

Ronald Reagan Presidential Library

Digital Library Collections

This is a PDF of a folder from our textual collections.

Collection: Bailey, Norman A.: Files
Folder Title: East-West (September 1982-
September 1983) (7)
Box: RAC Box 5

To see more digitized collections visit:

<https://www.reaganlibrary.gov/archives/digitized-textual-material>

To see all Ronald Reagan Presidential Library inventories visit:

<https://www.reaganlibrary.gov/archives/white-house-inventories>

Contact a reference archivist at: **reagan.library@nara.gov**

Citation Guidelines: <https://reaganlibrary.gov/archives/research-support/citation-guide>

National Archives Catalogue: <https://catalog.archives.gov/>

WITHDRAWAL SHEET

Ronald Reagan Library

Collection: BAILEY, NORMAN: FILES

Archivist: cas

FOIA ID: F99-078 Zuber

File Folder: East - West (Sep 82 - Sep 83) (7/9) Box 5

Date: 9/12/2000

DOCUMENT NO. & TYPE	SUBJECT/TITLE	DATE	RESTRICTION
1. memo	Wm. Martin to Wm. Clark re a preliminary game plan (7763) 4 p. R 5/30/06 F99-078/1 #109	11/12/82	P1, F1
2. report	of the Alternative Energy Group 5 p. attachment to item # 1 R " " #110	nd	P1, F1
3. paper	re European gas 7 p. R " " #111	nd	P1, F1
4. case studies	re European gas 4 p. R " " #112	nd	P1, F1
5. charts	3 p. R " " #113	nd	P1, F1
6. draft paper	revised version of non paper 4 p. R " " #114	11/3/82	P1, F1
7. memo	Bailey to Clark re report 1 p. (7806) R 9/24/02 F99-078/1 #115	11/15/82	P1, F1
8. memo	Clark to Wm. Casey re report 1 p. R " " #116	nd	P1, F1
9. report	3 p. PART. 3/14/02 F99-078/1 #117	10/1/82	P1, F1 B3
10. memo	Martin to Clark re Soviet gas 1 p. R 9/24/02 F99-078/1 #118	10/22/82	P1, F1
11. charts	3 p. R 5/30/06 F99-078/1 #119	nd	P1, F1

RESTRICTIONS

P-1 National security classified information [(a)(1) of the PRA].

P-2 Relating to appointment to Federal office [(a)(2) of the PRA].

P-3 Release would violate a Federal statute [(a)(3) of the PRA].

P-4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA].

P-5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA].

P-6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA].

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

F-1 National security classified information [(b)(1) of the FOIA].

F-2 Release could disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA].

F-3 Release would violate a Federal statute [(b)(3) of the FOIA].

F-4 Release would disclose trade secrets or confidential commercial or financial information [(b)(4) of the FOIA].

F-6 Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA].

F-7 Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA].

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].

WITHDRAWAL SHEET

Ronald Reagan Library

Collection: BAILEY, NORMAN: FILES

Archivist: cas

FOIA ID: F99-078 Zuber

File Folder: East - West (Sep 82 - Sep 83) (7/9) Box 5

Date: 9/12/2000

DOCUMENT NO. & TYPE	SUBJECT/TITLE	DATE	RESTRICTION
12. memo	Martin to Clark re European gas market (7612) 2 p. <i>PART. 5/30/06 F99-078/1 #120</i>	11/4/82	P1, F1
13. memo	Clark to the President re the Soviet threat 3 p. <i>PART. " " " #121</i>	nd	P1, F1
14. charts	copies of item 11 3 p. <i>R " " #122</i>	nd	P1, F1
15. memo	Bailey to Clark re response to Allied agreement to non paper (7571) 1 p. <i>R " " #123</i>	11/1/82	P1, F1
16. memo	annotated copy of item #15 1 p. <i>R " " #124</i>	11/1/82	P1, F1

RESTRICTIONS

P-1 National security classified information [(a)(1) of the PRA].
P-2 Relating to appointment to Federal office [(a)(2) of the PRA].

P-3 Release would violate a Federal statute [(a)(3) of the PRA].
P-4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA].
P-5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA].
P-6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA].

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

F-1 National security classified information [(b)(1) of the FOIA].
F-2 Release could disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA].
F-3 Release would violate a Federal statute [(b)(3) of the FOIA].
F-4 Release would disclose trade secrets or confidential commercial or financial information [(b)(4) of the FOIA].
F-6 Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA].
F-7 Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA].
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].

~~SECRET~~

7763

MEMORANDUM

NATIONAL SECURITY COUNCIL

November 12, 1982

~~SECRET~~

MEMORANDUM FOR WILLIAM P. CLARK

FROM: WILLIAM F. MARTIN *WFM*

SUBJECT: A Preliminary Game Plan for the Energy Studies

This memo reviews the status of the international recommendations of the Alternative Energy Group (now the International Energy Security Group), including some preliminary views on how this effort should relate to the energy studies called for in the non-paper.

I. Objectives of Energy Consultations with Allies

My staff working group is presenting a paper (Tab I) to the Principals this coming Monday which reviews the threat to European markets of Soviet gas and recommends that the US:

1. seek a commitment from the Europeans to limit their gas contracts to present levels in order to preserve market share for large scale alternatives and to reduce the security risks of a shut off of Soviet gas.
2. actively support the IEA natural gas security study and encourage our Allies to take appropriate safety net measures to protect themselves against a shut off of Soviet gas.
3. in order to influence European attitudes in assessing Soviet versus non-Soviet energy supplies, support a serious effort to quantify the full cost of Soviet gas, including the cost of credit subsidies, security measure expenses and the macro-economic costs of a reduction in Soviet gas supplies.
4. join with our Allies in the IEA in a serious effort to promote energy alternatives building upon the May IEA Ministerial commitment to develop indigenous IEA gas sources. This should include an analysis of current market impediments to fuller development on both the supply and demand side (i.e., price controls, depletion policies, tax regimes, etc.)
5. continue to work to encourage commercial agreement to develop alternatives, particularly the Troll field in Norway. Ambassador Galbriath should keep roving.

~~SECRET~~

DECLASSIFY ON: OADR

~~SECRET~~

DECLASSIFIED

NLS F99-078/1 #109

BY LOI NARA, DATE 5/30/06

II. Energy Studies

It is absolutely critical that we structure the energy studies correctly so that we can lead the Europeans to our conclusion, based on analytical evidence, that they should limit their gas contracts to current levels. They, of course, will be working towards a different objective and will try to derive quite a different conclusion. One can identify the strengths and weaknesses of each side by reviewing different elements of energy studies which could be considered within the mandate of the non-paper.

These include:

1. World energy outlook-general market trends on the supply and demand side. Europeans will probably opt for higher demand trends which show that oil will be scarce and that alternatives, such as natural gas, are vital for energy supply diversification. Our own analysis is relatively optimistic on oil supply and pessimistic on overall demand, which reduces the need for gas. On the one hand this is good news. The Europeans can substitute oil for gas. On the other hand greater oil availability reduces the economic attractiveness of developing Troll.
2. Regional outlooks, most importantly West Europe. West Europeans will show us chart after chart on how they are improving their energy security by relying on increasing natural gas imports and in so doing reducing their oil imports from the Middle East. We need to point out that gas is a more difficult fuel to replace on short notice and that customers are captive to a steady flow of gas through pipelines. There are no other transportation modes.
3. European gas scenarios. We have convincing analytical evidence that the Soviets can block development of major alternatives. The U.S. should try to focus our case here. The Europeans may point to higher demand levels (which will allow for both more Soviet gas and development of Troll) and will try to hide the fact that the Soviets can ship more gas through existing infrastructure (which is key to a Soviet take over of the market).
4. European gas security from an accounting point of view. This type of analysis will conclude that the Europeans do not face a security problem with one Soviet strand. The European Commission has already done a study which suggests that all Soviet gas can be shut off in the peak winter months in 1990 and they can wither the storm. European analysts will say Soviets gas imports in 1990 are 160 million cubic meters per day and Dutch surge capacity is 350 mcm/d (although this can only be used once for one year.) Thus, the Europeans conclude that

spare capacity can easily replace Soviet gas. However, this analysis is inadequate because it does not assess the physical capability to move gas from one area to another. For example, if Bavaria is shut off, it is unlikely that the grid is sufficient to move gas quickly from the Netherlands to the source of the problem.

5. Gas Security from a Physical Perspective. It is important that the US stress that the physical approach to security is the only way we can really decide whether adequate safety net measures are in place. This would include a detailed analysis of the grid, compressor stations, storage, ability of end users to shift away from gas to oil, etc. The problem here is that the the major gas companies in Europe hold this data and it is difficult to get. The IEA gas security study will try to get to this level of detail. This is critical for us if we are to successfully convince the Europeans of their security problems. (We are fortunate that at Gus Weiss' initiative you asked the CIA some months ago to do a physical simulation model of the Siberian pipeline and European gas grid.)

III. Forum for Discussion

1. The IEA Natural Gas Study. This study will focus on parts II-3,4,5 above. We should insist that this study be completed for Ministerial review by late Spring so that the technical underpinnings can be in place by the time of the Williamsburg Summit where the political commitment to no more Soviet gas can be agreed.

2. Non paper energy dependency studies. This analysis will probably have to cover all five points above. It will also be done within the IEA/OECD (perhaps by Summit countries plus Norway and the Netherlands) and will draw upon results of the IEA Natural Gas Study. Results here can be presented to the Sherpas next Spring. By broadening the scope of this study to all energy, we weaken our case in the gas sector. I'm afraid the Europeans pulled a fast one on our State colleagues here.

IV. Conclusion

1. US Objective. The overriding US objective in the energy studies and IEA work is to get a commitment from the Europeans to limit their gas contracts to existing levels and to join with us in developing alternatives, particularly Norwegian gas. The Europeans (particularly the French) will balk at this idea. Our best chance bilaterally may be with the Germans, who already have politically committed themselves to a Soviet gas ceiling of 30% of their total gas. Kohl's upcoming visit offers an opportunity to explore this.

2. US/European Strengths. The Europeans will try to emphasize energy dependency as a whole and the need for Soviet gas for reasons of diversification. They will point towards accounting models which show that there is no security threat from increasing Soviet dependency. The United States on the other hand, should focus on natural gas markets and the need to preserve market share for large scale alternatives, such as Troll. On gas security, we should encourage an inspection of the physical nature of the European grid and its ability to move gas to troubled areas. We should also emphasize hard currency earnings at different levels of Soviet dependency.

3. US Preparation.

-The International Energy Security Group (IESG) should continue to be the Under Secretary level which reviews our studies and makes proposals for SIGIEP and eventually NSC consideration.

-The NSC led Staff Working Group of the International Energy Security Group should continue to be the interagency group responsible for technical coordination of the energy studies for review by the IESG.

-The CIA should be tasked to do a sanitized version of the European gas scenarios to share with our Allies and the IEA secretariat. This should be ready for presentation no later than early 1983 given the tight time schedule between now and the Summit.

-Delegations to discuss these issues with our allies should be jointly led by State and NSC.

cc: Norman Bailey
Roger Robinson
Dennis Blair



~~SECRET~~

Report of the Alternative Energy Group
International Measures

Introduction

The senior interagency Alternative Energy Group has examined the prospects for accelerated development of Western alternatives to greater energy dependence on the Soviet Union. A first report of the Group identified a series of domestic measures which a majority of the participants felt would enhance U.S. credibility as a reliable and long-term energy supplier to Europe and Japan.

This report presents a companion foreign policy strategy for encouraging international development of secure non-Soviet energy alternatives for Europe. (An NSC-led ad hoc interagency group is to examine issues related to Japanese energy dependence separately.) An annex to this report includes a fuller discussion of alternatives to Soviet gas and scenarios of future European gas supply and demand.

Continuing Soviet Market Threat

In examining potential European natural gas supply and demand scenarios, the Group placed particular emphasis on the potential ability of the Soviet Union to supply additional European gas requirements through the mid 1990's. The Soviets could do so by use of the uncommitted capacity of the Siberian pipeline (9-10 bcm/yr after 1988 if Italy does not purchase the

DECLASSIFIED
NLS F99-078/1 #110
BY LOT NARA, DATE 5/30/06

~~SECRET~~

~~- 2 -~~

gas the Soviets had planned to sell it) together with excess capacity existing elsewhere in the growing Soviet domestic pipeline grid. Over the longer term, the Soviets will probably seek European agreement to construct a "second-strand" pipeline to increase gas delivery capability further.

The Soviet Union may be expected to be aggressive in seeking Western customers for this gas, by continuing to offer low prices and lucrative equipment sales contracts. By undercutting the market for economically scaled projects, additional Soviet sales of gas at competitive prices would preempt development of large-scale alternatives, in particular the early development of the Norwegian Troll Field (see scenarios in the annex). To the Russians, these sales would serve to compensate for the expected fall in Soviet oil and petroleum product exports during the 1980's.

In light of these circumstances, the Group concluded that the principal U.S. objective should be to increase European energy security by minimizing Soviet gas deliveries in the 1990's and encouraging economically viable alternative sources to meet incremental European gas demand in the long-term. To this end, the Group recommends the following strategy.

Recommended International Strategy

1. Limitation of Soviet Gas Purchases. In light of the continuing Soviet market threat, the Group stressed the importance of efforts to have European governments agree [to keep to a minimum imports of Soviet gas in order to ensure

~~SECRET~~
~~- 3 -~~

market share for large-scale economic alternatives.] [not to commit to any major incremental deliveries of Soviet gas beyond the amounts presently contracted for or in advanced stages of negotiations.] The Group recognized that discussions aimed at neutralizing the Soviet market threat are advancing in other fora, but recommended that, from the point of view of promoting alternatives, understandings on this point be as specific and effective as possible.

2. Encourage European Gas Security and Quantify Full Cost of Soviet Gas. In order to influence European attitudes in assessing Soviet versus non-Soviet gas supplies, the U.S. should support a serious effort to quantify the "full cost" of Soviet gas, including such externalities as the cost of prudent security measures, the cost of credit subsidies adjusted for the market value of equipment sold, and the macroeconomic consequences of a Soviet cutoff of gas. As part of this effort, the U.S. should actively support the IEA Natural Gas Security Study designed to identify needed security measures. The USG should also develop and disseminate independent estimates of the full cost of Soviet gas. This information should also be shared with European gas consumers and potential gas suppliers Norway, Nigeria and Turkey.

3. Multilateral Effort to Stimulate Economically Viable Alternatives. The U.S. should join in a major effort to utilize the IEA as a forum for examining energy alternatives for Europe. The IEA can build upon the 1982 Ministerial agreement that "further attention should be

~~SECRET~~

~~- 4 -~~

given to a number of options which exist to encourage stable and reliable natural gas trade ...", including "the timely development of indigenous IEA sources." The IEA is a particularly effective instrument for focussing on governmental policies that impede timely development of gas resources (such as price controls, depletion policies, leasing practices, tax regimes and non-market policies). As the IEA begins work in this area, NATO in particular should be kept apprised, as we may wish to involve NATO more directly after the comparative economics of alternative sources are known.

4. Continue to work to encourage commercial agreement to develop alternatives, particularly the Troll field in Norway. The Group recommends that Ambassador Galbraith's efforts to encourage commercial plans for Norwegian gas development continue. As commercial plans proceed, the Group may wish to make further recommendations should governmental involvement be necessary to ensure that particular, high priority alternatives proceed.

Next Steps and Further Work

The Group provided guidance on the importance of the IEA as a forum for multilateral action on alternatives directly to the U.S. delegation to the IEA Governing Board meeting October 26. Based on the outcome of that meeting and subsequent IEA work, the U.S. should take steps to make this topic an important item for IEA Ministerial discussion in the Spring of 1983, and possibly at the U.S.-hosted Economic Summit as well.

~~SECRET~~

~~- 5 -~~

The Group requests that the CIA and State Department continue to keep it apprised of important developments in energy alternatives. The CIA in particular should continue its work on refining scenarios for European gas supply and demand.

I. European Gas Demand and Alternatives to Siberian Gas

A. Although West European demand for gas has softened in recent years, the falloff is expected to bottom out this year and demand to revive as economic recovery begins.

1. CIA estimates that demand for gas in Western Europe will increase from about 3.6 million barrels per day oil equivalent (b/doe) in 1980 to about 4.1 million b/doe in 1990 and to 4.5-5.0 million b/doe by the year 2000.
2. As domestic West European supplies of gas are depleted or shut in, the import dependence of the region will rise--from 13 percent currently to about 50 percent by the turn of the century.
3. Provided some new deliveries of Soviet gas begin in the late 1980s, West European countries expect to be able to meet projected demand through 1990 from supplies they have already lined up.

-- West Germany and France have signed contracts, including those for Soviet gas, that will probably give them access to more gas than they will use in the 1980s.

~~Italy is expected soon to finalize negotiations with~~
~~Algeria and the Soviet Union to fulfill gas~~
requirements for the 1980s.

4. For the 1990s, however, West European countries will have to line up new supplies of 1.2 to 1.3 million b/doe.

5. The Soviets are anxious to increase gas exports to Western Europe and, with the completion of the Siberian gas pipeline, could more than double current sales by 1990.

-- The Soviet Union is currently delivering about 430,000 b/doe of gas to Western Europe.

-- Total Soviet gas exports to Western Europe in the late 1980s could be about 900,000 b/doe, about 25 percent of West European gas requirements and 3 percent of total energy needs.

6. If the West Europeans were to forego increases in Soviet gas deliveries because of sanctions or unforeseen political events, they could technically balance supply and demand through the decade. However, the economic and political decisions necessary to bring about this combination of events would require a major reversal of existing policies.

-- Increased production of Dutch gas would be needed.

-- Development of Norway's Sleipner field would have to be accelerated.

-- Domestic production in France, West Germany, and

Italy would have to be sustained or increased from
present levels.

-- Gas consumption would probably have to fall below present expectations.

~~SECRET~~

B. Maximizing non-Soviet supplies in the 1990s will depend on Western Europe's assessment of the relative costs of alternative gas supplies and their concerns over security and diversification of supplies.

1. Norwegian gas offers a secure but costly alternative to Soviet gas in the 1990s.

--Norway could supply an additional 670,000 to 830,000 b/d oil equivalent, which would cover the bulk of the increase projected for West European demand in the 1990s.

--Deliveries from the Block 31/2 (Troll) field in the North Sea could reach 500,000 to 670,000 b/d oil equivalent by the late-1990s.

- o New technologies must be developed to exploit the field, which lies in very deep water and contains a thin oil layer that could delay development.

- o It would cost \$15-20 billion to develop and deliver 500,000 b/doe of gas directly to the continent.

-- Another area for potential development is the Tromsa area off the northern coast of Norway.

- o Recent discoveries indicate a large reserve potential, but simultaneous development of Tromsa and Troll is unlikely and transportation of gas from Tromsa is likely to be very expensive.

-- Norway's Sleipner area--with reserves of about 8 trillion cubic feet--offers the greatest potential for development in the near term. :

2. The United Kingdom is not likely to become a net exporter of gas, but could play a key role in a gas swap arrangement with Norway.

-- If such a triangular deal could be arranged with Norwegian gas from Sleipner going to the UK in exchange for UK gas to the continent, 170,000 to 250,000 b/d oil equivalent could be delivered in the early 1990s.

-- Development and pipeline construction costs could total about \$6 billion.

3. West European importers' most reliable and economical source of additional gas would be the Netherlands, currently Western Europe's largest gas supplier.

-- Unless the current conservation policies of the Hague change, however, the amount of Dutch gas available for export in the late 1990s will dwindle to less than one-fourth its present volume.

-- Falling gas sales and Dutch needs for funds are pressing the Hague to reconsider its export policies; at most, the Dutch probably would increase sales by about 150,000 to 200,000 b/d oil equivalent for a few years.

-- Some Dutch officials have expressed a willingness to provide more gas in the near term if they could

obtain gas from other countries later; high level discussions between Dutch and Norwegian officials on such an arrangement have probably not taken place, but the Dutch have made a preliminary study of the technical feasibility of such cooperation.

Differences in the heat value of Dutch and Norwegian gas could seriously complicate such an arrangement.

4. Gas production on the European continent is expected to decline over the next two decades. Intensified exploratory drilling, particularly in Italy, might slow the expected decline but probably will not yield large additional supplies for Europe.

5. West European imports of LNG from Nigeria, Cameroon, Qatar, or other sources could total 150,000 b/d oil equivalent but would be very costly and pose security risks.

-- Nigeria's Bonny LNG project will probably be restructured at half the original size but will not be complete until the early 1990s.

-- Qatar could supply sizable quantities of gas in the mid to late 1990s but transportation costs would be very high.

6. Gas imports from North Africa or the Middle East via pipeline could offer a more economical alternative than LNG imports, but may be politically undesirable.

-- Additional gas could be delivered in the mid-1990s through existing pipelines from Algeria to Italy,

and up to 250,000 b/doe through a new pipeline to Spain. Likely gas export shortfalls for the remainder of this decade, however, could discourage buyers from taking additional supplies in later years.

- The proposed Iranian gas pipeline to Europe via Turkey, while feasible, would take at least five years to complete, would be costly, and could pose serious security risks.
- Other proposed pipelines from the Middle East are probably neither economically nor politically feasible.

7. US coal could provide some additional energy supplies to Western Europe by 1990 but volumes are likely to be small.

- Western Europe already has ambitious plans to use coal and would need to expand coal handling capabilities even further.
- Some type of subsidy would probably be needed to encourage greater use of coal in industry.

C. Although steps are being taken to expand gas storage capacity in Western Europe, growing dependence on imported gas in the late 1980s will increase vulnerability to disruptions.

1. By 1990, gas supplies subject to disruption (from Algeria, Libya, and the Soviet Union) could supply almost 40 percent of overall gas demand in Western Europe and an even higher percentage in France and Italy.

2. The seasonal nature of gas demand will tend to magnify the potential impact of a disruption.
3. Potential Dutch surge capacity over existing production levels is estimated to be 1.7 million b/doe, sustainable for one year.
4. Plans call for gas storage capacity to be increased more than 50 percent by the mid 1980s.
 - Current storage capacity is the equivalent of only 35 days average 1981 consumption.
 - Much of the storage capacity will be required to meet peak seasonal demand.

~~SECRET~~

Case I

(European Gas Supplies without Siberian Gas)

- o This graph shows declining indigenous production particularly after 1985 as West European gas supplies are depleted or shut in.
 - By 1990, indigenous production would approximate 85 billion cubic meters (bcm), falling to almost 58 bcm by the year 2000.
 - Existing Norwegian production is then shown at about 20 bcm in 1990, falling to 12 bcm by 2000.
 - Existing Soviet production follows at 26 bcm in 1990 and 18 bcm by 2000.
 - North African gas will provide approximately 26 bcm in both 1990 and 2000.
- o A supply shortfall begins to emerge after 1985 increasing thereafter by considerable proportions as potential supplies fail to meet projected demand. With demand at 200 bcm, the shortfall will be about 43 bcm in 1990. The gap widens to 112 bcm in 2000 when demand reaches 226 bcm.
- o Without Siberian gas, Norwegian gas coupled with Algerian gas, US coal, some LNG and a slower rate of the phase out of Dutch exports could theoretically balance supply and demand. However, the economic and political decisions necessary to bring about this combination of events would require a major reversal of existing policies within the next few years, which does not appear likely.
 - Norway is reluctant to speed up development because of concerns over the impact it would have on the domestic economy. Consumers may be unwilling to pay the high prices demanded by the Norwegians for new gas contracts. In addition, private companies may be unable to finance major gas development projects.
 - Algeria's militant pricing policy and its unilateral suspension of gas deliveries to France and the United States in 1980 make it a high-priced and potentially unreliable supplier.

DECLASSIFIED

NLS F99-078/1 #112

~~SECRET~~
1

BY hdt, NARA, DATE 5/30/06

~~SECRET~~

- The US can provide some additional coal by 1990 but volumes are likely to be small. Western Europe already has ambitious plans to use coal and would need to expand coal hauling capabilities even further. Some type of subsidy would probably be needed to encourage greater industrial coal use.
- LNG from North Africa or other sources would be very costly.
- Without a change in the current conservation policies of the Hague, the amount of Dutch gas available for export in the late 1990s will dwindle to less than one-fourth its present volume.

~~SECRET~~

Case II

(European Gas Supplies with Siberian Gas, only One Strand)

- o This graph assumes that the Siberian pipeline is completed and that no new gas contracts beyond those presently being contemplated are agreed to.
- o Siberian gas purchases will probably provide 23 bcm (minimum) or 32 bcm (maximum) in both 1990 and 2000, supplementing existing Soviet gas supplies which will steadily decline from about 26 bcm in 1990 to almost 18 bcm in 2000.
- o Although Siberian gas will not eliminate the prospect of a supply shortfall which will likely occur in the late 1980s, it will minimize the potential magnitude of the shortfall. Assuming minimum purchases of Siberian gas, the shortfall is likely to be about 32 bcm in 1990 and 63 bcm in 2000. With maximum purchases the shortfall would probably approximate 23 bcm in 1990 and 80 bcm in 2000.
- o In this case, substantial volumes of additional gas from Norway and Algeria will not be needed until the mid 1990s. This cushion could provide the Norwegians the lead time required to bring major gas projects on line.

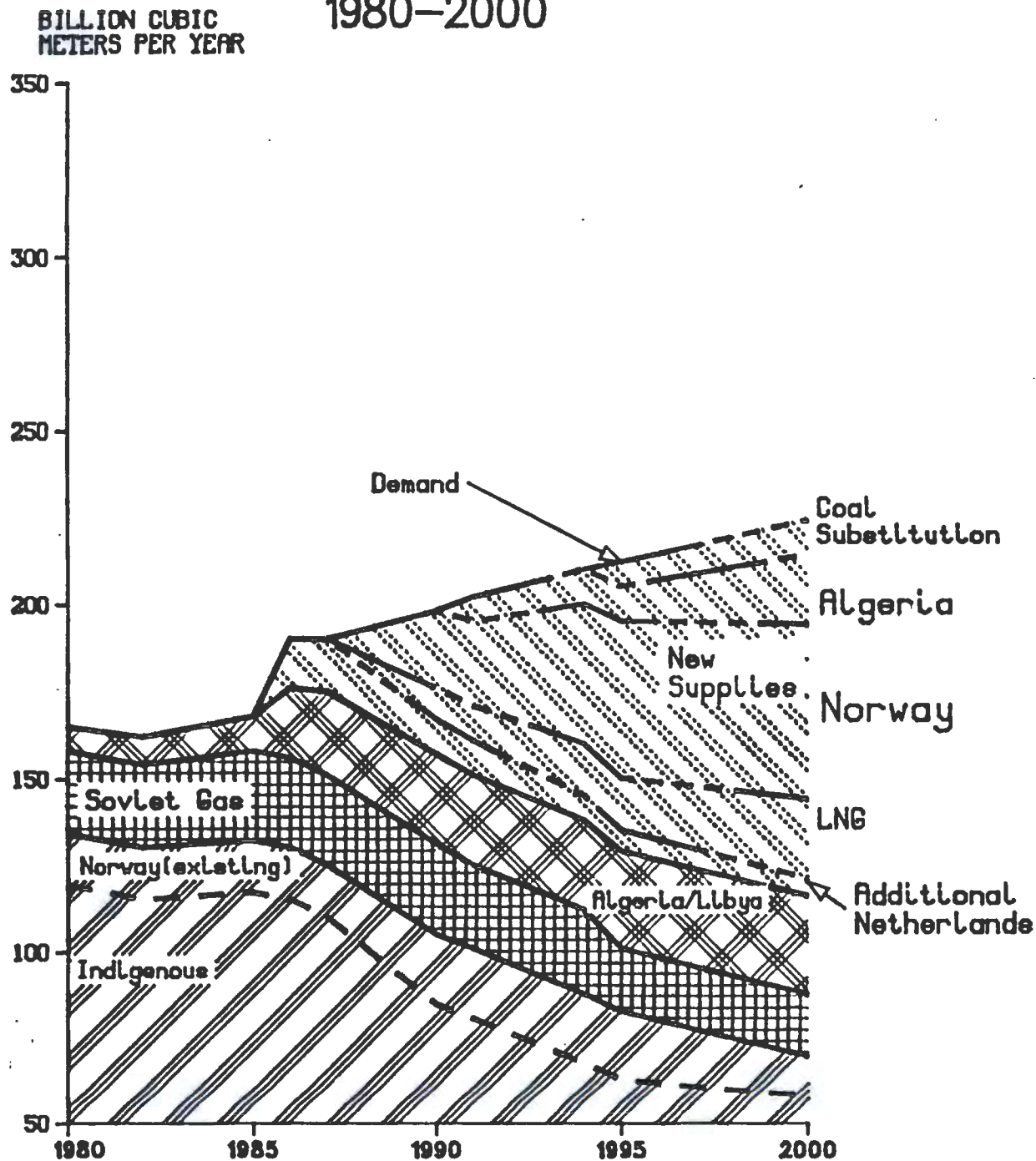
~~SECRET~~

Case III

(Maximum Soviet Share, One Strand and
Maximum use of Existing Capacity)

- o Completion of the Siberian pipeline to the Czechoslovak border will add approximately 29 bcm of capacity to the probable current Soviet export capacity of 56-60 bcm, bringing the system's total export capacity to 85-89 bcm. After accounting for gas sales to East Germany and Western Europe including 20 bcm of Siberian gas, excess capacity of the Soviet-Czech system would total 22-26 bcm. If Italy decides to purchase 6-8 bcm of Siberian gas, the system's total excess capacity will drop to 16-18 bcm by 1990.
- o Expansion of the Czech domestic network in addition to the 29 bcm Siberian pipeline capacity would yield an excess capacity in the Czech system of about 11-13 bcm. (Italy's purchase of 6-8 bcm is factored into this calculation.)
- o With projected excess capacity on the order of 16-18 bcm, the Soviets could effectively capture an even larger share of the West European gas market in the 1990s. The Soviets could:
 - reduce the market for Troll gas to about 20 bcm. A reduction in the market for Troll gas could render field development uneconomical until the late 1990s.
 - or eliminate any North African projects such as Algerian gas, Nigerian or Cameroonian LNG.

Continental Europe: Natural Gas Supply and Demand Forecast 1980-2000

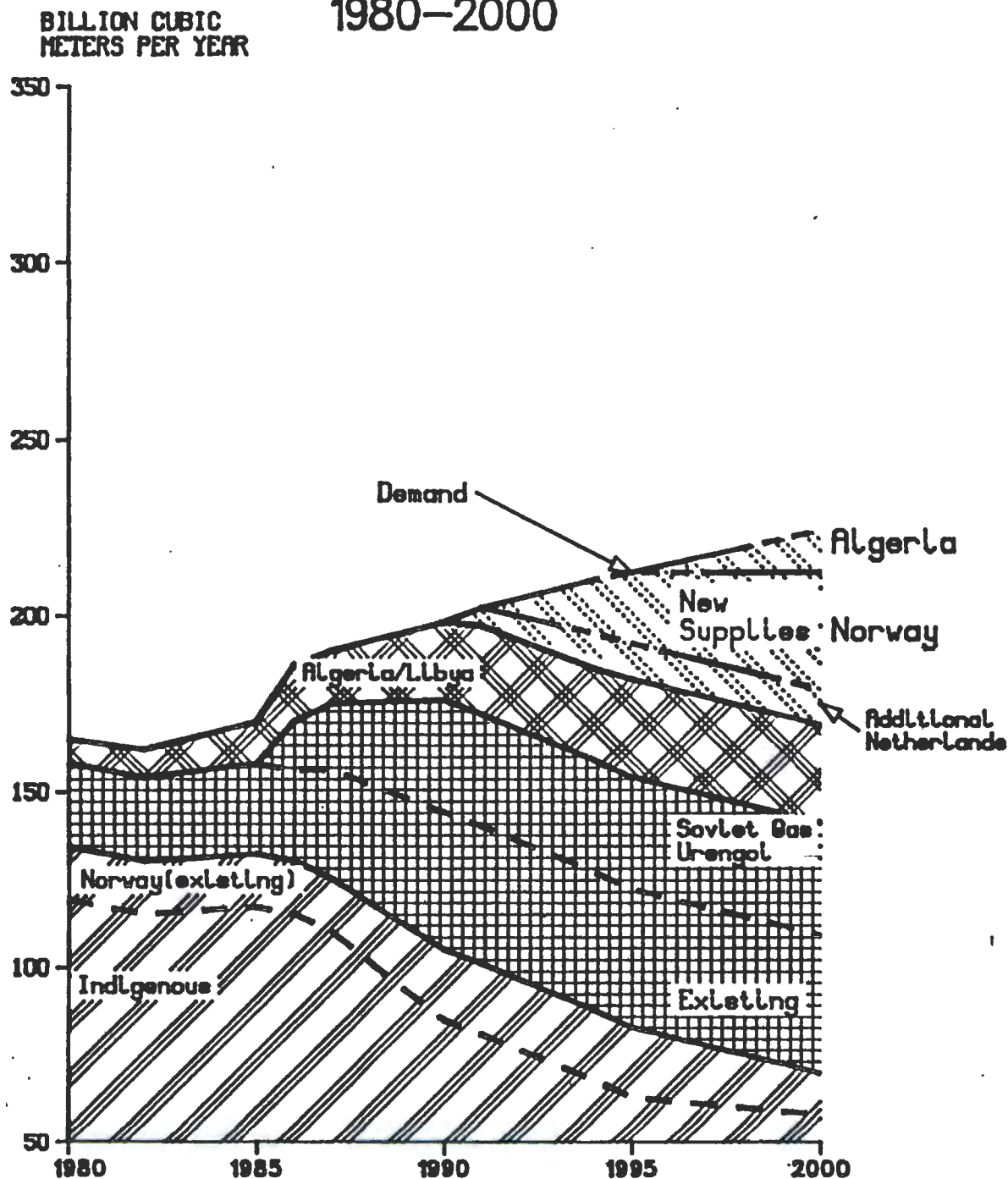


DECLASSIFIED/RELEASED

NLS F99-078/1 #113

BY LOT NARA, DATE 5/30/06

Continental Europe: Natural Gas Supply and Demand Forecast 1980-2000

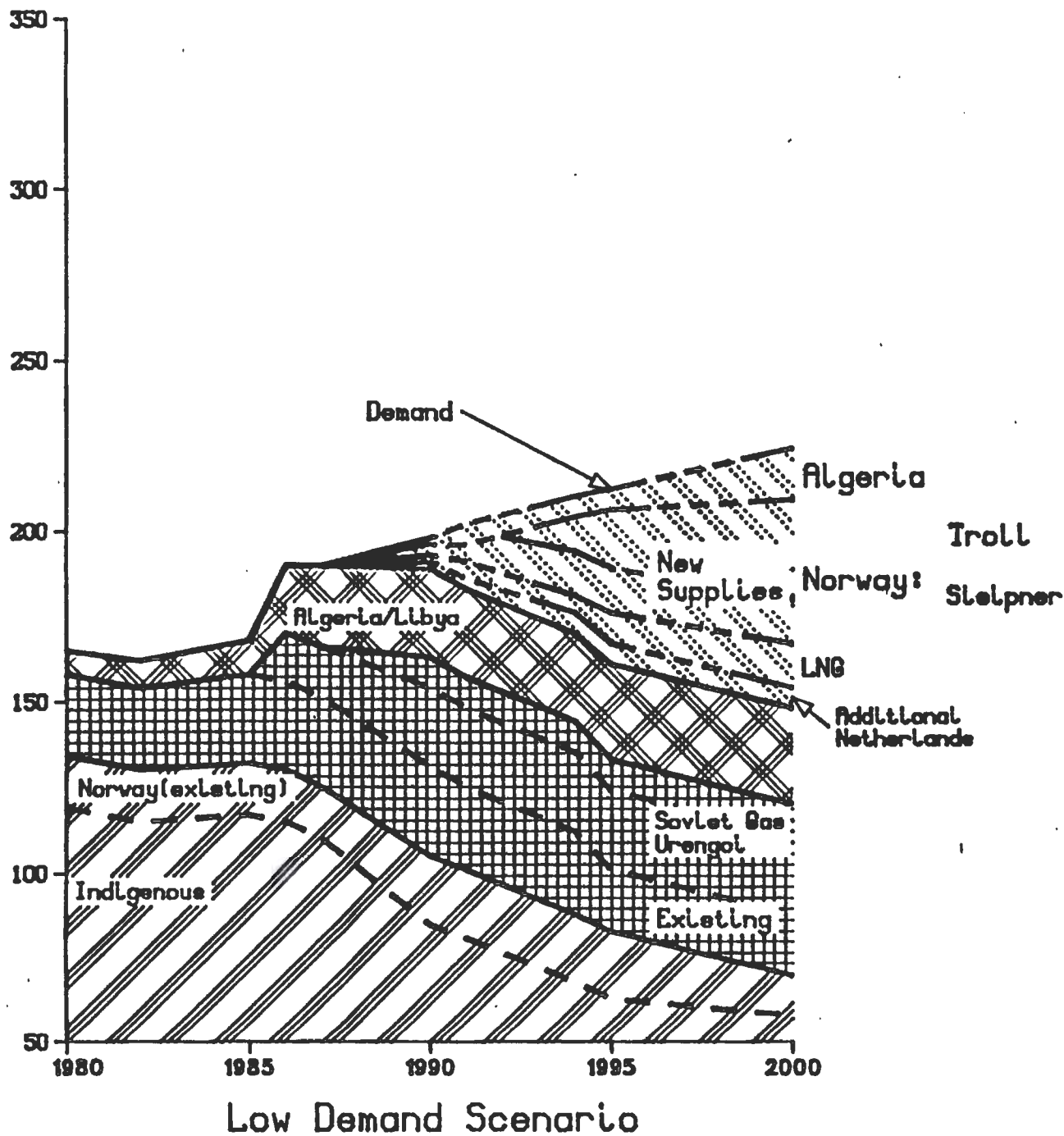


Maximum Utilization of Existing
and Planned Soviet Pipelines

Continental Europe: Natural Gas Supply and Demand Forecast

1980-2000

BILLION CUBIC
METERS PER YEAR



November 3, 1982

REVISED VERSION OF NON-PAPER

h w T.

During conversations in Washington between the Secretary of State of the United States of America and representatives of the EEC, Canada, the Federal Republic of Germany, France, Italy, Japan and the United Kingdom on the subject of East-West relations, a certain number of conclusions have been reached on behalf of their governments. The summary of these follows.

1. They recognize the necessity of conducting their relations with the USSR and Eastern Europe on the basis of a global and comprehensive policy designed to serve their common fundamental security interests. They are particularly conscious of the need that action in the economic field be consistent with that global and comprehensive policy and thus be based on a common approach. They are resolved together to take the necessary steps to remove differences and to ensure that future decisions by their governments on these issues are taken on the basis of an analysis of the East-West relationship as a whole, with due regard for their respective interests and in a spirit of mutual trust and confidence.

2. The following criteria should govern the economic dealings of their countries with the Soviet Union and Eastern European countries:

DECLASSIFIED

NLS F99-078/1 #114

~~SECRET/SENSITIVE~~

BY LDI NARA, DATE 5/30/06

~~SECRET/SENSITIVE~~

-2-

-- That they will not undertake trade arrangements, or take steps, which contribute to the military or strategic advantage and capabilities of the USSR.

-- That it is not in their interest to subsidize the Soviet economy; trade should be conducted in a prudent manner without preferential treatment.

-- That it is not their purpose to engage in economic warfare against the Soviet Union. To be consistent with our broad security interests, trade with the USSR must proceed, inter alia, on the basis of a strict balance of advantages.

It is agreed to examine thoroughly in the appropriate bodies how to apply these criteria, taking into account the various economic and political problems involved, with the view to agreeing on a common line of action in the spirit of paragraph one and the above criteria. They will pay due attention in the course of this work to the question of how best to tailor their economic relations with Eastern European countries to the specific situation of each of them, recognizing the different political and economic conditions that prevail in each of these Eastern European countries.

The overall analysis of economic relations with the USSR and the Eastern European countries will touch in particular on the following areas:

- Strategic goods and technology of military significance (COCOM);
- Other high technology items;
- Credit policy;

~~SECRET/SENSITIVE~~

~~SECRET/SENSITIVE~~

-3-

- Energy;
- Agricultural products.

In their analysis of other high technology items, it is agreed to examine immediately whether their security interests require controls, to be implemented in an agreed and appropriate manner, on the export to the Soviet Union and Eastern Europe of advanced technology and equipment to be jointly determined. This immediate examination of whether their security interests require controls, to be implemented in an agreed and appropriate manner, on the export to the Soviet Union and Eastern Europe of advanced technology and equipment will include technology and equipment with direct applications to the oil and gas sector.

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.

3. As an immediate decision and following decisions already made, they have further agreed on the following:

(a) Building on the conclusions of the High-Level Meeting, they will work together within the framework of the Coordinating Committee (COCOM) to protect their contemporary security interests: the list of strategic items will be evaluated and, if necessary, adjusted. This objective will be pursued at the COCOM Review now under way. They will take the

~~SECRET/SENSITIVE~~

~~SECRET/SENSITIVE~~

-4-

necessary measures to strengthen the effectiveness and responsiveness of COCOM and to enhance their national mechanisms as necessary to enforce COCOM decisions.

(b) It was agreed at Versailles that the development of economic and financial relations with the Soviet Union and Eastern Europe would be subject to periodic ex post review. The necessary procedures for this purpose will be established without delay. Having in mind the criteria in paragraph two above and building upon the agreements already reached in the OECD export credits consensus arrangement, they will work urgently to harmonize further national credit policies covering interest rates, maturities, down payments and fees.

(c) They have informed each other that during the course of the study on energy requirements, they will not sign, or approve the signing by their companies of, new contracts with the Soviet Union for the purchase of natural gas.

~~SECRET/SENSITIVE~~

NATIONAL SECURITY COUNCIL

November 15, 1982

~~CONFIDENTIAL~~
~~With SECRET ATTACHMENT~~

ACTION

MEMORANDUM FOR WILLIAM P. CLARK

FROM: NORMAN A. BAILEY ¹⁰

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

At our request, the CIA has prepared a lengthy and very complete report on the above subject. An exhaustive study was undertaken of 13 cases of the application of economic sanctions, from the 1935-1936 sanctions against Italy to the 1982 sanctions against Argentina. It is an excellent piece of analytical work and the Agency is to be congratulated. The report (Tab II) or at least the summary should get the widest possible circulation in the government.

I draw your attention to the summary (pages iii-iv at Tab II) which I believe is absolutely correct and which I recommend you read in its entirety. Basically, it says that the success of sanctions should be measured not by whether the object country reverses its offending actions but by making it pay a price, isolating it and providing a policy alternative short of military action.

I attach at Tab I a note of congratulations to the DCI.

RECOMMENDATION:

That you sign the attached memo to the DCI (Tab I).

Approve _____ Disapprove _____

Attachments

Tab I Note to DCI
Tab II CIA Report

cc: Roger Robinson
Richard Pipes
Dennis Blair
Henry Nau
Paula Dobriansky

~~CONFIDENTIAL~~
DECLASSIFY ON: OADR
~~With SECRET ATTACHMENT~~

DECLASSIFIED
NLS 199-0781, #115
BY CVS NARA, DATE 9/24/02

THE WHITE HOUSE
WASHINGTON

~~CONFIDENTIAL~~

MEMORANDUM FOR THE HONORABLE WILLIAM J. CASEY
The Director of Central Intelligence

SUBJECT: "Economic Sanctions: An Historical and
Conceptual Analysis" (C)

I have received and examined the above titled report which
we requested. My congratulations to your staff for a very
excellent and comprehensive examination of this important
issue. (S)

FOR THE PRESIDENT:

William P. Clark

~~CONFIDENTIAL~~
DECLASSIFY ON: OADR

DECLASSIFIED
NLS 199-07811 #116
BY CIS, NARA, DATE 9/24/12

ECONOMIC SANCTIONS: AN HISTORICAL
AND CONCEPTUAL ANALYSIS

Information available as of 1 October 1982
was used in the preparation of this report.

FOIA(b) (3)

This memorandum was prepared by [REDACTED]
[REDACTED] Office of Global Issues.
with contributions from the Offices of European Analysis,
African and Latin American Analysis, Near East and South Asian Analysis,
Soviet Analysis, East Asian Analysis, and Global Issues.
Comments may be addressed to
[REDACTED] on [REDACTED]

DECLASSIFIED IN PART

NLS

199-07811

4/17

~~SECRET NOFORN~~

By

CTJ

, NARA, Date

5/14/02

Summary

A detailed analysis of 13 applications of economic sanctions yields mixed results regarding their effectiveness as instruments of foreign policy. In none of the cases did the imposition of economic sanctions force a country to reverse the actions that triggered the sanctions. There are two main reasons for this failure.

- o Most economies have sufficient flexibility to mitigate the economic impact of sanctions by circumventing them or by making internal economic adjustments.
- o Even when the sanctions have substantial economic impact, countries have shown a strong and lasting commitment to maintaining their present course of conduct. The imposition of sanctions, in many cases, has stiffened their resolve.

The case studies reveal that miscalculation, misunderstanding, or failure to take all of their complex elements into account have caused sanctions to fail, sometimes with serious economic and political consequences for their sponsor. (C)

We found, nonetheless, that sanctions can serve several useful purposes:

- o They make the target country pay an economic price, sometimes a high one, for its policies.
- o They contribute to its international isolation.
- o They may strengthen the hand of opposition groups within—or outside—the sanctioned country.
- o For the country imposing sanctions, they provide a policy alternative short of military action, satisfy important political constituencies, and buy time and room for diplomatic initiatives and other approaches to the problem. (C)

Whether or not sanctions can be considered effective depends on the objectives against which their impact is measured. The unstated objectives often differ from those that are stated publicly. In general, sanctions are likely to be more effective when judged against objectives of economic punishment or public disapproval rather than against the goal of changing the conduct of an offending country. (C)

Our analysis confirms the complexity of using sanctions as an instrument of foreign policy. Key findings in this regard include:

- o There are distinct tradeoffs between unilateral and multilateral sanctions. While a single country may have a strong commitment to levying sanctions, it is less likely to control the range of goods needed to have a significant economic impact on the target. While a group of sponsors has the potential ability to economically punish the target country, this power is rarely used because of disagreements on sanction objectives and a wide range of commitments to the sanctions effort.

- o Sanctions often yield unanticipated political and economic results; in some cases the sanctions have caused countries to shift alliances or their economic and political orientations.
- o Sanctions acquire political significance even when economic effects are minimal. Easing the sanctions without some evidence of concessions by the offending country may give an impression of failure. In any event, it probably will be taken as a signal of a policy shift. (C)

The potential effectiveness of sanctions can be gauged by the close analysis of several factors. Most important among these are:

- o The volume and importance of goods that the sponsor country can withhold from the offending nation.
- o The impact of the sanctions on the target country's domestic politics and international position.
- o The ability of the sanctioned country to adjust economically to the loss of commerce.
- o The commitment of the target country to the policies that triggered the sanctions.
- o The degree of cooperation the sponsor country can get from other nations; reaching agreement on objectives is often difficult and in such cases the political cost of getting cooperation from allies can be high.
- o The economic cost of the sanctions to the sponsor country.
- o The ability of the sponsor country to maintain the sanctions over a long enough time to have an impact on the offending nation.

We also found, however, that even the most careful planning process is unlikely to take full account of all the political and economic dynamics associated with the use of economic sanctions. (C)

~~SECRET~~

7271

MEMORANDUM

NATIONAL SECURITY COUNCIL

~~SECRET~~

October 22, 1982

INFORMATION

MEMORANDUM FOR WILLIAM P. CLARK

FROM: WILLIAM F. MARTIN *WFM*

SUBJECT: Soviet Gas in European Markets

We have received a troubling CIA assessment on the potential market for Soviet gas in European markets through use of only one strand of the Siberian pipeline and full use of existing infrastructure. This illustrates very clearly that unless we can get a commitment from the Europeans to limit their gas contracts to present levels, the Soviets will capture most of the market of the 1990s and drive out the competitive alternatives.

Attached (Tab I) are three visuals which tell the story.

Case I is the no Siberian gas case. The key here is that Dutch gas would have to be increased over the short term, but over the longer term, Norwegian and North African producers can meet demand. This is the President's original alternative energy case.

Case II assumes that the first strand of the pipeline is completed but that there are no more gas contracts with the Soviet Union. As you can see, there is still room for alternatives, particularly Norwegian gas. Sufficient market is preserved to allow development of the giant Troll field.

Case III shows how big a chunk the Soviets can take out of the market with only one strand, if some limitation is not imposed on contracts. The results are dismaying. They can effectively block out all large scale alternatives. Only the Sleipner field in Norway is assumed to be developed. Troll is knocked out.

Bottom line: The Foreign Ministers communique is presently inadequate because it does not contain a statement to limit gas purchases over the longer term. If we do not get this commitment, then economic momentum will be on the side of the Soviets. They have all the advantages. We must even the scales. I think that the President must be made aware of this analytical evidence and the consequences of not pressing the Europeans now to limit their gas purchases over the longer term.

Attachment

Tab I Visuals

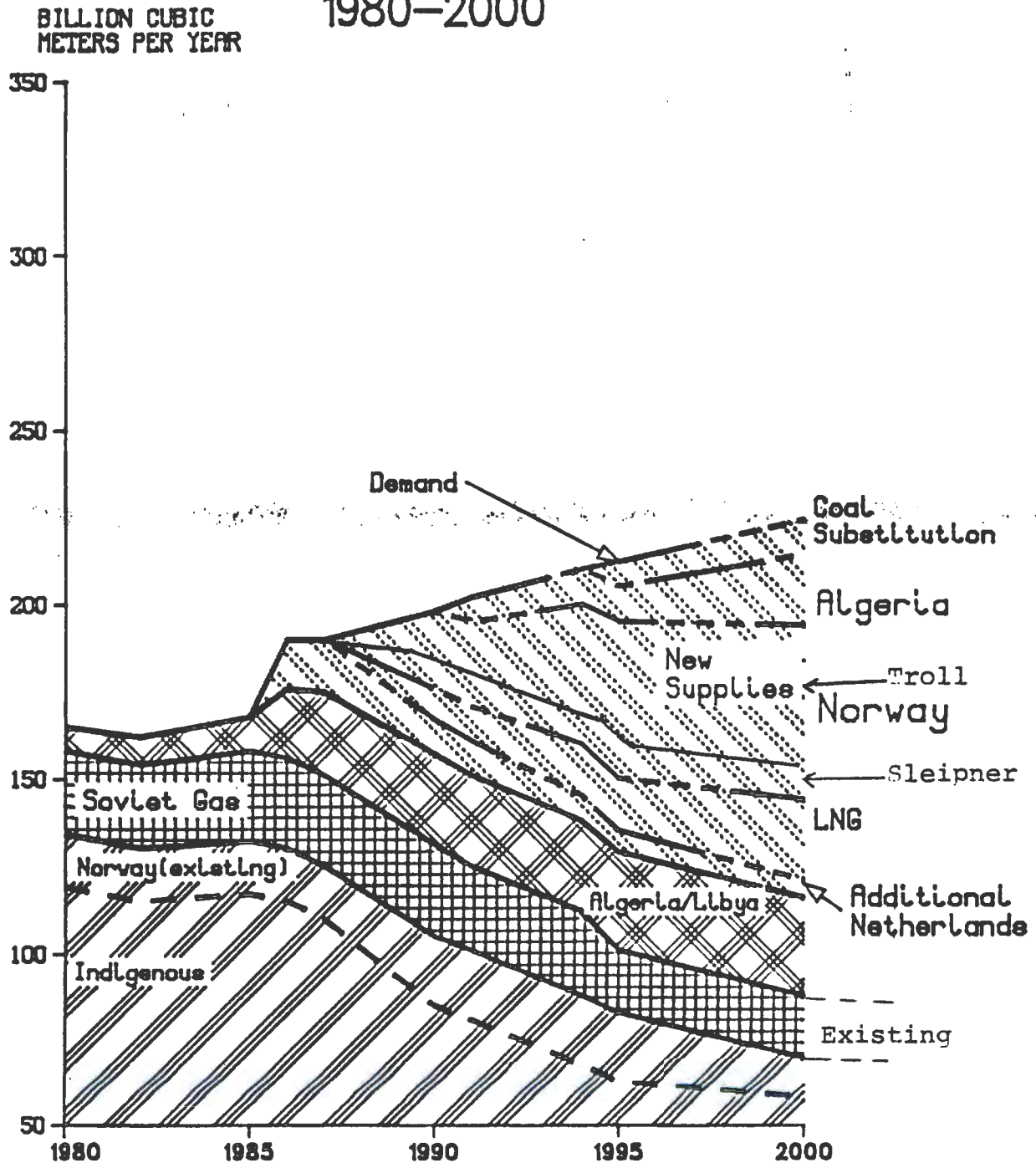
cc: Bailey, Blair, Nau, Pipes, Robinson

DECLASSIFIED
NLS 199-0781, 4/18
BY *CU* NARA, DATE 9/24/02

~~SECRET~~

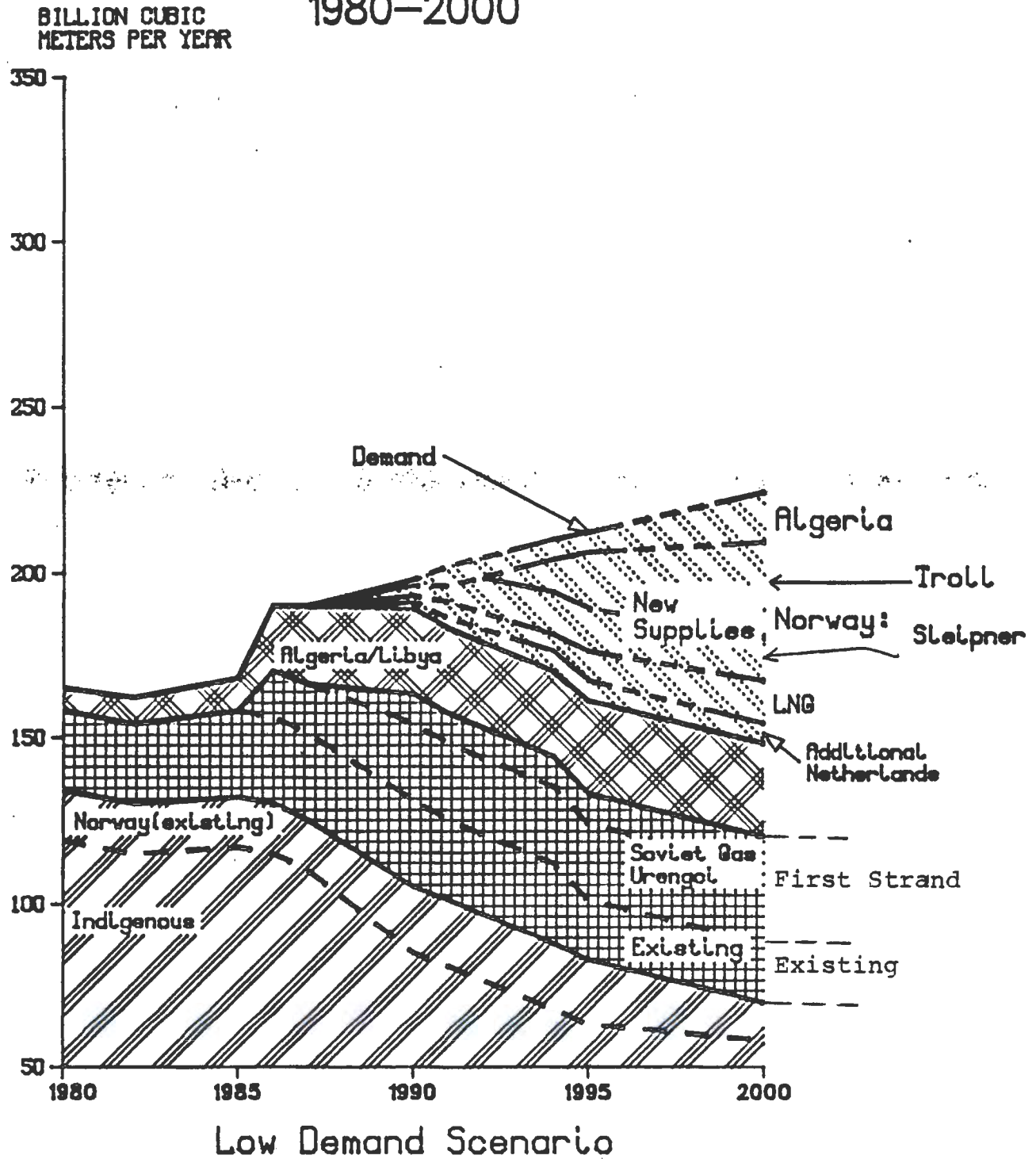
~~SECRET~~

Continental Europe: Natural Gas Supply and Demand Forecast 1980-2000



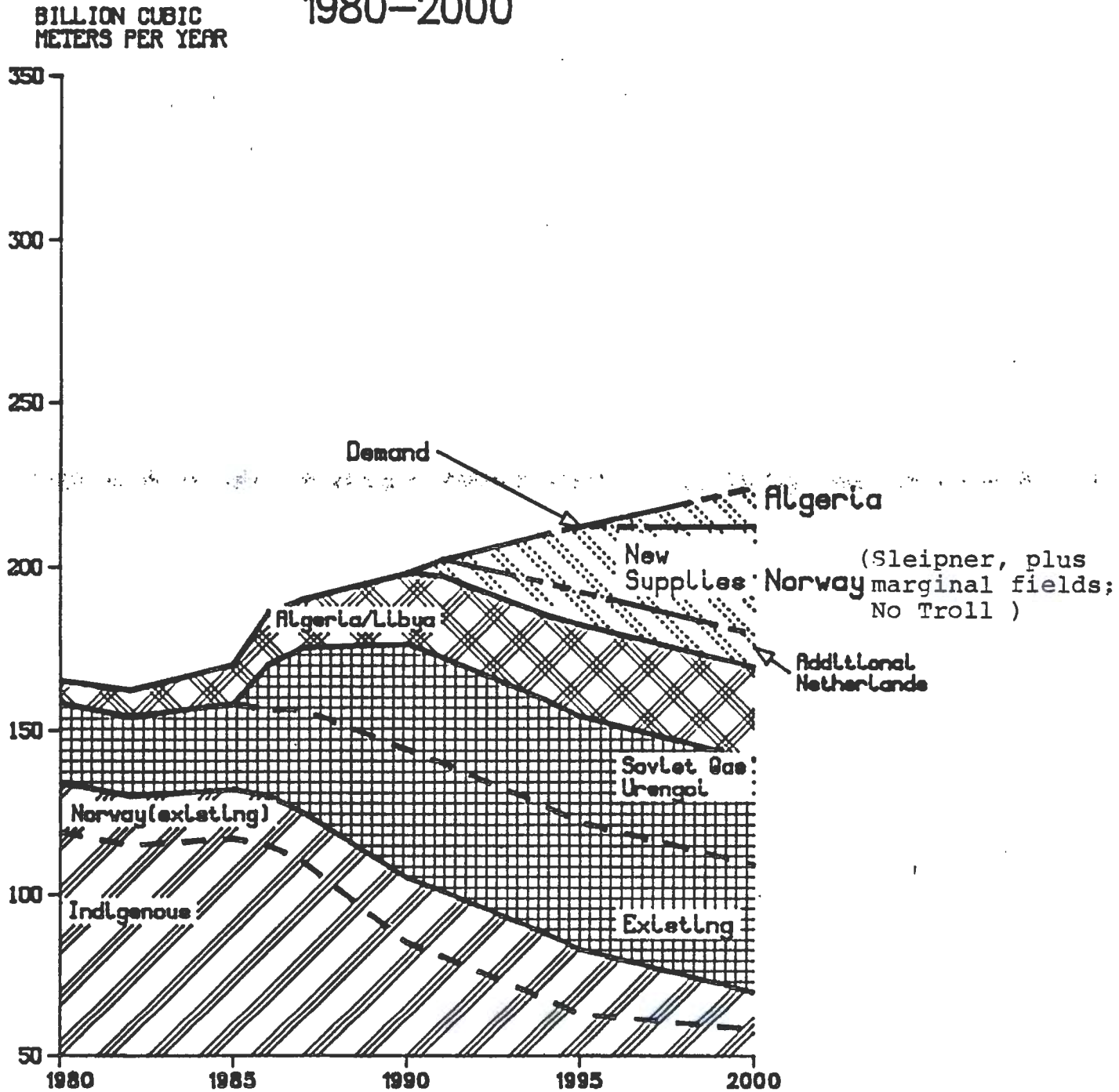
Low Demand Scenario
Without Siberian Gas

Continental Europe: Natural Gas Supply and Demand Forecast 1980-2000



Case III Soviet Domination of the Gas Market with Only One Strand and Full Use of Existing Capacity

Continental Europe: Natural Gas Supply and Demand Forecast 1980-2000





~~U.S. DEPARTMENT OF COMMERCE~~

November 4, 1982

To : Mr. Norm Baily, NSC

From: *[Signature]* Dan Cook, PPD, OEA, Commerce

Attached is a draft copy of the material concerning Expanded Controls on Export to the USSR.

It is requested that your comments be provided to Bernie Kritzer in Under-Secretary Olmers office by C.O.B. Friday, November 5, 1982. He may be contacted on 377-1051.

*2 w comment
LWT*

ABSTRACT OF SECRETARIAL CORRESPONDENCE

TO:	☒ The Secretary	☐ The Deputy Secretary
-----	---	---

Date:

FROM: Undersecretary for International Trade

PREPARED BY: Brenda Forman/ Dir/PPD - 377-3127

SUBJECT: Expanded Controls on Export to the USSR .

OUTGOING: Letters to the President of the Senate and the Speaker of the House transmitting the report to the Congress on expanded USSR Oil and Gas Controls. (Section 6(e) of the Export Administration Act mandates such a report whenever the President imposes, expands or extends foreign policy based export controls.)

BACKGROUND: Pursuant to the authority in Section 6 of the Export Administration Act, the President directed us to impose foreign policy controls effective June 22, 1982, on exports to the USSR of oil and gas equipment by U.S. subsidiaries abroad, and the export of foreign-produced products of U.S. technical data. We consulted with the Department of State in preparation of the regulations and the report to Congress required by Section 6(e) of the Act. The objective of the controls has been and continues to be to advance reconciliation in Poland. There has been no movement by the USSR toward this objective.

We consulted the Congress before imposing these controls. When ITA Congressional Relations staff telephoned relevant Senate staffers, offering to brief them on these controls, the staffers

Control No. 8936

SURNAME AND ORGANIZATION (Typed)	PREPARED BY	CLEARED BY	CLEARED BY	CLEARED BY	CLEARED BY	CLEARED BY
	LJBrady AS/TA	AGC/ITA	ExSec	ITA/CAO McKiernan	GC	OCA
INITIALS AND DATE						

expressed no interest in such briefings. In a briefing for the House Foreign Affairs Committee, Chairman Zablocki was highly critical, asking why we had not also stopped grain shipments. Of those who attended, only Representative Derwinski supported the measure, and even he expressed the difficulty of explaining to his constituents why certain manufactured equipment is barred from sale to the USSR, while grain is not. The remainder of the participants who had comments (Representatives Hamilton, Bingham, Fenwick) opposed the measure, citing the decision not to embargo grain, lack of comparable controls by other nations, and the detrimental effects on the Western Alliance.

Following imposition of these controls, two Deputy Assistant Secretaries, Bo Denysyk from Commerce and Ernest Johnston from State, briefed members of the House Foreign Affairs Committee on June 23, 1982. Under Secretary Olmer testified before the Subcommittee on International Economic Policy of the House Foreign Relations Committee on July 30, and the Subcommittee on International Economic Policy and Trade of the Senate Foreign Affairs Committee on August 4.

RECOMMENDATION: I recommend that you sign the attached letters and Report to the Congress.



Honorable George Bush
President of the Senate
Washington, D.C. 20510

Dear Mr. President:

The President has directed that, pursuant to Section 6(b) of the Export Administration Act, additional foreign policy controls should be placed on exports of oil and gas exploration, production, transmission and refining equipment and technical data to the Soviet Union. Accordingly, on June 22, 1982, consistent with sections 3(2)(B) and 6 of the Act, U.S. export controls were amended to include exports of non-U.S. origin goods and technical data by U.S. owned or controlled companies operating abroad. In addition, the controls were amended to cover oil and gas related products of U.S. origin technical data if a party subject to U.S. jurisdiction has a licensing agreement or receives royalties or other compensation from the foreign producer, or the foreign recipient of the data has agreed to abide by U.S. export control regulations.

The expansion of the controls evidences the President's strong displeasure that repression in Poland continues and that measures have not been taken to restore the Polish people's fundamental rights as guaranteed in the Helsinki accords. The objective of the Administration in imposing sanctions has been and continues to be for the USSR to recognize the clear desire of the overwhelming majority of the Polish people for national reconciliation, renewal and reform. There has been no movement toward this objective.

I am submitting as a separate enclosure my conclusions on the criteria set forth in Section 6 (b) of the Act, which have been considered in reaching this decision. The goods and technical data affected by the controls are clearly identified in Export Administration Regulations published in the Federal Register as subject to export controls for foreign policy purposes. The public was invited to comment on these regulations. Of the 33 public comments we received, two were from individuals supporting controls and the remainder urged withdrawal or modification of the controls.

with reference to Section 2 (c) of the Act, adequate evidence has been presented demonstrating that, notwithstanding foreign availability, the absence of these controls would prove detrimental to the foreign policy of the United States.

I transmit herewith the report to Congress concerning this action pursuant to Section 6 (a) of the Act.

Sincerely,

Secretary of Commerce

Enclosure

Prepared by: Forman/PID/OEA X3147 --2/17/82 -- (RMS 80821

cc: BNSC (3) Omer/ CSC/ Brady/ Densysk/ DeCain/ Isadore/ Forman
Cook/ Spruell/ OCA/ OEA Files/ Chrono



Honorable Thomas P. O'Neill, Jr.
Speaker of the House of Representatives
Washington, D.C. 20515

Dear Mr. Speaker:

The President has directed that, pursuant to Section 6(b) of the Export Administration Act, additional foreign policy controls should be placed on exports of oil and gas exploration, production, transmission and refining equipment and technical data to the Soviet Union. Accordingly, on June 22, 1982, consistent with sections 3(2)(B) and 6 of the Act, U.S. export controls were amended to include exports of non-U.S. origin goods and technical data by U.S. owned or controlled companies operating abroad. In addition, the controls were amended to cover oil and gas related products of U.S. origin technical data if a party subject to U.S. jurisdiction has a licensing agreement or receives royalties or other compensation from the foreign producer, or the foreign recipient of the data has agreed to abide by U.S. export control regulations.

The expansion of the controls evidences the President's strong displeasure that repression in Poland continues and that measures have not been taken to restore the Polish people's fundamental rights as guaranteed in the Helsinki accords. The objective of the Administration in imposing sanctions has been and continues to be for the USSR to recognize the clear desire of the overwhelming majority of the Polish people for national reconciliation, renewal and reform. There has been no movement toward this objective.

I am submitting as a separate enclosure my conclusions on the criteria set forth in Section 6 (b) of the Act, which have been considered in reaching this decision. The goods and technical data affected by the controls are clearly identified in Export Administration Regulations published in the Federal Register as subject to export controls for foreign policy purposes. The public was invited to comment on these regulations. Of the 33 public comments we received, two were from individuals supporting controls and the remainder urged withdrawal or modification of the controls.

Section 4(b) of the Act, which requires that the President submit to Congress a report on the progress of the program for the year ending on the day preceding the date of the report, and that the report be submitted to the House of Representatives and the Senate.

I transmit herewith the report to Congress on the progress of the program for the year ending on the day preceding the date of the report.

Sincerely,

Secretary of State

Enclosure

Prepared by: Hansen/DEB/GEM 43127 --8/12/82 - VMO 4000

cc: HNSHC (3) Olmer/ OGC/ Brady/ Densysk/ McCain/ Tachere/ Forman
Cock/ Spruill/ OGA/ GEM Files/ Chrono

ENCLOSURE

Conclusions on Criteria
and Alternative Means

On June 22, 1982, at the direction of the President, controls on the export to the Soviet Union of oil and gas exploration, production, transmission, and refining equipment and related technical data were amended to include exports of non-U.S. goods and technical data by U.S. owned or controlled companies abroad. The controls were also amended to broaden control over foreign products of U.S. technical data. The amended regulations control the foreign made product of U.S. technical data, regardless of when the data was exported from the U.S., if the right to the use of the data is subject to a licensing or compensation agreement with persons subject to U.S. jurisdiction or if the recipient of the data has agreed to abide by U.S. control regulations. This action reaffirms and broadens the scope of the sanctions imposed in December following imposition of martial law in Poland.

Probability of Achieving Intended Purposes

U.S. companies are world leaders in design and manufacture of equipment for the oil and gas industry. Over the past 20 years, many U.S. firms have established subsidiaries or entered into licensing agreements to serve foreign oil and gas markets. While some foreign availability continues to exist, the amendment of the controls significantly reduces Soviet access to many of those commodities that are produced or available outside of the United States. This control will substantially narrow the choice and increase the costs to the Soviets of purchasing equipment and technical data for their oil and gas industry.

Compatibility with Foreign Policy Objectives

This control is a consistent follow-up to the initial U.S. response to the imposition of martial law in Poland.

Reaction of Other Countries

Reaction by Western allies has been negative. While the Allies generally agree with our position on the situation in Poland, they oppose the extraterritorial reach of U.S. controls. They have been particularly critical of the effect of these controls on contracts held by their firms to supply equipment for the Yamal Pipeline. They have cited the detrimental effect on their industries and employment, and have either urged or required some firms to ship in spite of the U.S. prohibitions.

Export Performance

Since this change in the controls affects activities of companies abroad, there will be no direct effect on exports originating in the United States. Foreign subsidiaries and licensees of U.S. firms are expected to lose more than \$1.6 billion in contracts over the next three years. Foreign subsidiaries will lose about \$600 million over this period, and licensees could lose as much as \$1 billion. As a result, domestic U.S. firms will forego substantial earnings and licensing fees. Further losses in export sales will result from the denial orders that have been issued to European firms and related parties because of their shipments of oil and gas equipment to the Soviet Union after these controls were imposed. These orders, which are discussed in the Enforcement section below, will limit U.S. exports to the affected European firms.

U.S. businesses have expressed concern over longer term effects on export performance. They suggest that the possibility of future controls will discourage firms in other Western countries from entering into long-term relationships with American companies. They also contend that, in those cases where American firms are the sole suppliers of certain technical data, other industrialized countries will be motivated to develop their own technology, eventually causing losses in markets beyond the USSR.

Enforcement

The controls have received great publicity in the U.S. and abroad, and their existence and scope should be well known to any affected foreign firms, as well as U.S. firms with overseas subsidiaries.

Since these controls were imposed in June, the Department has issued temporary denial orders affecting several foreign firms under investigation for shipping oil and gas equipment to the Soviet Union. On August 26, 1982, orders were issued denying all U.S. export privileges to Dresser (France) S.A. and Creusot-Loire S.A. in France. These orders subsequently were amended to apply to oil and gas equipment and data only. An order denying exports of oil and gas equipment and data was issued to Nuovo Pignone S.p.A. of Italy on September 4, 1982, and similar orders were issued to John Brown Engineering Ltd. of Scotland on September 7, 1982, and to Mannesmann Anlagenbau and AEG Kanis of West Germany on October 5, 1982. In each of the cases in which a temporary denial order was issued, the firm was either encouraged or directed by its government to make the shipment in spite of U.S. restrictions.

In cases where firms are found to have exported to the USSR in violation of U.S. law, the Department imposes fines or imposes administrative sanctions by denying such firms the privilege of receiving certain or all exports from the United States. In addition, the Department may refer the result of any Commerce investigation to the Justice Department for possible criminal prosecution.

Consequences of Not Expanding Controls

The amendment of controls to include exports by U.S. companies overseas and of foreign-produced products of U.S. technology is consistent with the strong U.S. response to the repression in Poland. The Oil and Gas sector is the most important industrial sector in the USSR, since it supplies them with substantial hard currency earnings. Absence of these controls would project a "business-as-usual" attitude to the USSR and Poland, giving the impression that the U.S. actions in response to repression in Poland lack substance.

Alternative Means

Before expanding these controls, the United States sought action by other governments, at the Versailles Summit and in bilateral discussions, not to undermine the earlier U.S. controls on U.S.-origin items. The results of these efforts, which were only partially successful, did not provide complete assurance that the governments of countries where subsidiaries and licensees are located would themselves control exports affected by the expanded controls.

~~SECRET~~

Barley

7612

MEMORANDUM

NATIONAL SECURITY COUNCIL

November 4, 1982

~~SECRET~~

ACTION

E-W T.

MEMORANDUM FOR WILLIAM P. CLARK

FROM: WILLIAM F. MARTIN WFM

SUBJECT: European Gas Market Memo to the President

At John Poindexter's request, I have drafted a memo from you to the President on the Soviet threat to European gas markets.

It is very important that the President be made aware of the dangers of European complacency on this issue. Left unchecked, I am confident that the Soviets will capture a major chunk of the European gas market, primarily because it is the easy and economical way out.

FOIA(b) (1)

[REDACTED] called me this morning to report on his recent disturbing day of talks with high level Norwegian officials. They have studies similar to those prepared by the CIA and have reached similar conclusions. They are looking towards us to strike a deal with the Europeans to limit Soviet gas contracts. The IEA official also said that it was his personal view that unless we received this commitment from the Europeans, then the Soviets would have a field day taking over the market.

I also note in your memo to the President that the difference in hard currency earnings between the contract limitation case (one strand, but no more) and the severest case (use of existing surplus, plus two stands) is \$10 billion (81 prices). Over a decade, that is \$100 billion. Compare that with total Soviet hard currency imports of \$26 billion in 1980.

We seemed to have relegated energy dependency to a secondary issue within the context of the non-paper. Are the commitments we are getting in the non-paper worth four years of Soviet hard currency buying power on world markets? I don't think so, unless we can get a commitment from the Europeans to limit their Soviet gas purchases following completion of the energy studies to be pursued as part of the East-West package.

In addition to your memo to the President, it would be useful to have a meeting with him on this general subject and how to proceed.

~~SECRET~~

DECLASSIFY ON: OADR

DECLASSIFIED IN PART

NLS F99-078/1#120
L01, NARA, Date 3/30/06

~~SECRET~~

~~SECRET~~

2

RECOMMENDATIONS:

That you sign the memorandum to the President at Tab I.

Approve _____ Disapprove _____

That we discuss this issue at a 9:30 a.m. meeting.

Approve _____ Disapprove _____

Attachment

Tab I

Memo to the President

cc: Bailey
Robinson
Blair
Pipes
Sims

~~SECRET~~

7612

MEMORANDUM

THE WHITE HOUSE

~~SECRET~~

WASHINGTON

INFORMATION

MEMORANDUM FOR THE PRESIDENT

FROM: WILLIAM P. CLARK

SUBJECT: The Soviet Threat to European Gas Markets

Summary

We have received a troubling CIA assessment on the potential market for Soviet gas in European markets through use of only one strand of the Siberian pipeline and full use of existing infrastructure. The analysis shows that unless we can get a commitment from the Europeans to limit their gas contracts to present levels, the Soviets will capture most of the market of the 1990s and drive out the competitive alternatives. It is absolutely essential that we get some concrete results out of the energy studies which will be carried out within the framework of the Foreign Ministers communique.

Analysis

Attached (Tab A) are three visuals which tell the story.

Case I is the no Siberian pipeline case which backstops your instinct at the Ottawa Summit that there are alternatives to more Soviet gas. The bottom of the graph shows the basic European predicament: shrinking indigenous production from older fields in the North Sea and Netherlands. It is estimated that European imports will have to increase from 15% today to almost 50% by 2000. The visuals illustrate that there are a variety of alternatives which could be developed: Norwegian gas (especially the Troll field which could provide as much as the Soviet pipeline), LNG from North Africa, Algerian gas and some coal substitution. A key to this case is higher levels of production by the Dutch during the early years to provide a bridge to the longer term alternatives. Hard currency earnings in 1990 for the Soviets would be \$5 billion (in 1981 dollars). Despite the obvious attractiveness of this case, there are numerous political and economic obstacles.

Case II assumes that the first strand of the Siberian pipeline is completed but that there are no more gas contracts with the Soviet Union. Some of the alternatives in Case I are blocked out, but there is still room for Norwegian gas, particularly the

~~SECRET~~

DECLASSIFY ON: OADR

Prepared by:
William F. Martin

~~SECRET~~

DECLASSIFIED IN PART
NLS 899-0781 #121
By 601, NARA, Date 5/30/06

the giant Troll field. This is a relatively balanced case from a security perspective -- for every btu of gas from the Soviet Union, there is a btu from Norway. Hard currency earnings for the Soviet Union in this case are \$10 billion annually.

Case III shows how large a chunk the Soviets can take out of the market with only one strand and use of surplus capacity in present lines. The results are dismaying. The Soviets can effectively block out all large scale alternatives, including the Troll field. Soviet hard currency earnings in this case rise to \$14 billion. If the Soviets choose to construct a second parallel strand, then they could take the rest of the market, now noted as "New supplies" on the graph. Hard currency earnings in this case could approach \$20 billion (81 prices). For comparison purposes -- total Soviet hard currency imports in 1980 amounted to \$26 billion.

Conclusions

1. The Soviets can become the marginal supplier of gas to Europe. Their gas is cheaper and readily available by turning on the tap. Alternatives, especially the large scale alternatives, such as the Troll field, are more expensive, have longer lead times and are technically challenging. Given an environment of falling oil prices and shrinking demand, there will not be economic inducement for these alternatives to be developed. The Soviets will sweep the market if no constraints are put on gas contracts.
2. There is a difference in hard currency earnings of almost \$10 billion between Case II (contract limitation) and an extreme Case III (full use of existing pipeline capacity and a two strand Siberian pipeline). Over a decade, that is \$100 billion (in 81 prices). This difference alone is sufficient to pay for four years of present hard currency imports into the USSR.
3. Norway is worried about this market outlook. [REDACTED] reported to one of my staff that his recent high level talks in Norway revealed a very similar market assessment. Norwegian officials are hoping for a commitment to limit Soviet gas contracts to present levels. Without it, they feel their energy development is too much of an uphill battle. They will develop smaller, marginal fields, but the big field, Troll, will not be developed until well into the next century. The Chief Economist of the IEA also concurs with this assessment.
4. Our strategy must therefore be:
 - a. Within the context of the energy studies in the non-paper, seek a commitment from the Europeans to limit their gas contracts to present levels.

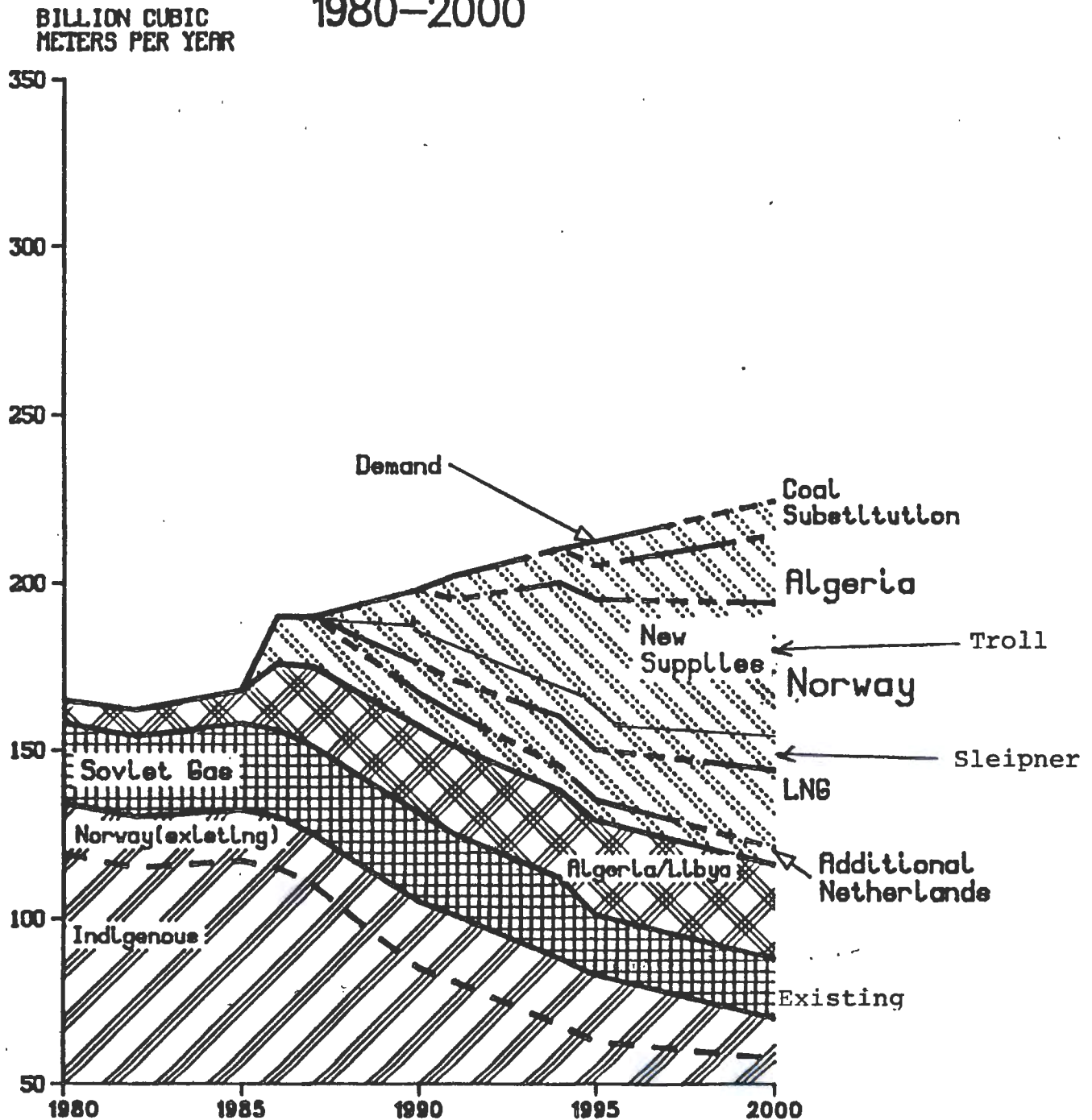
b. Work with our Allies within the International Energy Agency on natural gas security to ensure that adequate security measures are adopted to protect against a shutoff of Soviet gas, including more oil and gas storage and stocks, better integration of the European gas grid and more shut in capacity in the Dutch fields.

c. Reach conclusions on gas security and energy alternative issues at an IEA Ministers meeting next spring so that the technical underpinnings can be established for the political discussions which could occur at the Economic Summit or earlier by Foreign Ministers.

d. Take some actions domestically to help our credibility in these discussions, including complete decontrol of gas prices, encouraging our coal exports by adoption of user fees for port improvements and by opening up some Alaskan energy resources for export.

This assessment, which is a summary of over a year's work on energy alternatives, basically proves that your instincts at the Ottawa Summit were correct. There are alternatives to Soviet gas, and it is critical that we and our Allies pursue their development.

Continental Europe: Natural Gas Supply and Demand Forecast 1980-2000



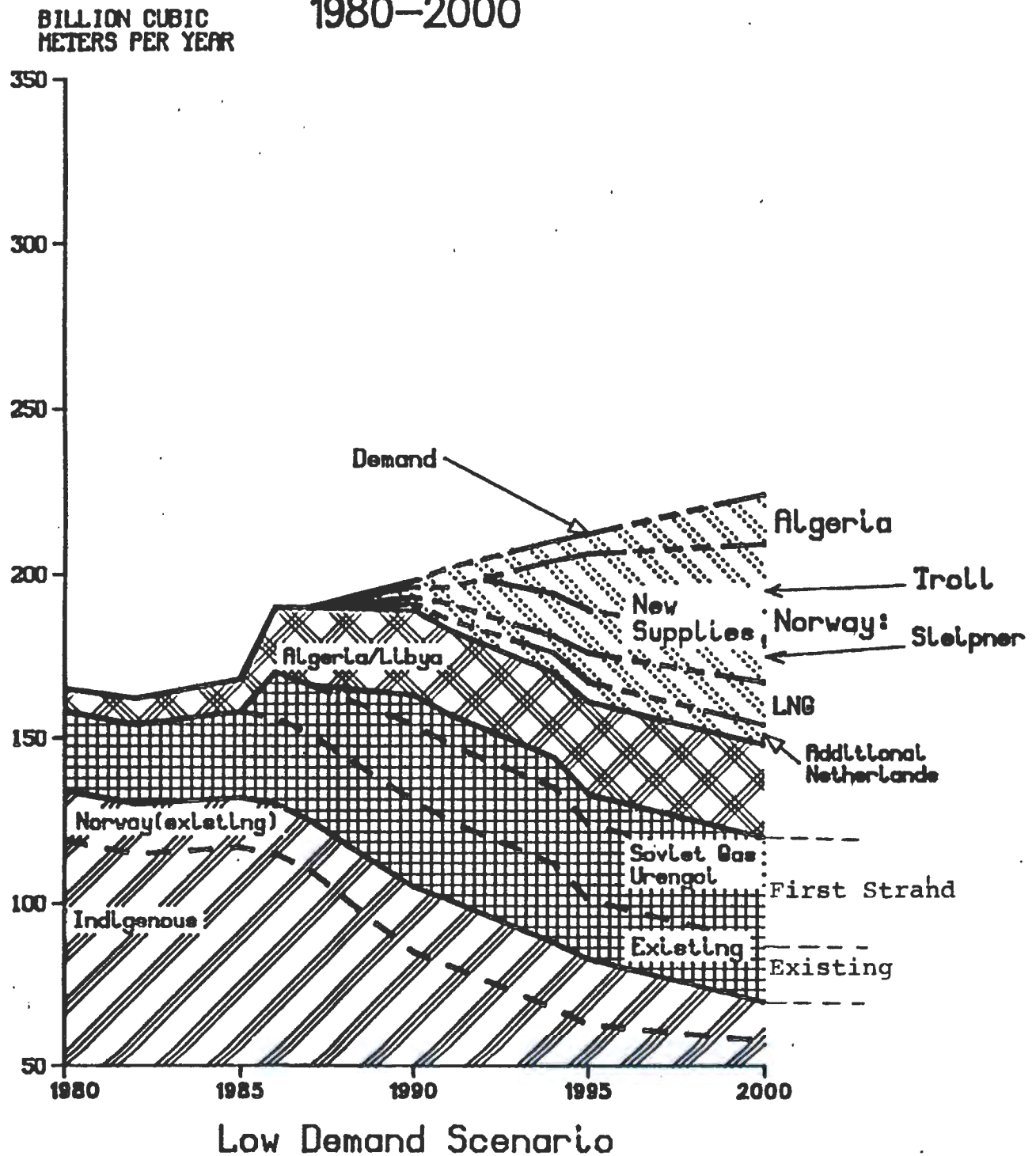
Low Demand Scenario
Without Siberian Gas

DECLASSIFIED

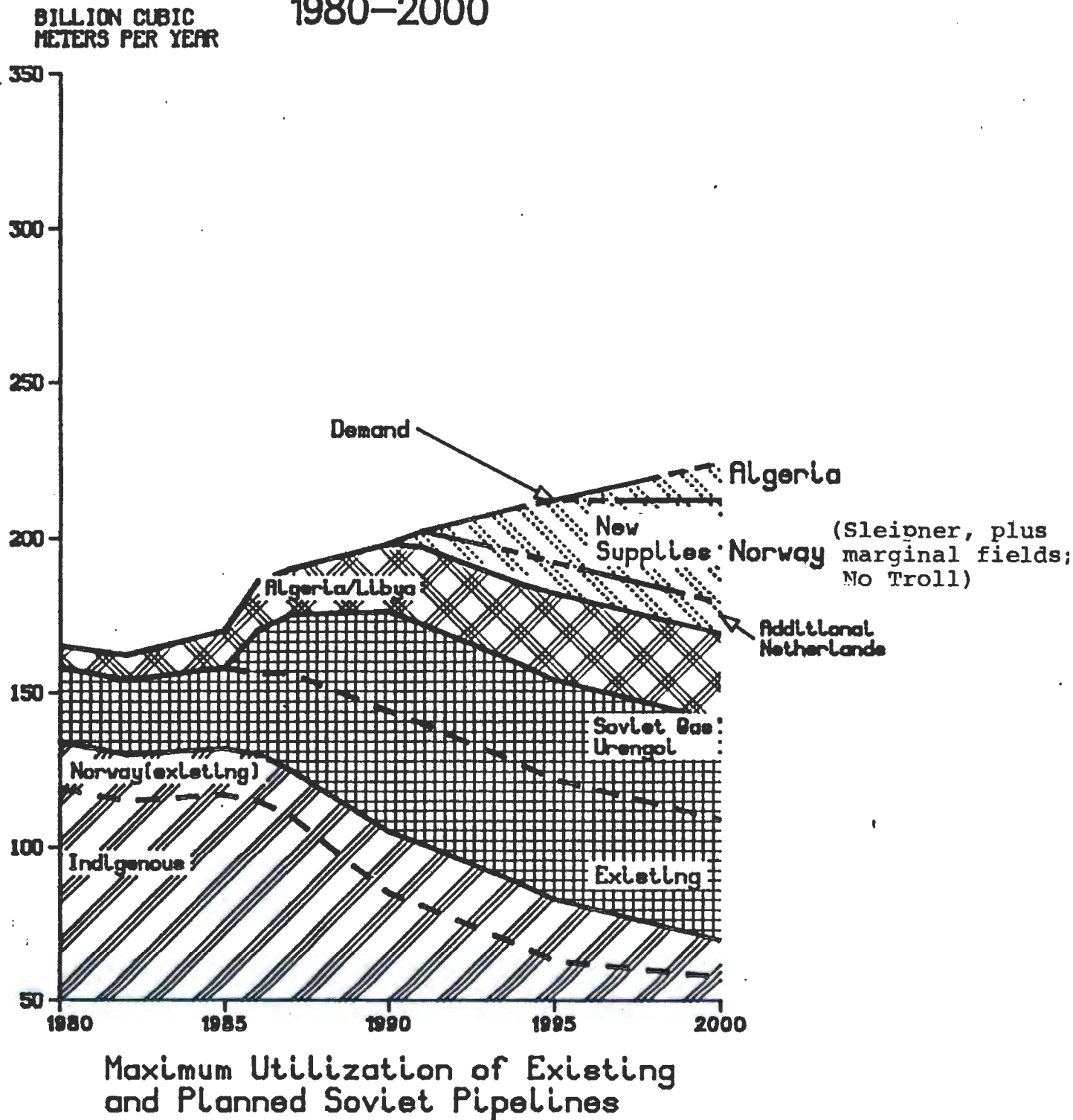
NLS F99-078/1 #122

BY LOT NARA DATE 5/30/06

Continental Europe: Natural Gas Supply and Demand Forecast 1980-2000



Continental Europe: Natural Gas Supply and Demand Forecast 1980-2000



~~SECRET~~

chur

MEMORANDUM

7571

NATIONAL SECURITY COUNCIL

November 1, 1982

~~SECRET~~

URGENT INFORMATION

E-W.T.

MEMORANDUM FOR WILLIAM P. CLARK

FROM: NORMAN A. BAILEY *NB*

SUBJECT: Response to Allied Agreement to Non-Paper

Should the Allies agree to an acceptable document on East-West economic relations, the following responses are theoretically possible:

1. Remove all December 29, 1981 and June 22, 1982 oil and gas transmission and refining equipment and technology sanctions (non-oil and gas related non-COCOM-controlled technology sanctions would have to be removed also in the interest of fairness). Were this to be done, the only leverage left would be the threat of reimposing some controls. There would also be pressure to withdraw the oil and gas exploration and refining sanctions imposed after the invasion of Afghanistan. On the plus side, this action would certainly be the most pleasing to our Allies and to U.S. industry. There would undoubtedly be some pressure by the latter to make some sort of no-embargo pledge similar to the grain pledge recently made in an orgy of counterproductive political expediency.

2. Remove the June 22 sanctions but maintain the December 29 sanctions. This option makes little sense as it would maintain the denial orders against John Brown, Nuovo Pignone, etc., since they shipped turbines incorporating G.E. rotors made in the U.S., an action prohibited by the December 29 sanctions. It would also infuriate U.S. industry which would still be blocked.

3. Remove the retroactive aspects of the June 22 and December 29 sanctions but maintain the sanctions with reference to post December and June contracts. This option would have the advantage of maintaining leverage during the period of the various studies envisioned in the non-paper. It could be understood that the sanctions would be lifted completely if we find the implementation of the agreement satisfactory. U.S. industry would still grumble, but could be placated to some extent if non-COCOM non-oil and gas related technology sanctions were lifted.

RR Roger Robinson and Dennis Blair concur. *DB*

cc: Pipes, Dobriansky, Nau, Martin

~~SECRET~~

DECLASSIFY ON: OADR

DECLASSIFIED

NLS F99-078/1 #123

BY LOT NARA, DATE 5/30/06

~~SECRET~~

~~SECRET~~

Martin

MEMORANDUM

7571

NATIONAL SECURITY COUNCIL

November 1, 1982

~~SECRET~~

URGENT INFORMATION

MEMORANDUM FOR WILLIAM P. CLARK

FROM: NORMAN A. BAILEY *NB*

SUBJECT: Response to Allied Agreement to Non-Paper

Good point

Should the Allies agree to an acceptable document on East-West economic relations, the following responses are theoretically possible:

1. Remove all December 29, 1981 and June 22, 1982 oil and gas transmission and refining equipment and technology sanctions (non-oil and gas related non-COCOM-controlled technology sanctions would have to be removed also in the interest of fairness). Were this to be done, the only leverage left would be the threat of reimposing some controls. There would also be pressure to withdraw the oil and gas exploration and refining sanctions imposed after the invasion of Afghanistan. On the plus side, this action would certainly be the most pleasing to our Allies and to U.S. industry. There would undoubtedly be some pressure by the latter to make some sort of no-embargo pledge similar to the grain pledge recently made in an orgy of counterproductive political expediency.

2. Remove the June 22 sanctions but maintain the December 29 sanctions. This option makes little sense as it would maintain the denial orders against John Brown, Nuovo Pignone, etc., since they shipped turbines incorporating G.E. rotors made in the U.S., an action prohibited by the December 29 sanctions. It would also infuriate U.S. industry which would still be blocked.

3. Remove the retroactive aspects of the June 22 and December 29 sanctions but maintain the sanctions with reference to post December and June contracts. This option would have the advantage of maintaining leverage during the period of the various studies envisioned in the non-paper. It could be understood that the sanctions would be lifted completely if we find the implementation of the agreement satisfactory. U.S. industry would still grumble, but could be placated to some extent if non-COCOM non-oil and gas related technology sanctions were lifted.

Very important

Roger Robinson and Dennis Blair concur.

cc: Pipes, Dobriansky, Nau, Martin

~~SECRET~~

DECLASSIFY ON: OADR

DECLASSIFIED

NLS F99-078/1 #124

~~SECRET~~

BY LOT NARA, DATE 5/30/06