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Ronald Reagan Library

Collection Name BAILEY, NORMAN: FILES Withdrawer

> **SMF** 3/3/2010

File Folder EAST-WEST TRADE [12/02/1981-12/31/1981] FOIA

F99-078/3

ZUBER **Box Number**

			16			
ID Doc Type	Document Description No o		Doc Date	Restrictions		
86292 MEMO	FOR THE FILES RE MEETING RE LNG PROJECT	2	12/14/1981	B1		
86293 CABLE	RE LNG PROJECT	3	12/14/1981	B1		
86298 LETTER	COVINGTON TO OLMER RE BETHANY INTERNATIONAL	6	12/28/1981	B1 B3		
86300 MEMO	SEC COMMERCE TO VP RE INTERNATIONAL HARVESTER	2	12/29/1981	B1 B3		
86294 MEMO	SECDEF TO BALDRIDGE RE HIGH TECHNOLOGY TRADE WITH USSR	2	ND	B1		
86297 MEMO	NANCE THRU MEESE TO THE PRESIDENT RE INTERNATIONAL HARVESTOR	2	ND	B1		

The above documents were not referred for declassification review at time of processing

Freedom of Information Act - [5 U.S.C. 552(b)]

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

GULF INTERSTATE

1233 West Loop South P.O. Box 56288, Houston, Texas 77027 (713) 850-3537, Telex: 79-1485 C. T. WELLS President and Chief Executive Officer

4-WT.



December 3, 1981

Mr. Norman A. Bailey Director Planning and Evaluation National Security Council Washington D.C. 20506

Dear Mr. Bailey:

Thanks for your letter of November 24 referring to the Soviet Siberian natural gas pipeline.

I did visit with Michael Ledeen recently and some of his associates in and out of the State Department about the Soviet gas pipeline and potential problems they may have in the design and construction. Since one of our companies, Gulf Interstate Engineering is doing pipeline design on the Northwest Alaskan Gas Pipeline, we have certain familiarities with cold climate problems. This was of interest to Michael.

I don't know how I may be of assistance but I plan to be in Washington the latter part of January and if you are interested, we might visit for a while. Otherwise, I will, of course, be available by phone at your convenience.

Very truly yours,

C. T. Wells

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86292 MEMO

2 12/14/1981 B1

FOR THE FILES RE MEETING RE LNG PROJECT

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WASHFAX RECEIPT DEPARTMENT OF STATE CF STATE 81 7E: 14 P6: 37 FOR CEC IA PIN 6 SiteAnon JOM S/S # MESSAGE NO._ CLASSIFICATION Confidential No. Pages 3 EB/IEP/EPC FROM: Frank Parker 632-1432 3329 (Office symbol) (Officer name) (Extension) (Room number) MESSAGE DESCRIPTION Bonny LNG Project DELIVER TO: TO: (Agency) Extension Room No. 395-4985 **OEOB 373** NSC N Bailey INFORMATION PER REQUEST CLEARANCE X COMMENT FOR: REMARKS:_ S/S Officer:

3-27 BS-1766

Ronald Reagan Library

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86293 CABLE

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B1

RE LNG PROJECT

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E-W trade BAKER & BOTTS 1701 PENNSYLVANIA AVE., N. W. WASHINGTON, D. C. 20006 TELEPHONE (202) 457-5500 HOUSTON OFFICE **TELECOMMUNICATION** ONE SHELL PLAZA HOUSTON, TEXAS 77002 (202) 457-5531 WASHINGTON, D. C. TELEPHONE (713) 229-1234 December 28, 1981 (713) 229-1523 HOUSTON Dr. Norman A. Bailey Director, Planning and Evaluation National Security Council Room 373 Old Executive Office Building Washington, D.C. 20506 Dear Dr. Bailey: Since you were kind enough to meet with us on December 18 to discuss U.S. companies' participation in the Yamal Pipeline project, I thought you might be interested in the developments described in the enclosed correspondence. CRC Bethany International, Inc., is a subsidiary of our client Crutcher Resources Corporation and is seeking a license to export conventional computer software to France for ultimate use on the Yamal project. Although no significant or new technical information will be conveyed to the U.S.S.R. through Bethany's proposed software export, a tremendous amount of detailed factual information on the Yamal pipeline and its operation will flow to Bethany from the Soviets so that Bethany can design the necessary software. Without some action this week by the Commerce Department, however, the software will be exported by a Canadian company which has already been granted an export license. The French purchaser, Thompson-CSF, intends to terminate its agreement with Bethany and proceed with the Canadian company unless some indication of favorable action from our government is received this week. As the enclosed letter indicates, Bethany is prepared to go ahead with preliminary aspects of the project, which do not convey any useful, substantive information, and defer a decision on the license for the overall software project if approval for export of such preliminary information can be obtained quickly.

BAKER & BOTTS

Dr. Norman A. Bailey Page Two

We would appreciate any advice you could give us regarding this problem and we will be happy to provide you with further information or answer any questions you may have immediately.

Sincerely,

B. Donovan Picard

Ronald Reagan Library

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86298 LETTER 6 12/28/1981

COVINGTON TO OLMER RE BETHANY **INTERNATIONAL**

B1

B3

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December 29, 1981

MEMORANDUM TO: Dr. Norman Bailey

National Security Council

FROM: Lionel H. Olmer

In addition to the attachments providing you with technical detail on the International Harvester license, I think you should be alert to the financial significance of the contract:

- About one half of the \$300 million must be considered as extremely important to IH because it is "up front money" and will be profits which can be immediately employed as working capital.
- \$10 million immediately on signing, \$65 million in early to mid 1983 upon provision of the technical drawings, and an additional \$65 million between the end of 1983 to the end of 1984 with the completion of the drawings. Of this \$140 million, roughly \$130 million is equivalent to profits which would earn between \$750 to \$850 million in sales.
- IH in the next 18 months must renegotiate \$1.5 billion in parent company debt and will have to pay off between \$500 and \$700 million of existing debt which the banks will be pressing for.

IH says that the sale is very important and could be critical if farm machinery and heavy truck demand does not come back strongly in the next 18 months.

I want to reemphasize that IH has said that this sale of combine technology is critical. They have played fair and square with us in honestly characterizing what is of obvious signficance to their return to profitability.

Attachments

cc: Secretary Baldrige



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B3

SEC COMMERCE TO VP RE INTERNATIONAL HARVESTER

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BRIEFING POINTS INTERNATIONAL HARVESTER



- O IH filed license application last January for export to USSR necessary technical data for combine production.
- o IH application is landmark case as to whether US will license any technical data for USSR. (Virtually all applied technology now subject to national security controls, with certain technology such as oil and gas production/exploration also controlled for foreign policy.)
- o IH data will be used to establish new combine facility (426,000 square meters to produce 30,000 combines annually) in Taganrog, USSR. (Chart I)
- Manufacturing plant is a joint IH-USSR effort in which IH supplies combine blueprints, work flow plans, plant and manufacturing engineering. (Chart I)
- o Value of IH technical data could reach \$300 million over course of five year project. (Chart II)
- o Soviet portion of project could reach \$700 million. This will include Soviet supplied equipment, Soviet architecture, plant design and construction. (Chart III)
- o While we have discussed what IH will transfer the proposal will not transfer: (Chart IV)
 - x plant blueprints
 - x metallurgical processes
 - x automated assembly equipment
 - x. advanced manufacturing know-how
 - x power train or engine design
- o Combine production will be done by hand (welding, assembly, inspection) (Chart IV)
- o Illustrates more detail of point previously discussed. (Chart V)
- o Soviet supplied equipment for plant will be basic manufacturing type equipment, such as metal forming and roll equipment, milling/boring/drilling machines, grinders etc. (Chart VI)
- o We expect Soviets will use all additional combine production for own use. Increased production from IH project while significant still means USSR will have fewer combines per hectares farmed than US. (Chart VII)

Summary (Chart VIII)

- o Reconfiguring plant for military production (APC) would require special machines and armor technology.
- o Technology transfer by IH only useful for agricultural combines.
- o No computer assisted machine tools involved and hand assembly of combines required.
- o Soviets can absorb production out of proposed facility.
- o License application well beyond statutory deadline and licensing decision needed now.

Wang 4187e

PRODUCT COMPARISON

Characteristic	Combine	APC	Comments
Weight	ll tons	20 tons	Vastly different weight distribution
Operating Speed	6 МРН	40 MPH	Different Metallurgy in gears, undercarriage
Drive Train*	Constant Speed Diesel 2-wheel drive	Track or 4-wheel drive	Different metallurgy, torques, etc.
Axle	None	Mechanical	
Transmission Drive*	Hydraulic	Automatic	Different technology
Controls	Mechanical/Hydraulic	Computer/hydraulic/electric	Little, if any similarity
Suspension	None	Heavy Duty	
Amphibious	No	Yes	
Basic Materials	3/16" Sheet metal, small castings	•	Weld and machine for APC; bend and bolt for combine
Tires	Standard	Bullet Resistant	Vastly different

^{*}Soviet Supplied

Summary: Products are dissimilar

MANUFACTURING COMPARISON

Characteristic	Combine	APC	Comments
Fabrication	35% Machining (Low Precision) 65% Press and bend	55% Machining (High Precision) 45% Cut and Weld	APC needs computer controlled cut, weld and machining: combine low tolerance machining
Machining	Conventional Multi- purpose; small machines	High Precision with heavy transfer lines; large machines (hull, turret)	APC-Large Sections, High precision; combine small sections, low tolerance
Subassembly	Many light subassemblies; No machining after weld	Large heavy weldments; machined after weld	
Assembly	Many small subassemblies brought to line	Few large subassemblies; most work done on line	Different work flow
Material Handling	3 to 7 ton cranes; light conveyor systems	15-20 ton cranes; Heavy duty conveyor systems	
Fo gings/castings	Automotive Quality	High strength alloying; precision pieces	Different presses, etc.
Welding	Little; hand; general purpose inert gas	High technology, thick plate welding; major mechanism to assemble parts	Computer welding for APC
Alignment of Parts	"Eyeball"; Low Tolerance	Electro-Optical; laser	Different Technique
Structural Assembly	Nuts, Bolts, Rivets	Weld, High Strength Bolts	
Testing	Rollers; Hand	Ultrasonic, X-Ray to to assure ballistic integrity	APC require High Technology

MANUFACTURING COMPARISON (cont.)

Characteristic Combine APC Comments

Assembly Sequence Unique to Combine Unique to APC's No Comparison

Work Flow Unique to Combine Unique to APC's No Comparison

GENERAL

- o FMC Corp. Analysis: Of 1512 machine tools/equipment necessary for combine manufacture approximately 140 9% useable for APC'S
- O Chrysler Analysis: About 10% to 20% of machine tools/equipments necessary for Combine useable for APC's/Tanks

MANUFACTURING COMPARISON

- o None of drawings, documentation, and processing instructions necessary for combines useable for APC's
- o Very different machines are required for Combine production than for APC's
- o For the \$1 billion project only the Building \$263 million and some equipment \$38 million would be used for APC's. The balance \$700 million would be worthless. Conversion from combine to APC production would take 3 years (IH/FMC)

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Restric-

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86294 MEMO

2

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B1

SECDEF TO BALDRIDGE RE HIGH TECHNOLOGY TRADE WITH USSR

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- (U) The Harvester sale is not integrated into a larger political, economic or strategic policy.
- (U) At the political level, there is no trade off that I know of offered by the Soviets that encourages us to move ahead with this sale, nor is any implied. Their military build-up continues. We have worked to broaden those controls -- but is that enough? I hope we can do more to make clear our intense concern over Soviet international behavior.
- (U) From the economic perspective, this sale offers the Soviets a great deal; we get very little. They will be able more efficiently to carry out their annual harvest, using fewer industrial workers to support their agricultural effort. Economic input for agriculture will be smaller. Potentially, they will save billions of dollars otherwise spent on importing wheat and corn.
- (U) In contrast, our farmers will lose business. The Soviets will have more hard currency that can be used for the purchase of Western technology. When matched with the West Siberian pipeline project, the West is, in effect, helping the Soviets to alleviate their economic failures. And we are doing so without asking anything in return.
- (U) From the strategic perspective our problems are bound to multiply. We are making an effort to strengthen our own strategic and conventional forces and gain the support of our allies and friends to do the same. We are seeking to engage the Soviets in a serious arms control effort. In these times our objective ought to be to maintain and increase our leverage, not voluntarily reduce it. It is particularly vital in this period when we are trying to repair the damage of past neglect of our security.
- (U) I hope we can frankly discuss these matters at the National Security Council level with the maximum of candor and the minimum of posturing. It is clear to me we presently lack a broad, coherent policy to confront these problems. We need a new mechanism to monitor trade and security issues better and respond to them promptly. One remedy we might explore is to create a new Office of International Economic Strategy at the White House level to monitor the issue and structure policy initiatives that harmonize our economic, political and strategic objectives. Such an office might avert painful choices over individual cases like International Harvester by framing a policy to guide our departmental perspectives.

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(U) Should we fail to arrange a better mechanism and determine a more meaningful policy I fear we will end up doing exactly what we did not intend -- strengthening the Soviet Union at our expense.

Sincerely,

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87691 TRANSMITTAL SHEET

1 12/28/1981 B1

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7447

NATIONAL SECURITY COUNCIL

December 31, 1981

WT.

SECRET

ACTION

MEMORANDUM FOR JAMES W. NANCE

FROM:

NORMAN A. BAILEY 7/3

SUBJECT:

Memorandum for the President on the International Harvester Question

The memorandum to the President at Tab I outlines the International Harvester project and summarizes the arguments pro and con.

RECOMMENDATION:

That	you	sign	the	memorandum	at	Tab	I.
------	-----	------	-----	------------	----	-----	----

Approve	Disapprove	

Allen Lenz concurs.

cc: Richard Pipes

Allen Lenz

Review December 31, 1987

DECLASSIFIED
Sec.3.4(b), E.O. 12958, as amended
White House Guidelines, Sept. 11, 2006
BY NARA DATE 3/2/10



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