PRESENT

The section on Enforcement of the boycott gives the exaggerated impression that Arab countries ignore their own boycott rules. It is true that exceptions are sometimes made in the national interest. The General Principles of the Boycott of Israel provide for exceptions in some cases. For example, they provide for exceptions in hotel and airlines activities in recognition of tourism's importance to some Arab countries. In other words, the boycott is a pragmatic, effective instrument designed to hurt Israel, but not to the extent of damaging vital interests of the Arabs.

Page B-1, 3rd Para. The penultimate sentence implies that individual Arab countries ignore collective policies more than is actually the case. They generally act in concert.

Page B-2, last Para. This is misleading. The Topps plant, which provides capital inflow, productive capacity, and possibly import substitution, is precisely the kind of activity toward which the boycott is directed. A better example would be Xerox, which was blacklisted for sponsoring the film "Let My People Go."

Page B-6, 4th line. To make this statement accurate, "annual" needs to be inserted between the words "in" and "foreign."

Page B-6, 2nd full Para. See General Comment. This implies that the principles are more vigorous than they actually are.

Appendix E. U.S./OAS SANCTIONS ON CUBA

The Cuba section is an interesting assessment of the history of U.S. economic sanctions directed at the Castro Regime. However, it is premature to judge the effectiveness of an exercise that is only now approaching conclusion.

Page E-4, Bottom Para. and E-6. We believe that the U.S. embargo has continued to seriously impede Cuban economic development because Havana has developed an overwhelming economic dependence on the Soviet Union. Over time, serious bottlenecks and distortions have become chronic throughout the Cuban economy. Cuba has also been denied foreign investment by noncommunist countries, which it needs to diversify its economic base away from sugar.

As a result, Cuba is now highly dependent on the USSR for basic needs (especially food, fuel, and hard currency).

Moreover, the embargo continues to restrict Cuban economic relations with noncommunist countries because:

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-- U.S. foreign policy concerns tend to limit the motivation of some Western countries (e.g. U.K., West Germany, Japan, Candat) to expand their trade with Castro;

-- Denial of access to U.S. markets limits the export potential of the possible joint ventures Cuba has been trying to attract; and

-- The flow of tourists from Cuba's most likely source has been restricted.

These impediments have substantial impact because Cuba depends on Western countries for hard currency earnings (sugar, nickel, and tourism) necessary to purchase products not obtainable from the Bloc (some foods, intermediate industrial products, e.g. textiles, fibers, and quality machinery).

Page E-7. Results are overstated. Havana now confronts its most serious economic crisis, graphically demonstrated by Cuba's request to reschedule hard currency debt. Unlike previous periods of economic strain, Moscow's ability to continue to provide resources to meet Cuba's needs is questionable. Consequently, it is premature to conclude that the embargo has not met its objectives.

Page E-8. The last conclusion may also be premature. A complete withdrawal of Soviet support should not be the measure of success for U.S. sanctions. If Soviet economic assistance fails to increase sufficiently to meet Havana's self-perceived minimal needs, Cuba's search for supplemental and/or alternative sources of economic support could lead to economic and political pressures that may yet neutralize Castro.

Appendix F. UK/UN SANCTIONS ON RHODESIA

Page F-6, Section on Results of the Rhodesian Sanctions. The second sentence of the first paragraph states that the Rhodesian economy flourished. This is much too strong a statement; we have no evidence that the economy did much more than persevere.

Page F-10. Again, the report implies that Rhodesia's economy was not adversely affected by sanctions. It is true that Rhodesia did become a consistent net food exporter; on the other hand, the sanctions inhibited Rhodesia's access to many types of technology, leaving parts of Zimbabwe's manufacturing sector dependent on outmoded techniques.

STATE

PM 7 42

WASHFAX RECEIPT
DEPARTMENT OF STATE

S/S # **B** E-WT.

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83 JAN 25 P 8: 02

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MESSAGE NO. 181 CLASSIFICATION [illegible] No. Pages 4

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MESSAGE DESCRIPTION [illegible]

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REMARKS: [illegible] 26

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IMMEDIATE ANATO

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ALSO FOR USEC - ALSO FOR USOECD

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TAGS: NATO, ECON, ETRD, UR, XH

SUBJECT: EAST-WEST ECONOMIC RELATIONS: NATO STUDY

REFS: A) USNATO 527, B) USNATO 508, C) USNATO 389,
D) USNATO 429

RB
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1. (C - ENTIRE TEXT)

2. SUMMARY: THIS TELEGRAM PROVIDES SYNOPSIS OF OUR VIEW ON THE STRUCTURE AND TIMETABLE FOR ECONOMIC COMMITTEE'S WORK ON THE NATO STUDY OF THE SECURITY ASPECTS OF EAST-WEST ECONOMIC RELATIONS. POSTS IN NATO CAPITALS ARE REQUESTED TO EXPRESS APPRECIATION TO HOST GOVERNMENTS FOR THEIR COOPERATION IN GETTING THE NATO STUDY WORK PLAN APPROVED EXPEDITIOUSLY AND TO URGE SUPPORT FOR BEGINNING WORK ON THE STUDY WITHOUT DELAY. END SUMMARY.

3. THE WORK PLAN FOR THE NATO STUDY (REF C) WAS APPROVED BY THE NORTH ATLANTIC COUNCIL (NAC), JANUARY 19. ON THURSDAY, JANUARY 27, THE ECONOMIC COMMITTEE WILL CONSIDER THE SCHEDULE AND AGENDA FOR TWO PREVIOUSLY SCHEDULED COMMITTEE MEETINGS, FEBRUARY 21-24. WE FEEL STRONGLY THAT THESE MEETINGS SHOULD

CONFIDENTIAL

KICK OFF THE STUDY ON THE SECURITY ASPECTS OF EAST-WEST ECONOMIC RELATIONS RATHER THAN DEAL EXCLUSIVELY WITH THE ORIGINALLY SCHEDULED TOPICS OF CMEA ECONOMIC TRENDS AND SOVIET ECONOMIC OPTIONS. THE FEBRUARY AND MARCH COMMITTEE WORK SCHEDULE SHOULD BE REVISED TO COINCIDE WITH THE STUDY WORK PLAN APPROVED BY THE NAC. OUR IMPRESSION FROM THE JANUARY 19 NAC MEETING IS THAT OTHER ALLIES AGREE THAT THE ECONOMIC COMMITTEE SHOULD BEGIN WORK ON THIS MAJOR STUDY, WITHOUT DELAY. THIS MEANS THAT THE ECONOMIC COMMITTEE MUST REFOCUS ITS WORK PLAN AND AGENDA FOR THE FEBRUARY 21-24 MEETING RATHER THAN MERELY ATTEMPT TO MODIFY THE OLD AGENDA. THEREFORE, WE CONSIDER IT INAPPROPRIATE TO NEGOTIATE AMENDMENT OF ITEMS ON THE OLD AGENDA, AS WAS PROPOSED BY THE FRENCH ECONAD (PARA 13, REF A).

4. OUR VIEW ON THE WORK SCHEDULE IS THAT A SERIES OF THREE ECONOMIC COMMITTEE MEETINGS (ONE MEETING ON EACH OF THE THREE MAJOR WORK PLAN HEADINGS), FOLLOWED BY A MEETING OF THE HEADS OF ECONOMIC INTELLIGENCE (PERHAPS JUST AFTER THE EASTER BREAK) WOULD BE THE MOST EFFICIENT WAY TO ARRANGE THE COMMITTEE'S WORK SCHEDULE. A THREE OR FOUR DAY MEETING DURING THE WEEK OF FEBRUARY 21 TO COVER WORK PLAN TOPIC I, "SOVIET ECONOMIC POTENTIAL AND OUTLOOK," WOULD BE A GOOD START (WE HAVE NO OBJECTION TO UK DESIRE TO COVER BRIEFLY ECONOMIC TRENDS IN EASTERN EUROPE ALSO). FOLLOW-ON THREE OR FOUR DAY MEETINGS ON WORK PLAN TOPICS II AND III SHOULD, IF POSSIBLE, BE SCHEDULED IN EARLY/MID-MARCH. THE PREVIOUSLY SCHEDULED MARCH 17-18 MEETING ON CMEA AGRICULTURAL DEVELOPMENTS COULD BE POSTPONED UNTIL THE SECOND HALF OF THE YEAR. WE RECOMMEND THAT USECONAD INFORMALLY DISCUSS OUR VIEW ON THE COMMITTEE'S WORK SCHEDULE WITH ECONOMIC DIRECTOR RENAUD AND KEY ALLIES PRIOR TO THE JANUARY 27 COMMITTEE MEETING. OUR PRIMARY CONCERN IS THAT A WORKABLE COMMITTEE SCHEDULE BE DEVELOPED WHICH WILL ENABLE THE COMMITTEE TO COMPLETE WORK ON THE STUDY WELL BEFORE THE NATO SPRING MINISTERIAL. IDEALLY, THE STUDY'S CONCLUSIONS SHOULD BE AVAILABLE BY ABOUT MAY 1, PRIOR TO THE OECD MINISTERIAL (MAY 9-10) AND THE WILLIAMSBURG SUMMIT (MAY 28-30).

5. KEY MILESTONES: IN ORDER TO SUCCESSFULLY MEET A MAY 1 COMPLETION DATE, WORK ON THE STUDY WILL NEED TO MAINTAIN A BRISK PACE. SOME KEY MILESTONES THAT WILL NEED TO BE MET ARE:

FEBRUARY 21 - INITIAL COMMITTEE MEETING ON THE STUDY

MARCH 22 - FIRST DRAFT OF COMMITTEE'S REPORT DISTRIBUTED

EARLY APRIL - HEADS OF ECONOMIC INTELLIGENCE MEETING

APRIL 22 - ECONOMIC COMMITTEE REPORT AGREED

APRIL 27 - NAC MEETING TO CONSIDER THE REPORT

6. AS THE STUDY AGENDA IS DEVELOPED, USECONAD SHOULD INSIST THAT WESTERN ENERGY IMPORTS AND SOVIET HARD-CURRENCY EARNINGS BE INCLUDED UNDER ITEM IIB, "SECURITY ASPECTS OF ALLIANCE COUNTRIES' IMPORTS FROM THE USSR AND EAST EUROPEAN COUNTRIES"; THAT TECHNOLOGY TRANSFER AND FINANCIAL FLOWS BE INCLUDED UNDER ITEM II C, "SECURITY ASPECTS OF ALLIANCE COUNTRIES' EXPORTS TO THE USSR AND EAST EUROPEAN COUNTRIES"; AND, THAT DIRECT/INDIRECT CONTRIBUTIONS OF EAST-WEST ECONOMIC RELATIONS TO WARSAW PACT MILITARY AND STRATEGIC CAPABILITIES BE INCLUDED UNDER ITEM III B, "EFFECTS OF EAST-WEST ECONOMIC RELATIONS ON THE USSR AND EAST EUROPEAN COUNTRIES."

7. WE ARE PREPARED TO MAKE WRITTEN CONTRIBUTIONS TO THE STUDY, BUT WILL BE UNABLE TO SPECIFY THE CONTRIBUTIONS OR NAME OUR DELEGATIONS OF EXPERTS UNTIL THE COMMITTEE MEETING SCHEDULE AND AGENDA ARE DECIDED.

8. POSTS IN NATO CAPITALS ARE REQUESTED TO EXPRESS TO HOST GOVERNMENTS USG APPRECIATION FOR THEIR COOPERATION IN GETTING THE NATO STUDY WORK PLAN APPROVED EXPEDITIOUSLY AND TO URGE THEIR SUPPORT FOR BEGINNING WORK ON THE STUDY WITHOUT DELAY. THE FOLLOWING TALKING POINTS MAY BE DRAWN UPON:

-- APPRECIATE YOUR ASSISTANCE IN GETTING THE WORK PLAN FOR THE NATO STUDY APPROVED EXPEDITIOUSLY.

-- BELIEVE THAT WORK ON THE STUDY SHOULD GET UNDERWAY WITHOUT DELAY SO THAT THE STUDY CAN BE COMPLETED WELL BEFORE THE NATO SPRING MINISTERIAL.

-- UNDERSTAND THAT THERE HAS BEEN SOME RELUCTANCE IN THE ECONOMIC COMMITTEE TO SET ASIDE PREVIOUSLY SCHEDULED WORK IN ORDER TO BEGIN WORK ON THE MAJOR STUDY.

-- WOULD APPRECIATE CAPITALS INSTRUCTING THEIR ECONOMIC
COMMITTEE DELEGATIONS TO GIVE PRIORITY TO WORK ON THE
NAC APPROVED STUDY. VY

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TO CLARK   FROM BREMER   DOCDATE 20 JAN 83

DECLASSIFIED
White House Guidelines, August 28, 1997
By ___ NARA, Date 9/11/10

KEYWORDS: EAST WEST ECONOMICS   ENERGY

COCOM   TECHNOLOGY TRANSFERS

E-W T.

SUBJECT: PRESIDENTIAL APPROVAL OF NSDD 66 NEGOTIATING STRATEGIES

ACTION: PREPARE MEMO FOR CLARK   DUE: 24 JAN 83 STATUS S   FILES IFD

FOR ACTION	FOR CONCURRENCE		FOR INFO
ROBINSON	BLAIR	NAU	
	BAILEY		

no comment

COMMENTS

REF# 8302067   LOG 8390022   8390023   NSCIFID NSDD0066   (C /   )

ACTION OFFICER (S)	ASSIGNED	ACTION REQUIRED	DUE	COPIES TO

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United States Department of State

Washington, D.C. 20520

January 20, 1983

MEMORANDUM FOR MR. WILLIAM P. CLARK
THE WHITE HOUSE

SUBJECT: Presidential Approval of NSDD 66 Negotiating Strategies

The SIG-IEP has reviewed the negotiating strategy and U.S. position papers on East-West economic relations as directed by NSDD 66. Pursuant to Secretary Regan's directive at the SIG-IEP meeting of January 12, I am forwarding on behalf of Under Secretary Allen Wallis the enclosed paper summarizing the recommended strategies for consideration by the President. I also enclose copies of the strategy papers which the SIG-IEP has endorsed.

Charles Hill

L. Paul Bremer, III
Executive Secretary

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DECL: OADR

NSDD-66 East-West Study Program

Summary

In response to NSDD-66, four interagency working groups were established to develop the strategies for following up on five specific aspects of East-West economic relations with our allies - the NATO study on the Security Aspects of East-West Economic Relations, Energy Requirements, East-West Credit, Strengthening CoCom, and Other High Technology including oil and gas. The SIG-IEP has reviewed the papers prepared by the working groups as the bases for U.S. negotiating strategies and recommends their approval. The following briefly summarizes the U.S. strategy for each area. Our objective is to have the energy and NATO studies finished, and work on credits and high technology sufficiently advanced, to permit policy decisions to be taken at the spring Ministerial meetings of NATO and OECD, and the Williamsburg Summit.

1. NATO STUDY. The NATO Economic Committee will initiate a study of the security aspects of East-West economic relations. Our objective will be to develop a comprehensive security-oriented framework within which we would seek to advance the NSDD-66 objectives in specific areas. Our strategy would focus the study on the present and projected Soviet economic situation; the impact of East-West economic relations on Soviet economic/strategic/military capabilities; Western economic and strategic vulnerability and dependence and the conclusions to be drawn from these considerations. We propose reactivation of the "trio" mechanism used during the Polish crisis to enable Japan, Australia and New Zealand to be consulted about, and associated with, the study (supplemented with bilateral consultations, especially with Japan).

2. ENERGY REQUIREMENTS. The primary U.S. aim in this study is to establish a factual basis for the U.S. view that the Soviets could become the marginal supplier of gas to Europe, thereby driving out other Western alternatives and thus creating a threat to Western security. Analyses would move from levels of OECD energy demand and production to projected import dependence, vulnerability to energy supply disruptions and alternatives that would minimize security risks. Arrangements have been made to assure that at least one scenario to be developed by the study reflects our views and to factor the previously commissioned IEA gas study into this effort.

3. CREDIT. Our goals are to reduce subsidization of the Soviet economy initially by tightening up the existing OECD export credit arrangement (in such areas as downpayments, term to maturity,

fees, etc.) for all "Category 1" countries (essentially OECD, Israel and Eastern Europe), and then use the results of the NATO study to move further on the USSR if possible. Our strategy will also expand the OECD's mechanism for monitoring East-West trade and financial flows to strengthen our case for greater prudence and control in Western economic relations and trade with the Soviets.

4. STRENGTHENING COCOM. We have proposed that a second High Livel CoCom meeting (HLM) be held in late February or March in order to stimulate and maintain policy-level attention in the other CoCom governments to strengthening CoCom's multilateral system of security export controls. U.S. initiatives prior to the second HLM are planned to advance our goals of increasing the overall effectiveness and responsiveness of CoCom; widening embargo coverage in the ongoing list review; strengthening enforcement procedures; harmonizing licensing procedures; improving CoCom's organization and support facilities; and developing multilateral approaches concerning availability of embargoed equipment through non-CoCom countries.

5. OTHER HIGH TECHNOLOGY. We propose that CoCom should examine the issue of whether multilateral controls of other high technology, including oil and gas equipment, not now controlled or being considered for control in the current list review, as well as emerging technologies, will strengthen Western security. A list of specific items to be controlled will be submitted to the allies and we will seek to focus debate on how controls would meet alliance security needs. We propose that a special working group be created to deal with these issues so as not to interfere with on-going CoCom work on the list review. Our goal is to have the results of this examination available by early May.

In each of these areas, our negotiators will be guided by the objectives set forth in NSDD-66, and will seek to build an allied consensus from the language in the "Summary of Conclusions" paper.

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<u>Status Report on NSDD 66 East-West Study Program</u>

The attached papers set out the status of work to date of the working groups established by NSDD 66. Following is a summary of each.

~~SECRET~~

January 10, 1983

East-West Trade Studies
Follow-up to Summary of Conclusions

Summary

1. "Umbrella" study of Security Aspects of East-West Economic Relations

Study Content

An overall view of the security and strategic aspects of East-West relations including:

- Soviet economic situation and outlook -- sectoral analysis; resource allocations; trends and outlook (demographics, resource and productivity constraints).

- Impact of E-W trade on Soviet economic/strategic/military capabilities -- Soviet hard currency earnings; Soviet weapons, military production, and war-supporting industries; Soviet benefits from trade (alleviation of resource constraints)

- Western economic/strategic vulnerability and dependence -- supply relationships: energy, other goods; Soviet and Eastern markets: manufactured goods, agricultural products; potential economic and financial leverage against the West.

Implementation Strategy

- Use of NATO Economic Committee, its resources augmented by national contributions, apparently acceptable to allies

- Submit to the NATO Economic Committee the U.S. terms of reference, currently completed in draft, for allied reivew and approval

- Based on terms of reference (whether or not approved by all participants), develop U.S. papers with preliminary data and analyses of key study areas

- Set up 3-4 meetings, at the Senior Expert level, of the Economic Committee for late February or early March:

- 1. Overall descriptions of the Soviet economy
- 2. Contributions of E-W trade to Soviet economic/strategic/military power
- 3. Western dependence/vulnerabilities resulting from E-W trade

- Schedule policy-level meetings to outline policy implications of preliminary data and analytical work

Problems

- U.S. emphasis on security/strategic considerations may clash with the type of economic analysis typically done by the Economic Committee and apparently anticipated by the French.

- Japanese currently not included; "Trio Mechanism," used successfully earlier, may be subject to French objections; close U.S.-Japanese bilateral links may be needed

2. Energy Requirements Study

Study Content

An analysis of likely energy demands and indigenous energy production possibilities proceeding to an assessment of projected import dependence and vulnerability to energy supply disruptions

- Regional and country demand requirements by fuel source and consuming sector

- OECD production possibilities, by energy source, within each region and imports from other OECD regions

- Current and projected regional and country dependence on imports from non-OECD sources, with particular emphasis on the Middle East and USSR

- Vulnerability on a regional and country basis, including risk analysis of supply flows and sources; physical systems for coping with disruptions; economic impact of likely disruptions, particularly in key sectors; evaluation of means to improve energy security systems

- Analysis of alternatives to dependence on non-OECD imported fuel, taking into account possibilities for enhancing development of indigenous OECD energy sources, inter-fuel substitution, enhancing intra-OECD energy trade and externalities (employment, environment, security)

- Policy conclusions and appropriate actions based on technical analysis

Implementation Strategy

- Approved of terms of reference by informal talking group (Summit Seven plus EC Commission and subsequent circulation to all IEA members

- First draft containing factual analysis (no policy conclusions or recommendations) completed by early February

- Review of first draft by informal steering group at Dourdan-type meeting, to include Norway, Netherlands, Australia

- Meetings of steering group to discuss second draft of study and to draw policy conclusions (results of IEA Natural Gas Security Study factored in)

- OECD (May 9-10) and IEA Ministerial (or possibly IEA Governing Board) discuss results of Energy Requirements Study and Natural Gas Security Study

- Possible discussion of results of two studies at Williamsburg Summit (May 28-30) if agreement has been reached on policy conclusions

- Discussion of results of two studies at NATO Ministerial (June)

3. East-West Credit Flows Study

Study Content

A study of Western credit policies on trade with the East designed (1) to harmonize export credit policies and avoid preferential treatment on subsidies; (2) to establish procedures for ex-post review of the whole spectrum of economic and financial transactions with the East:

- Export Credit Policies -- The current OECD Export Credit Arrangement, the provisions of which expire by May 1, significantly limits the subsidization of credits to the Soviets. New restraints, if they are agreed to in the context of the Arrangement, will necessarily focus on non-preferential treatment of the U.S.S.R. as part of a regime of more stringent rules applying to all industrial countries. Anticipated areas of study include: (1) the proportions of an export's value that can be financed; (2) type of financing (direct credit, guarantees, insurance); (3) the face interest rate; (4) subsidized interest rates; (5) type of products covered; (6) foreign currency loans or guarantees; (7) the term to maturity

- Review -- For this area, the effort will build on earlier work done in OECD and BIS to encompass collection and analysis of data on trade, debt, official export credits, and banking flows, as well as any overall analyses such as seem useful. Eastern Europe will be "differentiated" from the U.S.S.R., and the study will include a description of recent developments, longer-term trends, and the short-term outlook.

Implementation Strategy

- Engage major participants in current OECD Export Credit Arrangement in negotiating framework so that credit policies applying to all industrial countries can be developed by May 1

- Prepare U.S. position papers on major issues in negotiations over Arrangement as well as a statement of our tactics (January)

- Continue and accelerate work in OECD Trade Committee (Group on Export Credits) to upgrade data collection and reporting systems and to reconcile OECD and BIS data on official and private bank credits

Problems

- Further credit restrictions will probably have to be of the type that apply to non-preferential treatment of all industrialized nations -- not just the Soviets

- Failure to achieve a new consensus by May 1 for credit policies under the Arrangement may give the French a pretext for bolting the Arrangement

- Analysis of security aspects of E-W trade may not be possible within OECD (This can be remedied by careful integration with the umbrella study)

4. Strengthening CoCom

Study Content

An overall examination of the effectiveness of the CoCom process with the goal of strengthening this mechanism and reducing the flow of strategically important technology to the East. Aspects to be examined include:

- An overall review of the effectiveness of CoCom, including study of how controls have been evaded or strategic items not placed under control.

- A review of the strategic criteria

- An assessment of the progress to date in the on-going List Review process

- A review of efforts to improve enforcement, counter-intelligence cooperation and the harmonization of licensing procedures

- Further measures to strengthen CoCom institutionally, such as through the establishment of a military subcommittee or through the provisions of additional support staff and resources

- Assessment of controls on re-export of goods from non-CoCom nations

Implementation Strategy

- Convene a High Level Meeting (HLM) in late February or March to stimulate policy attention on the aspects listed above and, hopefully, to highlight the need for an ad hoc CoCom committee on "other high technology, including oil and gas" (see section 5, below). A proposal for a military sub-committee will also be presented at this meeting

- Schedule meeting of computer working group in April and continue efforts, using HLM sessions if necessary, to reach full committee agreement in this area

- Continue efforts to discuss harmonization and enforcement issues as well as re-export licensing with CoCom working-level officials

- Develop a plan and seek support from CoCom governments to enhance the organization's physical facilities and support resources

Problems

- Many elements of the program to strengthen CoCom have been raised earlier, with a notable lack of enthusiasm from allied governments. The prospects for some elements of the program may not be bright.

5. Multilateral Controls on High Technology Exports, including Oil and Gas Equipment, and Data

Study Content

This study is designed to show the relationship of controls on high technology exports not currently controlled by CoCom--including oil and gas technology and equipment--to the security interests of the U.S. and its allies. The study will:

- identify the USSR's priority energy projects and the potential contributions that Western equipment and technology can make to these

- determine the impact of these projects on the level of Soviet energy production

- determine which Western equipment and technology is key to Soviet plans

The results of these analyses will be assessed in the context of the implications of Soviet energy exports for Western energy security and the advantages to the Soviets in pursuing their strategic aims, of increased levels of energy exports to hard-currency markets (this latter information will be developed by the energy and the overall East-West studies, respectively).

Implementation

- Presentation of the following points by the U.S. delegate to CoCom at the next feasible meeting:

  - CoCom should examine whether multilateral controls on high technology equipment (not now controlled), including oil and gas, will enhance Western security

  - CoCom may wish to establish one or more subgroups to review specific technology areas such as oil and gas

  - The U.S. is willing to forward a proposal for such a group immediately

Problems

- The French and Germans have emphasized that oil and gas equipment should be considered under existing CoCom criteria, which are limited to military uses. They will almost certainly argue that the consideration of oil and gas is, in the present instance, inappropriate.

- The French have resisted the creation of any new committees or related structures, and will probably regard the oil and gas ad hoc committee as such, and attempt to rule it out on that ground.

Draft Strategy and Terms of Reference for East-West Economic Study

OBJECTIVES

The US seeks a NATO study which focuses sharply on the security aspects of East-West trade, technology and financial flows, and leads to common policies reflecting consensus that economic relations with the USSR must be seen in a security/strategic context. In our work with the Allies, we should structure the overall study in a way which can be helpful to us in the work underway elsewhere on energy, high technology and credits. This work should flesh out the principles confirmed in the "Summary of Conclusions." Our emphasis on strategic considerations and leverage will come up against the views of some Allies, who can be expected to prefer an emphasis on the economic analysis that is the customary product of the NATO Economic Committee.

We should seek completion of this phase of the process this spring, before the Williamsburg Summit and the NATO and OECD Ministerials. We should recognize, however, that the process of forging the new common policies we seek may take substantially longer; there may be subsequent follow-up, both in NATO and in other organizations.

Our specific objectives are those set out in the relevant NSDD's and the US papers on East-West economic relations submitted to the Ottawa and Versailles Summits. In this regard, the conclusions drawn from the study by the NATO Ministers should support our contention that economic relations with the Soviet Union should be viewed in a security/strategic context and support NSDD-66 objectives on energy (no new incremental deliveries of Soviet gas), technology transfer (strengthen COCOM and controls beyond current COCOM guidelines), and export credits (further restraints on officially-backed credits).

IMPLEMENTATION

The Germans are ready to give the NATO Economic Committee the task of preparing an overall study, and the French may also be prepared to cooperate. The FRG has indicated that it would be willing to take the lead in proposing such a study in NATO. We should make every effort to encourage the widest possible sponsorship of the NATO study and avoid a "made in Washington" labeling.

The Economic Committee has a new French chairman and a small staff. During the course of the study, this staff will need additional manpower, which could be provided through temporary assignments of qualified economic analysts from the capitals. We are prepared to assist and should encourage other Allies (e.g., Canadians, FRG and UK) to do likewise. The NATO staff will need to draw heavily on recent work of the Committee (much of it supported by CIA and INR) and of the OECD. National submissions will be needed and expected, and CIA and INR should be prepared to provide full economic analyses after the Interagency Group approves the attached terms of reference, which incorporate the individual comments of agencies received over the holidays.

NATO has the drawback, for purposes of this study of not including Japan. However, Japan will need to be involved in some informal way--both Japan and France rule out direct Japanese participation--from the outset. The so-called "Trio Mechanism" used to involve Japan, Australia and New Zealand in Polish contingency planning serves as a precedent. However, the French have stated their objection to having Japan directly involved in this NATO work and they may balk at use of the "Trio Mechanism." In any case, we will have to have informal bilateral consultations with Japan, either to supplement "Trio" meetings or as a replacement for them. We should seek to have both the "Trio" meetings and bilaterals held in Washington, with USNATO and Embassy Tokyo having supplemental roles.

Our other priority task should be to submit to NATO our proposal for the terms of reference of the study. While it is extremely important to ensure that the work begins soon, and on the basis of our TOR, we should consult with key Allies, both in capitals and at NATO, to determine whether they would join with us in submitting parts of the TOR. The initial series of meetings in the Economic Committee is expected to run 7-10 days.

TERMS OF REFERENCE

We see two major constraints on the terms of reference: they should not imply an overly broad study, in part, because of NATO staff and time limitations; and they must cover some areas of interest only to our Allies (e.g., agricultural trade).

We might propose to title the study "An Examination of the Security Aspects of East-West Economic Relations," in order to emphasize that the study is to enter into broad policy questions.

The approved terms of reference should also be used as the basis for a US paper (or papers) for the NATO Economic Committee. The analysis will need to track with the decisions of the interagency groups planning for follow-up on COCOM and other high technology, energy and credit. The US can submit these papers, whether or not the terms of reference below are agreed multilaterally.

DRAFT TERMS OF REFERENCE

I. SOVIET ECONOMIC SITUATION AND OUTLOOK
  A. Structure
    1. Military sector
    2. Civilian sector
  B. Recent Economic Trends and Problems
    1. Industrial sector
    2. Energy sector
    3. Agricultural sector
  C. Economic Outlook
  D. Economic Policy Options for Resource Allocation

II. IMPACT OF EAST-WEST ECONOMIC RELATIONS ON SOVIET ECONOMIC AND MILITARY PERFORMANCE
  A. Evaluation of Recent and Prospective Economic Relations
    1. Trade
    2. Finance
      a. debt
      b. hard currency earnings
  B. Soviet Economic Benefits from Trade with the West
    1. Critical industrial sectors (including energy)
    2. Agricultural sector
    3. Relations with client states
  C. Direct and Indirect Contributions of East-West Economic Relations to Warsaw Pact Military and Strategic Capabilities

III. WESTERN ECONOMIC VULNERABILITY AND DEPENDENCE ON THE EAST
  A. Supply Relationships
    1. Energy
    2. Raw materials
    3. Outlook
  B. Soviet and East European Markets
    1. Manufactured goods
    2. Agricultural products
  C. Potential Economic and Financial Leverage Against the West

IV. MAJOR FINDINGS

Economic Committee Work Plan

The above terms of reference could be addressed by the Economic Committee in three or four separate meetings in late February-early March at the senior experts level, followed by a meeting of policy-level officials to outline the policy implications of the analytical work. Ideally, this latter meeting should be held at the NAC, with participation of experts from the capitals.

The first meeting, on the Soviet economy, would try to establish some common ground for the analysis of the strategic considerations of East-West commercial relations. The meeting and paper could be organized as follows:

I. SOVIET ECONOMIC STRUCTURE
   A. Military Sector
   B. Civilian Sector

II. RECENT ECONOMIC TRENDS
   A. GNP Growth
   B. Accumulating Problems in Industrial Sector
   C. Energy Sector
   D. Effect of Four Consecutive Poor Harvests

III. ECONOMIC OUTLOOK
   A. Demographic Factors
   B. Resource Constraints
   C. Productivity Prospects
   D. Economic Growth in the 1980's

IV. RESOURCE ALLOCATION POLICY
   A. Continued Support for Consumption-Oriented Programs, an Attempt to Cut Back on Investment Growth, and Delays in Some Military Programs
   B. Evidence of Reduced Aid to Eastern Europe and the Third World
   C. Policy Decisions Facing the Leadership

In this meeting, the Committee should strive to identify some of the less well understood reasons for current Soviet economic difficulties, which are not merely the result of a run of poor agricultural years. The United States should also draw the attention of the Allies to the likelihood/evidence that economic constraints have already led to delays and cutbacks in Soviet military programs and in aid to client states and Third World initiatives. In reviewing the policy decisions the new Soviet leaders must make, the relationship between military spending and economic cooperation with the West should be documented and established.

The second meeting, on the contribution of East-West commercial relations to Soviet economic and military power, would summarize the trends in Soviet economic relations, and look at the possible role of East-West commercial relations in facilitating the Soviet leadership's resource allocation program. The meeting and the paper could be organized as follows:

I. CONTRIBUTIONS OF EAST-WEST TRADE AND TECHNOLOGY TRANSFER TO THE SOVIET ECONOMY
   A. Critical Role in Some Industrial Sectors
   B. Dependence of Livestock Program on Imported Grain

II. CONTRIBUTIONS OF EAST-WEST TRADE AND TECHNOLOGY TRANSFER TO SOVIET MILITARY POWER
   A. Industries Essential to Military Production
   B. Weapons Systems
   C. Easing of Constraints
   D. "Indirect" Contributions from Freeing Industrial Resources

III. IMPACT OF HARD CURRENCY AVAILABILITY/CONSTRAINTS ON SOVIET POLICY
   A. Direction and Size of Resource Transfers between USSR and West
   B. Support for Eastern Europe
   C. Sectoral Impact
   D. Support for Third World

IV. POTENTIAL CONTRIBUTION OF EAST-WEST COMMERCIAL RELATIONS TO ALLEVIATING ECONOMIC STRAINS IN THE USSR
   A. Outlook for Soviet Import Capacity and Impact on Economic Growth and Allocation of GNP
   B. Role of Expanded Use of Credits
   C. Role of Compensation Agreements
   D. Role of Institutional Arrangements

The third meeting dealing with Western vulnerability and dependence could be structured as follows:

I. SUPPLY RELATIONSHIPS
   A. Western Dependence on Soviet Energy
   B. Western Dependence on Other Soviet Raw Materials
   C. Outlook

II. DEPENDENCE ON SOVIET MARKETS
   A. Machinery
   B. Grain
   C. Outlook

III. LEVERAGE ARISING FROM ACCUMULATION OF SOVIET AND EAST EUROPEAN DEBT TO THE WEST
   A. Past Record
   B. Outlook

In this meeting, our objectives would be to achieve joint recognition of the extent of the potential and actual influence that the USSR and Eastern Europe can exercise on Western economies and policies.

Source Material

Attached is a two-page list of CIA studies available as source material for the NATO study.

0022B

Draft Strategy and Terms of Reference
for East-West Economic Study

Drafted:EUR/RPE/EWEA:RFrief:cg
1/5/83:x20533 (0022B)

Cleared:EUR:TMTNiles
EUR/RPE:TERussell
EUR/RPE:DNMiller
EB/TDC/EWT:GAldonas
E:MBailey
INR:JDanylyk
CIA:MErnst
USTR:JRay
Treasury:GClapp
DOD:DGoldstein
Commerce:SLotarski
NSC:DBlair

FOIA(b) (3)

USG Studies Available as Source Material for NATO East-West Economic Study

The Economic Situation Confronting the New Soviet Leadership

I. Summary of recent economic trends

The Soviet Economic Predicament and East-West Economic Relations (Jan 1982)

Policy Implications of the Soviet Economic Slowdown (draft, Dec 1982)

USSR: Economic Projections, 1982-90

II. How the Soviet leadership has managed its resource allocation problem

[redacted] Dependence of Soviet Military Power on Economic Relations with the West (Nov 1981)

USSR: Economic Issues Facing the Leadership (Nov 1982)

Can the Soviets "Stand Down" Militarily? (June 1982)

The Contribution of East-West Commercial Relations to Soviet Economic and Military Power

I. Past contributions of East-West Trade and technology transfer to the Soviet economy

Soviet Dependence on Western Trade by Sector (Nov 1981)

Soviet Economic Dependence on the West (Jan 1982)

Dependence of the USSR on Imports from the West (paper for [redacted] - May 1982)

[redacted] Dependence of Soviet Military Power on Economic Relations with the West (Nov 1981)

[redacted] The Soviet Gas Pipeline in Perspective

II. Impact of hard currency difficulties on Soviet policy

USSR: Political Side Effects of the Hard Currency Problem (July 1982)

Policy Implications of the Soviet Economic Slowdown (draft, Dec 1982)

Soviet Union's Hard Currency Situation (Feb 1982)

III. Potential contribution of East-West commercial relations to alleviating economic drains in the USSR

USSR: Impact of Credit Reductions on Foreign Trade and the Economy (May 1982)

The Soviet Bloc Financial Problem as a Source of Western Influence (April 1982)

Policy Implications of the Soviet Economic Slowdown (draft, Dec 1982)

Can the Soviets "Stand Down" Militarily? (June 1982)

Soviet Economic Growth and Import Requirements (June 1982)

Implications of East-West Commercial Relations for Western Dependence and Vulnerability

I. Supply relationship

[redacted] Western Alternatives to Soviet Natural Gas: Prospects and Implications (May 1982)

II. Dependence on Soviet markets

III. Leverage arising from accumulation of Soviet and East European debt to the West

IV. Soviet willingness to exercise economic leverage

Terms of Reference and Strategy for East-West Credit Flows Study

Objectives

The "Summary of Conclusions" on East-West economic relations commits the allies to three specific undertakings in the area of export credits:

-- to begin a study of Western export credit policies "with the view of agreeing on a common line of action" toward the Soviet Union and Eastern European countries that is in keeping with the general precepts of not contributing to the military or strategic advantage and capabilities of the U.S.S.R. and not according preferential treatment or subsidies to the USSR. This will require a major and sustained allied effort.

-- to work urgently further to harmonize export credit policies, and

-- to establish "without delay" necessary procedures for a periodic *ex post* review of economic and financial relations with the USSR and Eastern Europe.

Regarding these undertakings, NSDD-66 defines the U.S. objective as follows:

"An agreement that builds on the recent OECD agreement substantially raising interest rates to the USSR to achieve further restraints on officially-backed credits such as higher down payments, shortened maturities and an established framework to monitor this process."

Terms of Reference

The work on the credit issue should proceed on two tracks:

(1) on the "common line" and harmonization of export credit policies regarding the Soviet Union, and

(2) on the review of East-West trade and financial flows.

1. Credit Policies -- The objectives stated in the agreement and those of NSDD-66 are not necessarily inconsistent, although they may be subject to confused interpretation both within the U.S. Government and among allied governments. It is not widely recognized that -- as discussed below -- very few countries still significantly subsidize credits to the USSR, if they adhere to the new provisions of the OECD Export Credit Arrangement. Indeed, many now charge premiums on such credits. Therefore, the restraints called for by NSDD-66, if they are agreed upon in the context of the OECD Export Credit Arrangement, will need to be structured as general measures applicable to all "rich" countries, including the USSR, in Arrangement Category I. The focus will

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have to be less on subsidy reduction than on non-preferential treatment of the USSR within the context of new and more stringent Arrangement rules on export credits to all industrial countries.

In short, there is little scope remaining in the Arrangement for subsidy reduction. There is scope for more restraint in the OECD, but that restraint will have to be agreed upon in a far wider policy context than one relating specifically to the USSR.

Within that context, we can design a proposal that would consist of restraints that would apply to one or more of the following aspects of export credit transactions: (1) the "cover", i.e., the maximum proportion of the total value of an export that can be financed; (2) the type of financing, i.e., direct credits, guarantees, or insurance; (3) the "contract rate," i.e., the rate of interest seen by the buyer; (4) interest rate subsidies (for countries where financial market rates are above the 12.4 percent minimum provided for under the Arrangement); (5) type of products covered; (6) foreign currency loans or guarantees; and (7) term to maturity.

2. Review -- The review should cover the entire spectrum of the flows of financial and real resources from the West to the USSR and individual Eastern European countries. Thus, it would encompass trade, debt, export credits (official), and banking flows as individual items, as well as an overall analysis of the aggregate of these items. The review should focus on the past year's developments in each of these areas, the longer-term trends, and the short-term outlook.

Distinctions would be drawn between the Soviet Union and the Eastern European countries, in keeping with the widely shared commitment among the OECD countries to the principle of such differentiation. In particular, the review would concentrate on credit flows to the former and the indebtedness of the latter, in a manner such that an assessment can be made of the extent to which Western economies contribute to strengthening the strategic and military position of the U.S.S.R.

Implementation Strategy in the OECD

At the outset of this exercise, thinking within the U.S. Government focused on the need for an ad hoc group, consisting of the seven Summit countries plus the EC, to draw on work done in the credit area in the OECD and other fora. The agreements reached by Secretary Shultz and the French, however, explicitly provide for the export credit studies agreed to in the "Summary of Conclusions" to be done in the OECD. As with the terms of reference, the proposed U.S. strategy for the OECD will be discussed below on a two-track basis.

1. <u>Credit Policies</u> -- The initial OECD effort will consist of "studies" of aspects of export credit policies already enumerated, e.g., cover, type of financing, contract rate, term, etc. It will be necessary to structure this effort in such a way as to involve the major participants in the Export Credit Arrangement in a process of <u>de facto</u> negotiation early in the new year. The purpose would be to see what degree of consensus could be achieved among them on credit policies for <u>all industrial countries</u> within the context of the Arrangement by May 1, when the current guidelines of the Arrangement must be renegotiated. By contrast, it would <u>not</u> be adequate simply to expect the OECD Secretariat to produce "study" papers for subsequent review by participants; such an approach would be too time-consuming and would likely produce little or no useful results. A failure to achieve a reviewed consensus by May 1 could give the French a pretext for bolting the Arrangement.

A first step for the United States should be the preparation of our own proposals on each of the principal aspects of export financing, as well as consideration of the tactics to be followed in the OECD. This undertaking, to be completed in January, would be led by the Treasury Department with the participation of State, Commerce, USTR, and Eximbank. Its dual purpose would be to clarify our own thinking on the kind of restrictions we would like to emerge from the OECD, and to formulate proposals we would put forward for multinational consideration.

2. <u>Review</u> -- The U.S. Government has already begun to lay the groundwork for work in this area. During the past summer, we invoked the Versailles understanding in launching an offensive within the OECD and NATO to improve their respective data collection and reporting systems on East-West financial flows. The OECD Trade Committee (Export Credits Group) and the Committee on Financial Markets have produced <u>inter alia</u> evaluations of outstanding East-West economic problems and at least one comprehensive study detailing trends in East-West trade and finance, i.e., the annual Trade Committee report on East-West economic relations. Work on strenghthening the OECD data bank is also progressing.

These efforts need to be expanded and accelerated to fully meet the requirements of the review process we envisage. Specific objectives we should pursue in the OECD include the following:

(1) to continue work to upgrade the OECD data collection and reporting systems in the Trade Committee's Group on Export Credits and reconcile OECD and BIS data on official and private bank credits in the Committee on Financial Markets (CFM); and

(2) to continue work in the Trade Committee's East-West Trade Group and in the Secretariat itself on relevant East-West trade and financial issues, including analyses of economic developments in key Comecon countries and the USSR and trends in East-West economic relations (see latest annual Trade Committee report on East-West Trade).

OECD Secretary General Van Lennep has suggested (Paris 44386) that the XCSS could give initial impetus for this phase of the exercise at its February 8-9 meeting. He has offered to contribute policy-oriented papers to that end and has solicited our views as to issues that should be highlighted. We should focus on this task in the immediate future. Subsequently, we will have to concentrate on what we would like to accomplish in the various OECD groups and what guidance the XCSS could give them.

Another question we will have to address is where we might be able to achieve an overview of the work to be done in the various parts of the OECD. The XCSS might be at least an interim solution. Development of this approach should be pursued after (1) further discussions with Van Lennep, and (2) the results of the upcoming meeting are in.

Work Outside of the OECD

As noted above, the understanding arrived at between Secretary Shultz and the French focuses almost entirely on use of the OECD for the East-West credit work. This presents us with a dilemma.

On the one hand, in restricting this exercise to the OECD we would severely limit what we could hope to accomplish -- with regard to both the scope of the discussions and the policy changes that may result from the effort. We will need to take great care that neither our important general export credit policy negotiating objectives nor our East-West objectives become submerged or compromised by combining them in the OECD forum; there are real risks here.

A major problem is the necessity of involving the neutral OECD member countries. They can be expected to object to dis cussions of any aspects of East-West economic relations that are overtly political, which rules out exchanges there on the security aspects of trade and financial flows. The neutrals would also block any proposal to focus specifically on the USSR. Although they might be willing (as in the 1982 negotiations on a new export credit consensus) to increase restrictions on the USSR and other Category I ("Relatively Rich") countries, this would be opposed by the EC, particularly the French.

On the other hand, restricting this exercise to the OECD has the most widespread political acceptance. The French have consistently opposed a stronger role for NATO in this area as well as establishment of the type of smaller, ad hoc group that we had tentatively advanced earlier. They obviously recognize the problems we will face in trying to achieve our fundamental objectives in the OECD.

Regardless of what we may eventually decide to do, the OECD will play an important role in developing data and analyses on East-West trade and financial flows and in facilitating discussion of the results. Moreover, our initial proposals for work by the various OECD committees would probably not be basically affected by our choice of an overall strategy. We should therefore press on within the OECD in the directions outlined above.

Over the medium term, we may want to consider whether or not we should continue to restrict our efforts to get Allied agreements on credits to the Soviets to the OECD. The prospects for substantial accomplishments if we follow this course are not favorable; by the same token, opposition from the French could complicate any attempt to involve, or create, other fora. Nevertheless, the stakes are high from the U.S. point of view, and the U.S. should be alert to potential opportunities to implement the precepts of the Summary of conclusions in a forum outside, and smaller than, the OECD, should our efforts there run into major difficulties.

An intermediate solution could be to continue to press to the extent feasible in NATO to strengthen the Econad institutional framework, including use of "enhanced" meetings at the political level as well as the work on improving its data collection and reporting system begun last summer. These would be designed to produce policy recommendations on East-West economic issues of strategic importance for the consideration of the NATO ministers; we would downplay any linkage with the OECD's work in this area. Over time, we might be able to win agreement to establishment of a restricted group, which would operate informally in connection with the OECD or outside of it, to synthesize the results of the NATO and OECD work and advance the U.S. objectives spelled out in NSDD-66. For the moment, however, our marching orders clearly mandate the OECD Arrangement as the key forum for East-West export credit work; we should face up to that and proceed as effectively as possible.

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January 7, 1983

Status and Outlook
Energy Requirements Study

Terms of Reference: The USG has prepared draft terms of reference for the Energy Requirements Study (attached). In it we propose the study proceed from an analysis of likely energy demand and indigenous energy production possibilities to an assessment of projected import dependence and vulnerability to energy supply disruptions. The findings of the IEA Natural Gas Security study would be factored into the vulnerability section. The final analytical portion would be an identification of various energy alternatives that would have the effect of minimizing security risks. Policy conclusions would then be reached by government representatives.

Status and Institutional Arrangements

It was agreed during the Secretary's trip that the Energy Requirements Study would be undertaken in the OECD/IEA framework. To resolve the problem of French attendance at an IEA meeting when they do not belong to that organization, we convened in Paris on December 15 an "informal" group of Summit-country representatives, plus the EC Commission. At that meeting, we distributed for consideration by governments our draft terms of reference for the study. The IEA Secretariat (represented by Executive Director Lantzke) has begun work on the study on the basis of the draft terms of reference and expects to have a first draft ready for review in early February.

We have canvassed Summit capitals for official reaction to our proposed terms of reference. The UK and FRG have accepted the draft without changes. Canada, Italy and France had no specific comments and are expected to approve when their internal deliberations are completed. Japan had some questions (which we are answering) but finds the draft generally acceptable. We expect to meet January 12 in Paris on the margin of the IEA Standing Group on Long-Term Cooperation to obtain Summit countries approval of the terms of reference.

The CIA has been asked to conduct a series of "shadow" on the basis of the terms of reference for the energy requirements study and the IEA natural gas security study. DOE will assist in analyzing the North American energy scene. These "shadow" studies will serve as a check on the IEA's analysis and, as appropriate, permit us to correct or supplement the IEA's work.

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An interagency working group has been established to backstop USG participation in the energy studies. It includes representatives of all key agencies and State Department offices. The interagency working group will report to Allen Wallis as chairman of the senior-level International Energy Security Group (IESG).

Outlook

If the Summit country representatives have no serious problems with the terms of reference, we expect to convene another informal Summit 7 plus 2 meeting next week on the margins of the January 12-13 IEA Standing Group on Long-Term Cooperation (SLT) meeting in Paris to obtain agreement on the terms of reference. Final terms of reference could then be provided to the IEA Secretariat.

Ulf Lantzke has informed us the Secretariat will have a first draft of the Energy Requirements Study by early February for circulation to members of the informal group. In mid-February the Secretariat would host a two-day Dourdan-type meeting where the "friends of the Secretariat" would discuss the first draft. At that time, we would bring Norway, the Netherlands, and perhaps Australia, into the informal process.

Based on these discussions, the Secretariat would prepare a redraft which could be discussed further by the informal group and/or sent to the IEA Governing Board for consideration. The IEA Governing Board is next scheduled to meet March 24.

The first step in the study is to establish the factual basis to support our contention that, left unchecked, the Soviets can become the marginal supplier of gas to Europe and drive out competitive alternatives. The Energy Requirements Study and the IEA Natural Gas Security Study will derive alternative reference cases based on different assumptions regarding GDP growth to the year 2000, supply and demand, and interfuel substitution. We would expect that at least one reference case will support our contention.

After the factual basis has been laid, further Dourdan-type meetings would be required to draw policy conclusions. We would seek to persuade our European allies that a prudent energy security policy response to the Soviet threat of preemption and resultant European over-dependence on Soviet gas requires a coordinated European effort to promote the development of Norwegian reserves.

Our goal, of course, would be to obtain European agreement to the NSDD-66 objectives: "not commit themselves to significant incremental deliveries through already existing (Soviet) pipeline capacity; and participate in the accelerated development of alternative energy resources, principally Norwegian gas reserves." (It should be recalled, however, that the study is an overall, global reassessment of energy security issues. The Europeans will emphasize their vulnerability to oil-supply disruptions.)

Attached is our proposed terms of reference and an anticipated work program.

Terms of Reference Energy Requirements and Alternatives Study

The basic guidelines for the Energy Alternatives Study are provided in the "Summary of Conclusions" on East-West economic relations. The Summary stated that:

> "In the field of energy, they will initiate a study of their projected energy requirements and dependence upon imports over the next decade and beyond and possible means of meeting these requirements, with particular attention being given to the European energy situation. The study will be conducted under the auspices of the OECD."

Interested countries would ask OECD/IEA to undertake the study, drawing on previous and on-going work, including the World Energy Outlook. The analyses in previous OECD/IEA studies would be updated to reflect changed economic and market conditions. The Energy Alternatives Study would also utilize information being developed in the Natural Gas Security Study. Member country contributions to the study would also be welcomed.

To provide a context for the regional and country analyses, the study would assess global energy supply/demand for oil, natural gas, coal, nuclear and electricity, and identify likely energy supply flows through 2000. This assessment would include energy supply/demand and flows scenarios from an energy security perspective.

Using the cases developed for each of the three OECD regions, with emphasis on Europe, the study will make a detailed examination of:

Requirements (Demand)

- Regional and country energy requirements by:
  - Fuel Source
  - Consuming Sector

OECD Indigenous Supply

- Energy production possibilities, by energy source, within each region
- Energy imports from other OECD regions.

Import Dependence

- Current and projected regional and country dependence on imports of energy from non-OECD sources, with emphasis on Middle East oil and Soviet energy.

Vulnerability on a Regional and Country Basis

- Risk analysis of supply flows and sources

- Physical Systems for Coping with Disruptions:

  ° Storage capabilities (stocks)
  ° choke points
  ° dual-fired capacity
  ° surge capacity
  ° allocation systems

- Economic impact of likely disruptions, particularly effects on key sectors.

- Evaluation of means to improve energy security systems:

  ° supply diversity
  ° fuel switching
  ° arrangements for access to shut-in capacity
  ° improved storage, demand restraint
  ° pipeline flexibility
  ° strengthened international cooperation

Alternatives

- For each region and country an analysis of alternatives to dependence on non-OECD imported fuel considering:

  ° possibilities for enhancing development of indigenous OECD energy sources, including examination of institutional, policy, financial, and technical constraints.
  ° potential for inter-fuel substitution.
  ° possibilities for enhancing intra-OECD energy trade.
  ° externalities (employment, environment, security).

Based on the technical analysis developed by the OECD/IEA, countries would draw policy conclusions and take appropriate actions, including through the relevant multilateral organizations.

Follow-up on Energy Requirements Study

and Natural Gas Security Study

-- Mid-January. Approval of terms of reference by informal steering group (Summit Seven, plus EC Commission). (Meeting either on fringe of SLT or later in January)

-- Mid-January. U.S. expert (Chuck Patrizia) meets with IEA Secretariat and begins assisting Secretariat with energy study. (Lantzke offered U.S. use of Secretariat position.)

-- Mid-January. CIA tasked to undertake "shadow" studies in support of Energy Requirements Study and Natural Gas Security Study. CIA would "sanitize" work it has done on energy security and transmit it to Secretariat for use in energy studies.

-- January 13. IEA Executive Director Lantzke in U.S. for meetings with Secretary Hodel, Undersecretary Wallis, and possibly Judge Clark.

-- End-January/Early-February. IEA Governing Board (with Paris representation) meets to approve terms of reference. (Lantzke would call meeting "at request of number of IEA members," and would circulate steering group-approved terms of reference to all IEA members.)

-- End-January. Data collection and validation for Natural Gas Security Study completed and outside computer consultants engaged.

-- Early-February. Secretariat completes first draft of Energy Requirements Study. (Study would not contain policy conclusions or recommendations, only factual analysis.)

-- Mid-February. Dourdan-type meeting of informal steering group to review first draft and provide comments to Secretariat. (At this point we would bring Norway, the Netherlands, and perhaps Australia into the informal process.)

-- End February. Secretariat completes computer analysis for Natural Gas Security Study.

-- End-February/early-March. Secretariat redrafts Energy Requirements Study based on steering group discussion.

-- Mid-March. Possible meeting of steering group to discuss Secretariat redraft of Energy Requirements Study and to begin process of drawing policy conclusions.

-- March. Secretariat analyzes Natural Gas Security Study disruption scenarios.

-- March 22-23. IEA SLT meets to discuss status of Natural Gas Security Study.

-- March 24. IEA Governing Board meets to discuss Energy Requirements Study. (Governing Board will also decide whether to have Ministerial meeting in May or only Governing Board meeting.)

-- April. Secretariat drafts Natural Gas Security Study report.

-- Mid-April. Possible meeting of steering group to draw policy conclusion from Energy Requirements Study. (Group would factor in results of Natural Gas Security Study to extent material available.)

-- End-April. Secretariat completes Natural Gas Security Study.

-- Mid-May. OECD (May 9-10) and IEA Ministerial (or possibly IEA Governing Board) discuss results of Energy Requirements Study and Natural Gas Security Study.

-- Mid-May. Sherpas, based on discussions in OECD and IEA and results of steering group deliberations, decide whether and how energy security to be treated at Williamsburg Summit.

-- May 27-28. Williamsburg Summit. (Discussion of results of Energy Security Requirements Study and Natural Gas Security Study, <u>if</u> agreement has been reached on policy conclusions.)

-- June. NATO Ministerial in Paris. (Discussion of results of Energy Requirements Study and Natural Gas Security Study.)

STRENGTHENING COCOM

The United States has proposed that a second High Level COCOM Meeting (HLM) be held in late February or March in order to stimulate and maintain pollicy level attention in the other COCOM governments on the need to strengthen the multilateral system of security export controls coordinated through that organization. We hope to make use of the HLM to encourage Allied support for major US COCOM initiatives in the following areas (which are described below in greater detail:

(a) an anticipated U.S. proposal to be submitted to COCOM that a second high level meeting (HLM) be held at some mutually acceptable time in 1983, and

(b) efforts prior to the second HLM to strengthen COCOM in the following areas (which are described in greater detail below):

1) effectiveness and responsiveness of COCOM in general;

2) strategic criteria;

3) list review;

4) enforcement, counter-intelligence cooperation, and harmonization of licensing procedures;

5) organization, e.g. instituting a military sub-committee, improving communications and equipment, adding staff;

6) multilateral approaches concerning third country availability.

It would also be our hope that the HLM could review and give impetus to an _ad hoc_ COCOM study group on "other high technology, including oil and gas," which the US has also proposed.

1. Review of the effectiveness and responsiveness of COCOM in general

Objective: To obtain a consensus that, despite its successes, the COCOM system of multilateral controls must be strengthened in order to impede more effectively the transfer of Western equipment and technology of strategic military importance to the Soviet Union and its Warsaw Pact allies.

Plan of Action: At the January 1982 HLM, the United States noted that COCOM had been reasonably effective in controlling the export of listed items by law-abiding exporters but that the Warsaw Pact countries were obtaining equipment and technology of strategic military importance both through evasion of controls and because some significant items are not subject to control. Our objectives were to demonstrate the need for improving enforcement and for strengthening the existing embargo list. The HLM agreed minute acknowledged that Warsaw Pact military equipment and technology had been aided by systematic exploitation of Western technology and that COCOM should give priority attention to reviewing the adequacy of controls in several specific areas. However, the first HLM did not endorse U.S. proposals for a clarification of COCOM's strategic criteria, additional resources for enforcement, or a military sub-committee and that meeting could not, of course, take definitive action on strengthening the embargo list. During bilateral talks in October 1982, the United States proposed a meeting of Japanese, German, French, and UK officials to discuss joint approaches to third countries in efforts to stem diversions; the UK has supported this U.S. initiative but has urged that the idea be pursued in COCOM rather than in a restricted group.

We should now renew efforts to revise the criteria, to obtain commitments for more rigorous enforcement, to establish a military sub-committee and otherwise strengthen COCOM organizationally and logistically, and to pursue the idea of multilateral approaches to third countries. We should also identify problem areas in the list review and seek support for efforts to reach rapid agreement on strengthening the lists in priority areas.

2. Review of the strategic criteria

Objective: To obtain a commitment by the other members to support a U.S. initiative to revise the strategic criteria in order to provide a clearer basis for broadening COCOM controls to cover technology, equipment, and materials critical to defense production.

Plan of Action: The U.S. should propose in COCOM that the second HLM consider revising the COCOM strategic criteria.

The principal objective of this revision would be to provide a better basis for restricting exports to the USSR of equipment and technology critical to defense production.

In preparatory meetings for the first HLM, other COCOM members showed no enthusiasm for addressing a similar US proposal for a revision of the strategic criteria. Accordingly, changes proposed by the United States at that time have not been discussed in detail, either at the first HLM or in regular COCOM meetings since then.

Prior to the second high level meeting, the United States should indicate that it would like to pursue its earlier initiative to revise the strategic criteria at that session for the reasons outlined above and to seek general support for such an undertaking.

We should stress that inadequacies of the present COCOM system necessitate a broadening of the current embargo to cover items critical to military production and that the optimal way to signal this to the numerous officials who work on the details of the List Review would be a revision in the strategic criteria.

3. Review Progress to date in the List Review

Objective: To encourage support for priority U.S. List Review proposals which encountered serious problems during the First Round and for full committee agreement on these proposals before the COCOM summer recess.

Plan of Action: Substantial progress has been made in reaching agreement on U.S. proposals to strengthen the embargo lists in priority areas identified by the first HLM, except for floating drydocks, robotics, and computers. There is a major problem in obtaining agreement on our floating drydock proposal (particularly from Japan). Much technical work remains to be done to refine proposals on robotics and on computers (hardware, software, and communications switching). The Committee has agreed to schedule a computer working group in April but is resisting scheduling a second round of full Committee review of the computer item before the fall of 1983. The United States plans to submit revised proposals on robotics and on computers to the Committee in January so as to provide adequate advance notice to other members for second round working group and full Committee consideration before the summer recess. However, it will not be possible to research all outstanding technical questions fully by January, so that there will be some gaps in our revised proposals. Moreover, in the past, efforts to reach interagency agreement on the content of U.S. proposals have been time-consuming.

Efforts are continuing to schedule full Committee second round review of the computer item before the summer recess. We will not know for sure until the end of January whether we can meet our goal of submitting revised robotics and computer proposals to COCOM by then, and we will also not know until the end of January how much further technical work we must do in order to have a productive second round discussion of these items.

At the HLM we should seek a commitment from the other members that they will work with us to schedule and conclude negotiations before the COCOM summer break on proposals in the priority areas identified by the January 1982 HLM.

4. Review efforts to improve enforcement, counter-intelligence cooperation and harmonization of licensing procedures.

Objective: To obtain pledges from other COCOM members to devote increased intelligence and enforcement resources to security export control activities and to initiate domestic measures necessary to deal with the third country diversion problem.

Plan of Action: As a follow-up to the High-Level Meeting, COCOM's Sub-Committee on Export Controls met in May to consider a number of U.S. proposals on enforcement and harmonization. The Sub-Committee adopted more than 15 recommendations which, if implemented, would go a long way towards (a) strengthening national enforcement activities; (b) increasing cooperative efforts among the enforcement and investigating agencies; and (c) bringing the licensing practices of the other members more in line with those of the United States. In many cases, however, the recommendations merely called for members to study the possibility of implementing actions proposed by the United States, such as the initiation of reexport licensing to deal with the third country diversion problem.

During the pre-List Review bilaterals with major COCOM governments this fall the U.S. interagency teams underscored the need for following up on the key Sub-Committee recommendations, particularly those relating to increased enforcement resources and the third country diversion problems. As a result of the Sub-Committee meeting the full Committee is also presently discussing two U.S. initiatives, one for standardizing information provided with license applciation and COCOM exceptions cases and another on developing uniform undertakings in the Import Certificate/Delivery Verification (IC/DV) system.

Plans are now under way to send interagency teams to major COCOM capitals during January and February to discuss key enforcement and harmonization issues with working level officials in licensing and enforcement agencies. These bilaterals and the subsequent discussion at the second HLM should emphasize the key harmonization and enforcement issues. These would include:

(a) The need for increased resources devoted to national enforcement activities. Most of the other governments have noted the difficulty of increasing such resources because of budgetary restraints exacerbated by the present recession.

The U.S. presentation should emphasize the possibility of shifting resources from other less crucial activities into enforcement. We should attempt to get the other members to describe how they are implementing the Sub-Committee's recommendation on increased resources or to commit themselves to give high level attention to this issue; and

(b) The need for reexport licensing or alternative system to cope with the problem of diversions through third countries. All the other members share the U.S. view that the diversion of COCOM controlled equipment and technology through third countries is a serious problem and the high level agreed minutes call upon COCOM to address this issue on an urgent basis. On the other hand, all other members have resisted our urgings that they institute the U.S. practice of reexport licensing; they point to vastly increased administrative burdens and to legal problems of such an extraterritorial reach of controls. The U.S. should press other members to describe what measures they have instituted to cope with the third country diversion problem and to emphasize the need for alternative arrangements in lieu of reexport licensing.

Commerce and State should prepare cables proposing a suggested schedule of bilaterals on harmonization and enforcement issues.

5. Examine further measures to strengthen COCOM institutionally, e.g., instituting a military sub-committee, improving communications and equipment, adding staff

Objective: To overcome existing opposition among the steering group members to the establishment of a COCOM military sub-committee and to obtain a general pledge for financial support for the upgrading of COCOM facilities and communications and an expansion of COCOM staff.

Plan of Action:

A. Military Subcommittee

The January 1982 HLM agreed that "COCOM may from time to time and by common accord conduct special sessions in order to receive and exchange reports from military and defense specialists."

At that meeting, and again at the October 1982 opening of the List Review, other members resisted a U.S. proposal for a separate COCOM military sub-committee, primarily because of desires that their governments speak with one voice in COCOM.

COCOM met on November 15 in a "special session to receive and exchange reports from military and defense specialists" on the subject of stored program control circuit switching.

At that meeting, most delegations were represented by officials from not only the Ministry of Defense but also from the Ministries of Foreign Affairs and of Trade. Japan is especially sensitive about involvement of its Defense Agency in COCOM activities and declined to send any military or defense specialists to the November 15 meeting.

The United States should take advantage of the opportunity presented by the November 13 consensus to "take the necessary measures to strengthen the effectiveness and responsiveness of COCOM" to press once more for the establishment of a COCOM military sub-committee. A central function of COCOM is to identify what is militarily critical. Yet, in the absence of a special meeting called for the express purpose of convening military experts (such as the November 15 meeting), most delegations to COCOM include no military or defense specialists.

Such specialists should have a more active role than the receipt and exchange of reports, because their views as to what is militarily critical would be of great benefit to COCOM. However, to meet the concerns of others that their governments must speak with one voice, we should suggest that the function of the military subcommittee be the exchange of informal views which would not commit governments.

To meet the Japanese concern about military participation, we should suggest that the term "military and defense specialists" be interpreted to include non-military experts knowledgeable in the military appliation of technologies.

The United States will make a formal proposal along these lines for consideration by the HLM. If strong opposition from the HLM is encountered, we should suggest one or both of the following alternatives:

(1) a series of COCOM meetings to which military and defense specialists would be invited to consider special areas of strategic concern (DOD and CIA would identify several such areas in advance) or (2) informal meetings of military and defense specialists of interested governments to consider such subjects and to report back to their governments.

B. <u>Upgrading COCOM facilities and staff</u>

COCOM is now housed in modest quarters in an American Embassy annex. It has no modern word processing or computerized communications equipment. Its staff is extremely competent to perform the assigned secretariat functions but includes no talent capable of analysis of critical technologies and an insufficient number of personnel to provide in-depth analyses of such matters as exception cases which are relevant to List Review proposals.

State is now exploring, as an interim measure, the possibility of a 30 percent increase in floor space in the building where COCOM is now housed. The United States should outline this plan to COCOM and note that, because of the refurbishing costs and the resultant displacement of a USG agency, the United States would be obliged to increase the hypothetical rent for these quarters used in calculating the U.S. contribution to the organization. (State should prepare an estimate with the assistance of FBO.) We should seek a pledge from the other members that they will be prepared to increase their own monetary contributions to meet their shares of this increased cost.

The United States should develop a plan for modernizing COCOM facilities and seek a pledge from the other governments that they will, in principle, support such improvements financially. This plan is expected to include: word processors and other modern office equipment; communication links between the Secretariat and COCOM capitals; and appropriate communication security apparatus. The agencies should seek funds to finance a preliminary feasibility study of the computerization of COCOM operations.

We should also explore the willingness of the other members to support an expansion of the secretariat staff, which now ranges between 12 and 15. State, with the assistance of DOD and Commerce, should develop a suggested revised staffing pattern for the secretariat, including a rationale for new positions and a presentation of the plan to COCOM. These plans for expanding a COCOM staff will also be necessary for State budget planning.

6. Multilateral Approaches concerning Third Country Availability

Objective: To obtain support for approaches to non-COCOM countries to control reexports of COCOM-listed items.

Plan of Action: At a May 1982 meeting ot the COCOM Sub-Committee on Export Controls, the United States recommended joint approaches to non-COCOM member countries who export to proscribed destinations goods on the COCOM lists, often of COCOM member country origin. In bilateral talks following the List Review opening session in October, the United States proposed a meeting with Japanese, German, French, and UK officials to discuss this idea. In November, the United Kingdom informed the United States bilaterally that it welcomed the U.S. initiative and would attend such a meeting but recalled the earlier U.S. recommendation in the Sub-Committee and pointed out the dangers of offending other COCOM members (the Italians and Dutch, in particular) if this exercise was conducted in a restricted group.

The United States has a 1951 confidential bilateral arrangement with Switzerland, a 1976 confidential agreement with Yugoslavia, and a 1982 confidential bilateral arrangement with Sweden, and is now seeking a confidential bilateral arrangement with Austria. These neutral countries are most anxious that we respect the confidentiality of these arrangements.

Other COCOM member countries have less extensive arrangements with third countries, principally concerning the use of Import Certificates and Delivery Verifications. IC/DV procedures have been developed in COCOM over the past 30 years for use in trade among COCOM member countries and with non-member, but cooperating countries. It would be reasonable for joint approaches to third countries to seek the application of IC/DV procedures to a greater range of transactions than is now the case. During such joint approaches, the third countries themselves might suggest the application of some other elements of U.S.-bilateral arrangements to re-exports of items originating in other COCOM member countries.

During the harmonization bilaterals mentioned above the United States should seek support of key COCOM governments for pursuing in the Sub-Committee the idea of joint approaches to third countries to expand the use of IC/DV procedures.

Drafted:EB/TDC/EWT:WARoot:WFBeachner:pp
1/6/83 - 20964/21421
(Vydec 47/A/5)

MULTILATERAL CONTROLS ON HIGH TECHNOLOGY EXPORTS, INCLUDING OIL AND GAS EQUIPMENT, AND DATA

Overview

The United States Government has a definite set of views about the reasons for control of high technology exports, especially oil and gas equipment and technology. These views include the concern over the effect of additional Western European gas purchase on Western energy security, the contribution of these purchases to Soviet hard-currency earnings, and the importance of such earnings in furthering Soviet strategic aims. Agreement with our allies on the objectives spelled out in NSDD-66 will depend on thorough and persuasive studies and analysis. A specific study in COCOM would serve the purpose of investigating a secondary question: the utility of controls on exports of oil and gas equipment and technology.

The aim of this study is to show the relationship of controls on high technology exports, to the Soviet Union, to the security interests of the U.S. and its allies. The case for imposing such controls will depend on a broad set of effects on allied security, as real as, but more roundabout than those that have been considered in the past in evaluating additions to the COCOM list. These broader effects on security will in part be addressed by the parallel studies on energy and on East-West economic stragegy, so that the work of the different studies will be interconnected. Information coming out of or anticipated from the present study will help determine the content and priorities of the other studies; information flowing from those studies in the course of their work will contribute to the assessment of the strategic and military importance of particular items, or classes of items, being considered in this study. Therefore, this study must begin early on those parts of its work that interweave with the work of the other study groups.

As a part of this study or in a related study, the issue of political controls on exports to the USSR will have to be addressed. The United States will be seeking to build support for the contribution that multilateral controls on selected exports to the USSR are an appropriate response to egregious Soviet behavior.

It is essential that the current deliberations of the on-going COCOM list review go forward without interference or delay. Therefore, the new study will require the addition of staff, and careful, deliberate administrative arrangements that steer the new work clear of the on-going work. In this connection, the U.S. aim will be to leave until the end of the study the question whether new types of items the study brings up for consideration for control should simply be added to the COCOM list, or should form part of a new list with distinct criteria for inclusion.

OIL AND GAS EQUIPMENT AND TECHNOLOGY

Logically, the decision to control oil and gas equipment and technology is closely linked to the decision on limiting Western imports of Soviet gas. If the allies agree on that decision and on the U.S. assessment of Western security interests, they are likely to accept some degree of control. If the energy study results do not persuade the allies to limit their purchases of Soviet gas, there is little chance that this study will persuade them to control oil and gas equipment and technology. Therefore the two studies have a policy parallel as well as operating in parallel in developing information. This consideration will also affect the appropriate phasing of the two studies.

The broader security considerations that the U.S. asks its allies to take into account in COCOM deliberations (and in other policy decisions, such as the import of Soviet gas) include (1) the implications of total Soviet energy exports for Western energy security, (2) the specifics of dependence on Soviet gas through existing and projected pipeline capacity, in particular parts of Western Europe, and (3) the advantages to the Soviets, in pursuing their strategic aims, of increased energy exports to hard-currency markets, Eastern Europe, and other client states. Besides wanting to delay indefinitely the time when they become dependent on energy imports, the Soviets have various motives in accelerating energy production and exports. These motives and their prospects will be developed and documented in the other studies. The present study will show the dependence of Soviet energy production expansion plans on Western equipment and technology, and thus show how controls can affect Soviet prospects in pursuing their aims. The results should enable the U.S. to work with its allies on a list of oil and gas equipment and technology to be controlled.

Analysis

The Summary of Conclusions stresses that exports of other technologies, including oil and gas equipment and technical data, would be examined for their implications for Western security. The non-paper specifically states that no Western actions should be taken that would contribute to the military or strategic advantage and capabilities of the Soviet Union or Eastern Europe, nor subsidize the Soviet economy. The study will consider whether controls which affect development of exports are on balance advantageous to Western security. An Administration concern is that accelerated production of domestic energy (Astrakhan) provides the USSR with the capability, through the existing and projected exported pipeline network to diminish the commercial viability of Western energy reserves (i.e., Troll). This study will show how alternative equipment and technology controls would affect that production.

Furthermore, this study will examine the question of how a multinational control system can reinforce the Allied commitment to improvement of Western energy security. We will address the question whether COCOM's existing criteria can be used to achieve our goals of controlling such oil and gas equipment and technology as would otherwise permit export of energy beyond levels agreed upon in the Summary of Conclusions. It is our aim to persuade our Allies to consider all factors affecting our security interests in COCOM deliberations, including energy vulnerability, excessive hard currency earnings, and their use for advancing Soviet aims.

We should consider several alternatives for the form and content of controls, with the attitude that this represents a first step. We should consider working in COCOM to (1) identify the USSR's priority energy projects and the potential contribution that Western equipment and technology can make to these; (2) determine the impact of these projects on Soviet energy production levels; and, (3) establish a multilateral list covering critical oil and gas equipment and technology for which the Soviets are dependent on Western suppliers. Each government should develop an analysis using best available data for each of the points stated above.

The working goup has begun its determination of the range of alternative controls. These include, but are not necessarily limited to, the following:

(1) an overall system of controls on high technology transfer, including critical oil and gas equipment and technology;

(2) denial of critical technology alone, (which would broadly parallel U.S. licensing policy which routinely permits equipment exports while denying technology);

(3) multilateral denial of high technology items, including critical oil and gas equipment, at first limited to those available principally from the U.S.;

(4) concentrating denials largely on equipment and technology for transmission of oil and gas;

(5) proposing "controls" without a specific policy of general denial for the initial purpose of monitoring such exports;

(6) tying denials to Soviet export-oriented energy projects instead of specific categories of technology or equipment;

(7) tying denials to items not generally available in the Communist Bloc countries;

(8) setting a time limit or sunset provision as opposed to permanent controls.

Discussion of Alternatives:

Alternative 1 is taken from NSDD-66. Every listed alternative would be a step forward in that it involves controls or criteria not now accepted by the allies.

Denial of technology alone (alternative 2) would serve the purpose of preventing the Soviets from building their own oil and gas equipment using new Western technology. Since the USSR would continue to be dependent on Western equipment, the possibility of using this dependence later for Western leverage would remain. Soviet hard currency earnings would also be partly offset by equipment purchases. However, all Soviet energy projects could go forward. With this alternative the allies would initiate export controls and would deny critical technology not presently embargoed. However, it is no more than an opening wedge.

The merits and drawbacks of alternative 3 are very similar to those of alternative 2. However, alternative 3 clearly puts the initial burden entirely on U.S. companies.

We may consider focussing denials solely on items for the transmission of oil and gas (alternative 4), which are most directly related to Soviet export ability and to Western European energy vulnerability. The balance of advantage concerning denials which would, by their nature, also affect indigenous energy development will be determined by this study and the E-W trade study. Burden sharing within the alliance would be more equitable, under this alternative.

Multilateral "controls" without presupposing a policy of general denial (option 5) would allow monitoring of the flow of such technology and ongoing review of its security implications as suggested by the Summary of Conclusions. This would impose no significant burden on the Allies, nor would it have any effect on Soviet oil and gas development. It could serve as an immediate first step, however, pending the results of the studies. A policy of denial could be easily implemented for specific items, should study results or events require, once the overall framework of the controls is in place.

Moreover, we should give consideration to a policy of denial for those items which contribute directly to Soviet export capabilities (option 6). This option narrows the focus of Western denials and leaves open the domestic projects. It would address the energy security and hard currency concerns raised by Soviet energy sales and leave open the possibility of adding items to a denied list should future Soviet behavior warrant. It would be difficult to administer, because of ambiguity of the purposes of Soviet projects (export vs. domestic) and because of possible equipment adversions.

Alternative 7, tying denials to items not generally available in the Communist Bloc countries is an essential condition of Western export controls.

Including a sunset provision (option 8) would likely make the controls more palatable to the Allies. Proposing a definite time period would bolster our argument that we are suggesting controls due to our concern that Soviet gas rates might preempt the development of alternative sources of supply in the near term. The controls need apply only until a date by which commercially viable alternatives might reasonable become available.

<u>Recommended First Steps</u>:

An initial proposal for control along the lines of options 1 and 7 should be made in the context of the security considerations noted in this paper (page 3). This would focus discussion on control, and set the stage for a full discussion of the rationale for control based on information from the other studies. We should make clear that the list we propose is negotiable in technological levels of equipment by exploring the options outlined in the study process. Preparation for this effort will require a maximum input from CIA to clarify the impact of the several options.

Other High Technology Exports

(C) This memorandum explains the security rationale for multilateral control of high technology items that are not presently included on the COCOM Lists or proposed for control as a part of the COCOM List Review. It also notes the mechanisms to be followed within the USG to develop a list of such items.

(S) Rationale for Controls

(S) The West maintains an overall military balance with the Soviet Union by keeping a "quality edge" in military technology. Since World War II, Western countries have capitalized on their lead in the use of electronics and other modern industrial technologies to rely on technology to augment national security instead of adding to the inventory additional weapons and manpower. Recently the Allies have reaffirmed the need to control this quality edge in the Non-Paper through the statement that "(The Allies) will not undertake trade arrangements, or take steps, which contribute to the military or strategic advantage and capabilities of the USSR." We have used and will continue to use, COCOM to limit export to the Soviet bloc and other proscribed countries of dual civil and military use technology and equipment, as well as munitions and nuclear technology and equipment, which would allow the East to offset the Western technology edge.

(S) This interagency group will focus on two areas of technology critical to Western military security, but that have not been proposed to COCOM. First are emerging technologies potentially important for some aspect of the Soviet-Western military balance. These items may eventually enter the commercial market, but cannot yet be sufficiently defined in terms of COCOM controls. Such technologies should be carefully monitored by Western governments in order to assess their potential military importance and the arguments for and against control. COCOM would agree to place these items on a "Watch List." Some possible examples of these technologies are artificial intelligence, bioengineering, satellite warfare*, very high speed integrated circuits* and recursive software development.

(S) We could present the emerging technology list to the Allies as a relatively non-controversial proposal. There are no commercial interests involved so far. Moreover, these technologies could give the West major strategic breakthroughs -- or, if lost to the Warsaw Pact, could block a major Western advantage or give the East such a breakthrough. If the West is to maintain its quality edge, this area should be a first line of defense.

* we know military uses

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(S) Second, there are "other" high technology items that will support the defense priority industries of the Soviet bloc and other proscribed countries. U.S. proposals for these items are well underway in development, but they have not yet been submitted to COCOM. Possible examples include manufacturing equipment for silicon compounds, some electronic assembly manufacturing equipment, CAD/CAM systems, and industrial controllers.

Mechanism

(S) The interagency working group has agreed that the United States should make a serious effort to build constructively on the apparent willingness of the Seven to examine the need to control "other" technology. This group will draft a strategy paper on "other" non-COCOM controlled high technology. It will define what groups of technologies should be considered under this category and establish appropriate criteria for strategic concern. On this basis, the group will identify current and possible future candidates for multilateral control and/or placement on a watch list. The U.S. will develop its position prior to engaging the Allies in a joint study. A first draft of potential categories for consideration with rationale will be completed by January 7, 1983 and a report to the Working Group by January 14, 1983.

(S) This review will include the following actions: A.F.

DARPA, DNP

1. (S) The Services, DIA, and Research and Engineering to review advanced projects for emerging technologies not currently controlled and the defense priority industry proposals for submission to COCOM.

2. (C) Industry to be approached through the MCTL review mechanism to identify candidates for control.

3. (S) TTG chairman to be asked to review their findings for further candidate technologies for control.

REQUEST/RECEIPT FOR TRANSMISSION

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FROM Goldstein OFFICE DESK ISP/IETSP PHONE NBR 695-4327

SUBJECT Draft cable on East-West trade

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STATE	ELLIOTT HURWITZ	E	7260	632-8854
NSC	ROGER ROBINSON	OLD EOB	373	395-3622
TREASURY	BOB CORNELL	IT	3208 MT	566-2748
	[redacted]			

REMARKS:

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White House Guidelines, August 28, 1997
By CAS NARA, Date 9/11/00

CSD FORM ...

CONFIDENTIAL

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301

INTERNATIONAL SECURITY POLICY

21 JAN 1983
In reply refer to:
I-05322/83

MEMORANDUM FOR TIM HAUSER, STATE, EB/IFD/OMA

SUBJECT: Draft Cable on Ex Post Review of East-West Trade and Financial Developments (U)

(C) Defense proposes the following changes to make the paper to be sent to our OECD representatives compatible with the revised (January 18) version of the interagency strategy paper on East-West Credit Flows Study:

1. (C) Insert after "East-West work program" under point 2 of U.S. Objectives: "with the goal of achieving the U.S. objectives described below"

2. (C) Insert after the first sentence in the first paragraph under Essential Factors: According to the "Summary," this review is part of a commitment to begin a study of Western export credit policies "with the view of agreeing on a common line of action" toward the Soviet Union and Eastern European countries that is in keeping with the general precepts of not contributing to the military or strategic advantage and capabilities of the U.S.S.R. and not according preferential treatment or subsidies to the U.S.S.R.

(C) This sentence from the revised strategy paper (top of page 1) will alert our representatives to the perspective from which the US Government views their efforts. Moreover, UK representatives have recently urged the U.S. to hold firm to the commitments in the Summary of Conclusions. Of course, these objectives should not be stated to representatives of neutral members of the OECD because they would object to any discussion in the OECD of the security aspects of trade and financial flows and to any specific focus on the U.S.S.R.

3. (C) Insert after the first paragraph under Essential Factors the two paragraph section titled "2. Review" that is on page 2 of the revised strategy paper. The Interagency Credits Group has established substantive U.S. negotiating objectives for the review. Our representatives should be informed of these objectives to guide them in their efforts and to avoid later confusion or delays in the interagency review process.

4. (C) Insert or work into the last part of the second paragraph under Essential Factors the two subparagraphs (1) and (2) on pages 3-4 of the revised strategy paper. Our negotiators should know the "specific objectives we should pursue in the OECD" as designated

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by the interagency group. It seems worthwhile to state these objectives specifically even though several of them are included under the talking points.

5. (U) We recommend that the negotiating instructions include a summary of the issue of, and approach to, alternative fora discussed in the strategy paper under "Work Outside of the OECD." Our representatives should be informed that there are serious doubts in the USG about the viability of the OECD as a forum to implement the precepts of the Summary of Conclusions. They should also know that the U.S. is prepared to consider other negotiating fora over time. If they do not know this, they may well be too prepared to bow to objections to our policies from other governments. This could result in confusion and embarrassment to all involved in the negotiating process.

(U) We appreciate the opportunity to review this draft text and look forward to seeing the revised text.

Donald J. Goldstein

Donald J. Goldstein
Principal Director
International Economic, Trade
and Security Policy

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N. Bailey
NSC

UNDER SECRETARY OF STATE
FOR ECONOMIC AFFAIRS
WASHINGTON

E-W T.

January 13, 1983

MEMORANDUM FOR: [redacted] FOIA(b) (3)
Chairman
National Intelligence Council
Central Intelligence Agency

SUBJECT: CIA Analytical Support for East-West Study Program

As you know, the program of East-West economic studies described in the "Summary of Conclusions" is now well under-way, with SIG-IEP approval having been granted for the terms of reference and implementation plans in each area. In energy, the study terms of reference have also been agreed to by Summit Seven countries, and the IEA/OECD Combined Energy Secretariat has begun work on the energy requirements and alternatives study itself.

The USG's success in advancing these studies toward the goals set in NSDD 66 will depend in large part upon our effective use of analytical support provided by the CIA. For this purpose I hope that the CIA can continue and expand upon the excellent work it is now doing in support of our efforts in each of these areas. This work will serve as a check on the work done by national bureaucracies, CoCom, the NATO Economic Committee, the OECD, and the IEA, and, as appropriate, permit us to correct or supplement these analyses.

In the area of the overall strategic and military implications of East-West economic relations, we have identified the following questions where additional CIA analysis will be a key element in supporting the study process:

1) What is the elasticity of East-West trade with respect to credit or other subsidies?

2) What are the major economic benefits that the Soviets derive from their trade with the West? Do we have good data on the magnitude of these benefits and the sectors in which they are concentrated? How and to what extent does the USSR use economic relations with the West to expand its military power?

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By LOI, NARA, Date 5/30/06

3) What are the most important infrastructure elements that support -- but are not a direct part of -- Soviet military production? Has Western trade been important in these areas?

4) Is there any empirical evidence, beyond the infamous 1972-73 grain deal, that the Soviets have exploited their monopsonist or near-monopsonist position vis-a-vis their more numerous Western trading partners?

5) Among what uses could the Soviets be expected to allocate their foreign exchange earnings for various levels of those earnings?

In support of the energy requirements and alternatives study, we see the following particular requirements:

1) A "shadow study" based on the terms of reference for the East-West energy dependence and alternatives study.

2) A related "shadow study" on the physical characteristics of the European natural gas distribution grid and the physical constraints on responses to IEA-stipulated disruption scenarios.

3) Continued CIA export help to advise the IEA Secretariat on gas supply modelling techniques and to monitor the progress of the IEA work. In particular, we would hope that [redacted] who participated in the most recent gas experts' group meeting in Paris December 17, would be available to attend future such meetings.

FOIA(b) (3)

4) Key experts may also be needed for travel and consultations in other OECD capital cities in the coming months, depending on the course of the energy requirements study.

5) Further CIA analysis of Soviet gas export capabilities and pricing strategies will be needed for our guidance and for exchange with affected countries, in particular Norway and the Netherlands, (i.e., whether the Soviets could exploit their enhanced natural gas production and transmission facilities to discourage the future development of Western European supplies).

6) Whether the Soviets view and/or use energy as a strategic resource in international relations.

As mentioned in the SIG-IEP meeting, an additional area in which your work could support the negotiating process is a country-by-country determination of the responses that our allies are likely to make to our initial proposals, and what arguments we could make that would most effectively counter these arguments.

Also, as you may be aware, we are assuming the availability for temporary detail to NATO of one economic expert who can work with the NATO international staff on the security implications of East-West economic relations. As in the past, we would also appreciate the participation from time to time of a senior-level economist to reinforce the U.S. NATO mission for Economic Committee meetings.

Finally, in addition to the analytical work, it will be vital to set up procedures for rapid "sanitization" of CIA findings so that we may exchange substantive views with our allies, both within the various study fora as well as bilaterally.

I very much appreciate your support in this matter.

Allen Wallis

cc: Mr. McCormack
Mr. Niles
Mr. Bailey
Mr. Ikle
Mr. Olmer
Mr. Bradley
Mr. Wendt

Drafted:E-EHurwitz:EB/ECC-CRies:jr