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35

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
86764	MEMO	ROBINSON TO MCFARLANE RE RESPONSE TO COMMENTS ON POTENTIAL DEVELOPMENTS IN POLAND	1	7/19/1982	B1
86765	MEMO	ROBINSON TO CLARK RE WEEKLY REPORT	2	7/16/1982	B1
86766	REPORT	RE SOVIETS DEBATE EAST-WEST TRADE	1	ND	B1
86767	MEMO	FROM MAYER RE TRIP TO EUROPE	3	7/29/1982	B1

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

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

B-1 National security classified information [(b)(1) of the FOIA]
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Bailey

4982

MEMORANDUM

NATIONAL SECURITY COUNCIL

E-WT-

INFORMATION

July 16, 1982

MEMORANDUM FOR WILLIAM P. CLARK

FROM: HENRY R. ~~NAU~~ HRN

SUBJECT: German-Soviet Agreement on Pipeline Financing

The signing ceremony on July 13 of the German-Soviet financing agreement for the pipeline culminates negotiations that have been underway for more than a year.

The deal involves government guarantees but no interest rate subsidies initially. The 7.8 percent interest rate is offset in the early years by higher prices charged for the equipment. But it is also premised on interest rates coming down in later years when payments are due. If this does not happen, there may be an interest rate subsidy involved.

cc: Bailey
Robinson
Rentschler
Blair
Pipes

Bailey:

N

MEMORANDUM

4897

NATIONAL SECURITY COUNCIL

July 16, 1982

E-W T.

MEMORANDUM FOR SALLY KELLEY

FROM: MICHAEL O. WHEELER Carolyn E. Cleveland for

SUBJECT: Letter to Meese re Yamal Pipeline

Richard Lesher of the U.S. Chamber of Commerce has written Ed Meese (Tab B) regarding the Yamal Pipeline. The State Department has provided, and we concur with, the attached draft reply (Tab A).

Attachments
- Tab A Draft Reply
- Tab B Incoming Letter

Dear Mr. Lesher:

I am responding to your letter of June 18 concerning U.S. restrictions on the sale of oil and gas equipment to the Soviet Union.

As you know, the President has decided to extend the export controls to include equipment produced abroad by foreign subsidiaries of U.S. companies or under license by foreign firms. ~~In January~~ The President ~~has~~ had repeatedly stated that we would take additional measures if the situation in Poland did not improve. His action to extend and expand the sanctions ~~is~~ was consistent with this commitment given the lack of progress towards reconciliation in Poland.

In our judgement, the controls will have more than symbolic value. The extension of the controls to cover overseas U.S. subsidiaries and foreign companies producing oil and gas equipment under license agreements with U.S. firms will result in additional delay of the Siberian gas pipeline project and will significantly raise the cost of the project to the Soviets.

I very much appreciate receiving the Chamber's thoughts on this important issue and trust that you will continue to provide us with your counsel on this and other East-West trade policy issues.

Sincerely yours,

Edwin Meese

Mr. Richard L. Lesher

President,

Chamber of Commerce,

The United States of America,

1615 H Street, N.W.,

Washington, D.C. 20062.

6

(Classification)

DEPARTMENT OF STATE
EXECUTIVE SECRETARIAT
TRANSMITTAL FORM

S/S 8218979 59

Date June 13, 1982

For: Mr. William P. Clark
National Security Council
The White House

Reference:

To: Mr. Edwin Meese From: Mr. Richard L. Lesher

Date: June 18, 1982 Subject: Yamal Pipeline

WH Referral Dated: ______ NSC ID # ______ (if any)

_____ The attached item was sent directly to the Department of State.

Action Taken:

XX A draft reply is attached.

_____ A draft reply will be forwarded.

_____ A translation is attached.

_____ An information copy of a direct reply is attached.

_____ We believe no response is necessary for the reason cited below.

_____ The Department of State has no objection to the proposed travel.

_____ Other.

Remarks: The same letter was sent to Mr. Clark (6/18/82). State has provided him with the same draft response.

Thomas J White /for
L. Paul Bremer, III
Executive Secretary

1 1982 9

CHAMBER OF COMMERCE
OF THE
UNITED STATES OF AMERICA

8218979

RICHARD L. LESHER
PRESIDENT

June 18, 1982

1615 H STREET, N.W.
WASHINGTON, D.C. 20062
202/659-6207

The Honorable Edwin Meese III
Counselor to the President
The White House
Washington, D.C. 20500

Dear Ed:

It has been brought to my attention that the President very soon will make a decision on the question of U.S. involvement in the Yamal pipeline. I have also been led to believe that the decision may reflect the view of those in the Administration who advocate harming the Soviet economy irrespective of the consequences for our own economy. 084901

As you know, the Chamber has deep and long-standing reservations over the unilateral application of trade sanctions which may have little more than symbolic value, but which may have adverse long-term implications for U.S. industry. If this is the case, I fear not only that our trade sector will be harmed, but that any ability we ever had to moderate Soviet behavior through trade will be ended.

We continue to support the President's efforts to tighten controls over the export of militarily critical goods and technology to the Soviet Union and to curb the subsidization of export credits to the Soviets. On the other hand, we find it difficult to support unilateral policies that succeed in penalizing U.S. industry to the benefit of our trade competitors and that may make multilateral consensus in the export control and credit areas even more difficult.

For your information, I am also sending identical letters to White House Chief of Staff James A. Baker III, Assistant to the President for National Security Affairs William P. Clark, and U.S. Trade Representative William E. Brock.

Sincerely,

Richard L. Lesher

9

T H E W H I T E H O U S E O F F I C E

8218979

REFERRAL

JULY 7, 1982

TO: DEPARTMENT OF STATE

ACTION REQUESTED:
DRAFT REPLY FOR SIGNATURE OF EDWIN MEESE

DESCRIPTION OF INCOMING:

ID: 084901

MEDIA: LETTER, DATED JUNE 18, 1982

TO: EDWIN MEESE

FROM: MR. RICHARD L. LESHER
PRESIDENT
CHAMBER OF COMMERCE OF THE UNITED
STATES OF AMERICA
1615 H STREET, NW
WASHINGTON DC 20062

SUBJECT: UNITED STATES INVOLVEMENT IN THE YAMAL
PIPELINE; WRITER IS CONCERNED ABOUT THE
ADMINISTRATION'S DECISION'S EFFECT ON OUR
OWN ECONOMY

PROMPT ACTION IS ESSENTIAL -- IF REQUIRED ACTION HAS NOT BEEN TAKEN WITHIN 9 WORKING DAYS OF RECEIPT, PLEASE TELEPHONE THE UNDERSIGNED AT 456-7486.

RETURN CORRESPONDENCE, WORKSHEET AND COPY OF RESPONSE
(OR DRAFT) TO:
AGENCY LIAISON, ROOM 91, THE WHITE HOUSE

SALLY KELLEY
DIRECTOR OF AGENCY LIAISON
PRESIDENTIAL CORRESPONDENCE

Recd in S/S
7/6 - 1119

JK

ID # 084901 10

TA001

WHITE HOUSE
COUNSELLOR'S OFFICE TRACKING WORKSHEET

☐ O - OUTGOING
☐ H - INTERNAL
☐ I - INCOMING
Date Correspondence Received (YY/MM/DD) 82/06/18

Name of Correspondent: Richard Lesher

☐ **CN Mail Report** **User Codes: (A)** ______ **(B)** ______ **(C)** ______

Subject: US involvement in the Yamal pipeline. Writer is concerned about the Administration's decision's effect on our own economy

ROUTE TO: **ACTION** **DISPOSITION**

Office/Agency (Staff Name)	Action Code	Tracking Date YY/MM/DD	Type of Response	Code	Completion Date YY/MM/DD
CNSTRI	O	82/06/25			/ /
Referral Note:					
NSC	D	82/06/25		C	82/07/02
Referral Note: For signature of Ed Meese III					
✓ DoS	D	82/07/02			/ /
Referral Note:					
		/ /			/ /
Referral Note:					
		/ /			/ /
Referral Note:					

ACTION CODES:
A - Appropriate Action
C - Comment/Recommendation
D - Draft Response
F - Furnish Fact Sheet to be used as Enclosure
I - Info Copy Only/No Action Necessary
R - Direct Reply w/Copy
S - For Signature
X - Interim Reply

DISPOSITION CODES:
A - Answered
B - Non-Special Referral
C - Completed
S - Suspended

FOR OUTGOING CORRESPONDENCE:
Type of Response = Initials of Signer
Code = "A"
Completion Date = Date of Outgoing

Comments:

Keep this worksheet attached to the original incoming letter.
Send all routing updates to Central Reference (Room 75, OEOB).
Always return completed correspondence record to Central Files.
Refer questions about the correspondence tracking system to Central Reference, ext. 2590.

NATIONAL SECURITY COUNCIL

July 17, 1982

MEMORANDUM FOR JOHN M. POINDEXTER

FROM: CAROL CLEVELAND

Colonel Wheeler asked that the attached package be sent to the West Wing for approval before he signs off on the Kelley memo.

NATIONAL SECURITY COUNCIL

Norm,

Wheeler asked me to look this over - I probably owe you a comment or no comment, so it is my fault. I made one change in the letter. The way it is written, it could suggest that the P will continue to impose sanctions if the situation in Poland does not improve. Do we want to suggest that? It is my understanding that the extraterritorial decision completed a set of sanctions taken in Dec. and no more are intended unless the situation in Poland gets worse (which is different from "does not improve")

Henry

Mm
13

MEMORANDUM

4897

NATIONAL SECURITY COUNCIL

July 15, 1982

ACTION

MEMORANDUM FOR MICHAEL O. WHEELER

FROM: NORMAN A. BAILEY NB

SUBJECT: Letter to Meese re Yamal Pipeline

Attached at Tab I is a memorandum from you to Sally Kelley forwarding a draft reply (Tab A) to a letter from the Chamber of Commerce to Ed Meese (Tab B).

RECOMMENDATION:

That you sign the memorandum to Kelley at Tab I.

Approve _______ Disapprove _______

Attachments
Tab I Memo to Kelley
Tab A Draft Reply
Tab B Incoming

14

NATIONAL SECURITY COUNCIL

7/15

Dr. Bailey--

You threw this in your out box last night -- should I file, destroy, or what?

pb E-W.T.

~~7/16~~

~~7/19~~

15

MEMORANDUM

4737 (add-on)

NATIONAL SECURITY COUNCIL

INFORMATION

July 19, 1982

S-W.T.

MEMORANDUM FOR JOHN POINDEXTER

FROM: ROBER W. ROBINSON

SUBJECT: Polish Economy and Posture Toward Sanctions

Given the Judge's high velocity schedule, I chose not to burden him with this detail but I thought it might be useful to bring to your attention in order to avoid the impression of inconsistency. In the attached memorandum to the Judge (Tab I) he notes the following: "Roger, how can we justify such before some announcement by Polish government?" Naturally, I agree with his comment, and I perhaps did not sufficiently highlight this precondition in my memorandum. I merely wish to point out the pertinent sentence: "... we see an increasing opportunity to induce the type of meaningful political quids that would enable us to undertake measured positive actions."

Attachment

Tab I Memo fr Robinson, July 8, 82

cc: Norman Bailey
Richard Pipes
William Martin

Robinson

16

4737

MEMORANDUM

NATIONAL SECURITY COUNCIL

July 8, 1982

INFORMATION

MEMORANDUM FOR WILLIAM P. CLARK

WPC HAS SEEN

FROM: ROGER W. ROBINSON RWR

SUBJECT: Polish Economy and Posture Toward Sanctions

Attached (Tab I) is an article from the Washington Post that highlights the growing desperation of the Polish authorities concerning the country's economic situation. Since the inception of the sanctions, we have been blamed for virtually all of their economic woes including the inability to service their Western debt. Despite these ridiculously exaggerated claims, we see an increasing opportunity to induce the type of meaningful political quids that would enable us to undertake measured positive actions. As indicated earlier, debt rescheduling talks and perhaps some food relief should be at the front of the line of U.S. "carrots." We could also represent any future language changes (to "gas transmission equipment") in the Commerce regulations, although directed toward our business community, as "narrowing the net" of foreign subsidiaries and licensees captured by the sanctions. The Soviets would be sure to respond favorably to such a move because it would release foreign-sourced oil equipment and technology -- hence hopefully providing an incentive to permit further reconciliation in Poland. Although some allies would publicly charge us with domestic clientitis, this may well be outweighed by some of their important transactions being legally permitted to go forward and the desire to see any modification in the sanctions.

Roger: how can we justify such before some move by Polish Gov't?

Attachment
Tab I Washington Post Article

cc: Norman Bailey
Richard Pipes
William Martin

Washington Post, July 8, 1982

17

Poles Accuse West Of Attempting to Collapse Economy

By Victoria Pope
Special to The Washington Post

WARSAW, July 7—In a bitter attack on trade sanctions put in place following imposition of martial law here, Poland today accused Western nations of using "unprecedented economic aggression" to push the Polish economy toward collapse.

The official Polish news agency, PAP, said Western sanctions were largely to blame for an economy plagued with a 14 percent drop in industrial production since 1979, falling exports, severely curtailed imports of raw materials and a steep decline in the nation's standard of living.

The attack coincided with the opening of talks in Vienna between Polish banking officials and representatives of Western creditor banks to discuss the repayment of $8 billion in commercial debts due this year. Poland's total indebtedness to the West is estimated at $25.9 billion, with the annual servicing cost about $3.5 billion.

PAP singled out the Western ban on new credits as the most crippling aspect of the sanctions—imposed to protest the Dec. 13 military crackdown—because it effectively blocked the import of machinery, raw materials and feed grains needed to earn hard currency.

Through this policy, PAP said, "creditors consciously created a situation in which it becomes impossible to repay our debts on time." Western economic analysts in Warsaw said Poland was likely to ask bankers in Vienna to reschedule the interest on this year's debts, but that the bankers—while sympathetic—probably would do no more than defer payment on the principal.

Poland has been linking its economic problems with the Western sanctions almost as long as they have been imposed, but today's attack reflected the growing desperation over the condition of the economy.

Supply of processed feed for livestock was down by 55.3 percent. Polish officials say the sanctions have made it impossible for Poland to get the grain needed to keep livestock and poultry at normal production levels. This has led to distress slaughtering that could mean meat shortages next [illegible]

Although the PAP dispatch makes clear that mismanagement in the 1970s brought on the severe economic problems of today, the news agency blamed the West for "conscious actions aimed to render [Poland's] economy strongly dependent on economic bonds with the West."

The decline in the economy presents a particular dilemma for Poland's martial law authorities, who in part defended the crackdown as necessary to stop the disintegration of the economy. Whereas strikes by the now suspended Solidarity independent trade union were once blamed for the country's sluggish production, the reasons given today are the lack of hard-currency credits and the NATO decision Jan. 12 to halt import credits.

The Vienna talks are the first between Poland and the [illegible]

E-W T.
18

REVIEW & OUTLOOK

Rubles on the Barrelhead

Our European allies, not to mention critics in the U.S., have been clamorously insisting that there is a huge inconsistency in Reagan administration policy on East-West trade. While we try to torpedo the Siberian gas pipeline deal with Western Europe, the U.S. grain trade continues unabated.

Some wind may go out of that argument in coming days if, as expected, the Reagan administration announces its refusal to negotiate a new long-term agreement with Moscow. Most observers think the administration, balancing election-year realities against European complaints, will opt for a one-year extension of the agreement, which dates from 1975.

But this isn't likely to silence the complaints, since the Soviets would still be free to buy a lot of U.S. grain in the coming year. The real point that the administration should be trying to make to its critics is that the grain trade/pipeline analogy is misplaced. If the Europeans sold pipelines on the same terms that the U.S. sells grain, there would be no problem.

As we have so often said, the big problem with the Siberian pipeline deal is that it will be financed with Western capital at below-market rates. This not only represents a large net transfer of resources to our sworn enemy, it makes the Western financial system vulnerable to future Soviet economic and political demands. When the Europeans made it clear they didn't intend to abide by even the minimal credit restraints of the Versailles communique, Mr. Reagan had no choice but to take direct action against the pipeline. Ex those subsidies, he would see no huge objection to the pipeline deal—though we question whether there would be any deal.

The U.S. grain sales to the Soviets receive no such credit subsidies. In 1972, the Soviets moved suddenly into the grain markets, not only acting on inside information about their own bad harvest, but taking advantage of U.S. taxpayer-funded programs to subsidize grain exports. This became known as the "Great Grain Robbery," and the U.S. quickly took steps to see that it would not happen again. Indeed, this was the origin of the long-term agreement to stabilize the grain trade—on a non-subsidized basis.

Not only that, but the Soviets do not receive the ordinary Commodity Credit Corp. loans for grain exports, or for that matter subsidies for manufactured goods. This is prevented by the lack of Most Favored Nation status, banned by the Jackson-Vanik amendment on Jewish immigration from the U.S.S.R. Given the purpose of the amendment, its effect is a bit fortuitous; too bad MFN status was not also denied Poland, where the CCC got stuck for a bundle. But nonetheless the U.S., unlike its European allies, has not been giving subsidies to the Russians.

What the critics seem to be arguing is that only a grain embargo would make Reagan policy consistent on the pipeline. There may be occasions when a trade embargo is necessary. As a practical matter, however, embargoes seldom seem to work very well; in general, policy seems to work best when it works with the markets, rather than against them.

But this is true of credit subsidies as well. So we see no inconsistency in American policy. We are merely asking the Europeans to impose the same restraints on themselves as the U.S. has for some years. In Soviet trade, the principle should be rubles on the barrelhead. Better yet, hard currency on the barrelhead.

E-W 19

MEMORANDUM 5105

NATIONAL SECURITY COUNCIL

INFORMATION July 19, 1982

MEMORANDUM FOR WILLIAM P. CLARK

FROM: NORMAN A. BAILEY NB

SUBJECT: Information on Rotor Blades for Yamal Pipeline

The attached (Tab I) Memorandum for the Record of a conversation between Bo Denysyk, Deputy Assistant Secretary of Commerce with Charles Yaker and Roland Paul of the Howmet Turbine Components Corporation of Greenwich, Connecticut is worth reading in its entirety. The content of the memorandum indicates that the ban on the rotors may be much more effective in seriously delaying completion of the pipeline than was originally thought, which would give the time necessary to develop alternative sources of energy. It would also go far to explain the panic and uncertainty displayed by the Soviets.

cc: Reed
Boverie
Raymond
Robinson
Pipes
Nau

UNITED STATES DEPARTMENT OF COMMERCE
International Trade Administration
Washington, D.C. 20230

N

MEMORANDUM FOR THE RECORD

FROM : Bo Denysyk

SUBJECT : Meeting with Charles Yaker (CEO) of Howmet, Inc.

1. On July 1, 1982, I met with Charles Yaker (CEO) and Roland Paul from the Howmet Turbine Components Corporation (Howmet) of Greenwich, Connecticut. Howmet is one of the world leaders in turbine blade and vane technology, including coatings. They are a wholly owned subsidiary of Pechiney, a French based Corporation (government owned). Although Pechiney has held a majority postion in Howmet since the mid-60's, it became wholly owned only in 1975. Howmet is the supplier to G.E. and its manufacturing associates (John Brown, Nuovo Pignove, etc.) for the G.E. 5002B industrial gas turbine proposed for sale for the Soviet pipeline.

2. I asked that they come in to better understand the foreign availability of blade technology and the extent that Alsthom-Atlantique (AA) depends on other firms to construct the rotors for the turbines. Yaker's comments can be summarized in two points:

   a. AA does not have the capability to produce the large size (18") blades needed for the G.E. 5002B turbine. They were relying on Howmet's overseas subsidiaries (primarily the UK sub.) to manufacture the blades.
   b. There are very few firms worldwide that can manufacture large blades. They include the Thyssen (FRG) and a UK firm, (AETC). While other firms have the know-how to make smaller blades it will take them several years to develope the technology to make larger blades.

3. Yaker also made several other points worth noting:

   a. AA has no foundry or experience in making turbine blades and depended on Howmet (U.S. or its subs. in France and UK) for blades.
   b. AA has a long standing relationship with G.E. and has made the 3000 (smaller turbine), 5000 (25MW), and 9000 series turbine with G.E. technology.
   c The following companies are making or can make turbine blades:

smf 3/8/10

COMPANY	LARGER BLADE CAPABILITY	TECHNOLOGY SOURCE
AETC (UK)	yes	U.S.
Centaur (UK)	yes	U.S.
Mitshubishi (Japan)	yes	U.S.
Komatsu (Japan)	no	U.S.
Hitachi (Japan)	no	U.S.
Thyssen (FRG)	yes	FRG

d. No blade parts have been delivered to AA for the production of the 40 spare rotors

e. There are presently nine (9) G.E. 5002 B turbines operating in the USSR

4. Howmet has heard from several European turbine manufactures that the prototype 25 MW Soveit turbine is crude and inefficient. The turbine is at least 2-4 years away from production. Howmet has also heard that the Soviets have contracted several Western companies to help them in developing the 25 MW turbine. For example, Hispano Suiza's casting technology is being sought. Howmet feels, however, that even with massive Western help, the Soviet 25 MW turbine is at least a couple of years away from limited production.

cc: L.Olmer
L.Brady
N.Bailey ✓
K.Fennel

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86765	MEMO ROBINSON TO CLARK RE WEEKLY REPORT	2	7/16/1982	B1

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E-W-T-15

Wall Street Journal 7/19/82

The Siberian Pipeline and Europe's Welfare States

By Melvyn B. Krauss

Several weeks of traveling throughout Western Europe during June convinced me of two apparently contradictory things. First, Europeans are very angry at President Reagan primarily because of the embargo on U.S. technology for the Siberian gas pipeline. Second, given the present European mood of accommodation toward the Soviet Union, a real break in the Western alliance could take place unless the Reagan administration continues to take a strong stand vis a vis its detentenik allies.

Accommodating our allies so they, in turn, can accommodate the Russians will not solidify the alliance—the common wisdom and that of former Secretary of State Haig notwithstanding. Rather, it will induce the Europeans to behave in ways that the administration can only be expected to find intolerable.

A case of Europe receiving the wrong signals was when Secretary Haig persuaded the administration not to declare Poland in default on its loans to Western banks. The Europeans—particularly the West Germans—lobbied hard for the U.S. to turn the other cheek and go soft on the Poles. Our allies got the accommodationist message: Western Europe could freely follow its own policies of pursuing detente and paying tribute to the Soviet Union with little regard for the opinions of a United States whose power could be neutralized by appeals to Western unity. The result, it should be noted, has not been the strengthening of the alliance predicted by the accommodationists at the State Department, but a deterioration, as an emboldened Europe now offers the Soviet Union subsidized credit to construct the controversial pipeline.

The prime reason the accommodationist approach succeeds in producing only the semblance of Western unity is that it fails to come to terms with the root cause of tensions in the alliance: differences in economic outlook and perception due to different economic systems. The U.S. has the tradition of a competitive market economy, modified to some extent by government regulation. The Europeans, on the other hand, believe in state-directed economies, modified to some extent by the need to compete on world markets. The results are a deeper understanding for the Soviet Union perspective in Western Europe as well as dramatically different views on trade with the Eastern bloc.

The European perception is that the Reagan administration wants to conduct economic warfare with the Soviet Union. This isn't true. There is no evidence that the administration is against trade per se with the Soviets, only *subsidized* trade. Mr. Reagan does not deserve to be called a "cold warrior" just because he wants to use the pipeline embargo to cool European ardor for subsidization of the Russians (particularly after Poland and Afghanistan).

The Europeans, however, do not appreciate the distinction between subsidized and unsubsidized trade, since subsidies are a pervasive way of doing business in the European welfare state. Extra-market subsidies are routinely given to European projects that can't pass the test of the marketplace, but which government wants to pursue either to hide unemployment (by putting workers in useless jobs), transfer income to a favored sector of the economy, pursue detente or, as in the case of the gas pipeline, for all three reasons. To promote this triad of objectives, the Soviets have been given credit terms similar to those that would be given to a Third World country.

The welfare state is not only creating mischief in the Western alliance as regards trade policies towards the Eastern bloc, it is also creating trade problems between the allies. The Europeans cannot expect to continue to subsidize a wide variety of goods without provoking protectionist responses in other parts of the world economy. For years, European subsidies to the steel industry have given protectionists in the U.S. steel industry an argument for similar subsidization in this country. Previous administrations generally have been strong enough to resist such protectionist entreaties; they understood that subsidies weaken an industry (as the European case amply demonstrates). The Reagan administration has not shown such resolve and has given in to U.S. steel industry demands for countervailing duties (a euphemism for tariffs). It is quite clear that welfare-state policies on both sides of the Atlantic are causing the present conflict over subsidies to the steel industry.

It would also be wrong to think that welfare state subsidization policies cause conflict exclusively between the U.S. and Europe; they also cause difficulties between the Europeans. The widespread nationalizations and subsidies given by the Mitterrand government to French industry, for instance, can be expected to become a divisive element in the Common Market.

Count Lambsdorff, the West German economics minister, already has made it clear that West Germany cannot be expected to sit by and watch its key industries systematically undercut by French subsidies. Undoubtedly, other countries in the European Community feel the same way. Only a French franc that is deliberately overvalued within the European monetary system has so far kept a subsidy war from breaking out inside Europe.

The Russians must be gloating to themselves: With the welfare state to destroy the Western alliance and send them subsidized grain, butter, pipelines and the like without any serious pressure to reduce their foreign adventures or military buildup, who needs spies and agents provocateurs? They've got a point.

Mr. Krauss is a senior fellow at the Hoover Institution, Stanford University, and professor of economics (on leave) at New York University.

Small American Towns: 'We Are an Oasis Here.'

By Edmund Fuller

The small town as a social entity, an image, an ambiance, has inspired polarized emotions and dogmatic opinions ranging from the venom of Sinclair Lewis in "Main Street" through the ambivalences of Sherwood Anderson's "Winesburg, Ohio" to the nostalgic idealization of Thornton Wilder's "Our Town." It has been seen as the cradle and nurturer of all that is best in America's vision of itself or

The Bookshelf

"The American Small Town: 20th Century Place Images"
By John A. Jakle
"Special Places: In Search of Small Town America"
By Berton Roueche

as the conformist blight upon individuality and creativity. We have expressions such as, "How will it play in Peoria?" or "Not for the little old lady in Dubuque"—neither city being a small town except in the provincial eyes of an Eastern or Western megalopolis. The scorn in those phrases is directed more at region than at size. There

Wilder. He confines himself to the period from 1900 to about 1960, especially the earlier decades, showing the changes brought about by the automobile which, as Marshall McLuhan observed, was not a horseless carriage, as people first saw it, but a new environment.

The author draws extensively upon fiction for his portraits, both jaundiced and sentimental, of small towns—recollecting Arnold Toynbee's view that where the data are innumerable, fiction is the best medium for capturing a living sense of a culture. Some of America's best writers are quoted in a range of moods. Yet solid history and economics are also examined. "Towns were business propositions. Most were founded on business values which provided the stimulus for continued growth." There were towns that conceived "progress" as evolution into big cities, as well as villages and towns not desiring such growth or unadapted to it.

Attention is given to the complex transitions from passenger and freight railroad to automobile and truck, the passing of the trolley car and its interurban cousin, and the coming of the superhighway. The railroad dining car became the roadside diner, long clinging to the physical shape of its ancestor.

For the railroad to pass it by at a dis-

contribute to the development of peripheral malls.

Emphasis is put on "neighboring," including sidewalk and front-porch chats. "The most trusted social relationships were those born of casual encounters frequently repeated." He sees towns as tolerant and protective of eccentricity, though writers from Anderson to Edgar Lee Masters see the opposite. Television to some extent has globalized the world view of the small town while also exposing it to stereotyped images of itself emanating from show-biz folk in New York and Los Angeles. Mr. Jakle's book is a generally balanced, instructive, intensely interesting piece of Americana.

A natural companion to it is "Special Places: In Search of Small Town America," by Berton Roueche (Little, Brown, 219 pages, $12.95). Mr. Roueche, a skillful reporter for the New Yorker, where the book's seven chapters first appeared, is known especially for his articles on mysteries in medicine. In the same lively, perceptive vein he examines seven towns in as many states: West Virginia, Texas, Nebraska, Missouri, Indiana, Iowa and Arkansas. The author is entertaining and informative though he occasionally overdoes the cataloguing of, for example, the businesses along a Main Street, though that is

E-W
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MEMORANDUM 4367

NATIONAL SECURITY COUNCIL

July 20, 1982

MEMORANDUM FOR MICHAEL O. WHEELER

FROM: NORMAN A. BAILEY NB

SUBJECT: Letter from President of Caterpillar Tractor re Sale of Pipelayers to USSR

Lee L. Morgan, President of Caterpillar Tractor Company, has written a letter to the President regarding the sale of pipelayers to USSR (Tab B).

State has prepared a response to his letter (Tab A).

RECOMMENDATION

That you sign the memorandum at Tab I to Sally Kelley concurring with State's proposed response.

Approve ________ Disapprove ________

Attachments

Tab I Memo to Kelley
A Proposed Response to Morgan
B Ltr fr Morgan, June 15, 82

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MEMORANDUM 4367

NATIONAL SECURITY COUNCIL

July 20, 1982

MEMORANDUM FOR SALLY KELLEY

FROM: MICHAEL O. WHEELER

SUBJECT: Letter from President of Caterpillar Tractor re Sale of Pipelayers to USSR

We concur with the State draft of a response to Lee Morgan's letter (Tab B). The response should be signed by Judge Clark or Mr. McFarlane (Tab A).

Attachments

Tab A Proposed Response
Tab B Ltr fr Morgan, June 15, 82

Dear Mr. Morgan:

Thank you for your letter of June 15 concerning controls on U.S. oil and gas equipment and technology for the Soviet Union. It was very valuable to have your thoughts on this important question, even though after weighing all the relevant factors, the President decided it was necessary to extend and expand our controls rather than drop them, as you had suggested.

In imposing sanctions against the Soviet Union last December for its role in the imposition of martial law in Poland, we sought to take actions which would impose significant costs on the Soviet economy. Since these sanctions were imposed, the President announced on several occasions that the U.S. would take additional measures if the situation in Poland did not improve.

There has been no progress by the military regime in Warsaw toward easing its repression of the Polish people. The measures announced June 18 to extend and expand the sanctions were, therefore, a fulfillment of the President's repeated promise to take further action against the Soviets. The President's decision, we feel, will advance our objective of reconciliation.

Mr. Lee L. Morgan,
Chairman and Chief Executive Officer,
Caterpillar Tractor Company,
Peoria, Illinois.

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I very much regret the burden that our actions have imposed on Caterpillar and other U.S. firms affected by our actions. We realize that at least $800 million in potential business with the U.S.S.R. has been lost as a result of the imposition of last December's sanctions. Nevertheless, it is our considered judgment that the costs of inaction in the face of Soviet behavior would be considerably greater than the losses which have resulted from our sanctions. We are involved in discussions with the Allies in an effort to prevent the undercutting of our sanctions and we have received a promise of cooperation with respect to new sales of pipelayers. We also anticipate that the extension of sanctions to cover U.S. foreign subsidiaries and licensees using U.S. technology will inhibit the ability of foreign producers to substitute for American export sales.

I wish to thank you very much for Caterpillar's continued cooperation on this issue.

Sincerely yours,

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CATERPILLAR TRACTOR CO.

Chairman and Chief Executive Officer

Peoria, Illinois 61629

June 15, 1982

Wayne Valis

The President
The White House
Washington, D.C. 20500

084108

Dear Mr. President:

It has been nearly six months since I wrote to make you aware of the implications for Caterpillar of the economic sanctions against Poland and the Soviet Union. The purpose of my letter was not to disagree with the objective of sending a message to the Soviets regarding their behavior in Poland, but rather to express my doubts as to the effectiveness of unilateral restrictions on U.S. exports of internationally available goods. I feel those doubts have been confirmed by events and that the time has come to remove the economic sanctions as they relate to the types of equipment Caterpillar manufactures.

In late December, you signed an order imposing economic sanctions on Poland and the Soviet Union which included a ban on the sale of gas and oil related equipment to the USSR. This particular action was reportedly taken with two objectives:

- To show U.S. displeasure with Soviet responsibility for the repression in Poland by imposing significant economic costs (leading to modified behavior), and

- To delay construction of the Soviet gas pipeline to Western Europe.

We are not in a position to judge the overall effectiveness of the sanctions. We can, however, document that the ban on the sale of our equipment (primarily pipelayers) has not met the objectives -- and will not if continued. Depriving the Soviets of Caterpillar machines has not imposed significant economic costs or delayed construction of the gas pipeline to Western Europe.

We could better understand the need for sacrifice if it were clearly linked to offsetting gains for the United States as a whole. However, in the case of pipelayers, Japanese sales appear to have significantly offset any benefit gained by the withholding of our equipment. Komatsu — our leading competitor for pipelayer sales -- is carrying out a schedule involving shipment of 900 pipelayers starting in late 1981 and continuing into early 1983. While having little impact on Soviet policies, the sanctions have had a substantial impact on Caterpillar, our workers, and our suppliers.

It would appear that we now have little opportunity for participating in the sale of equipment for use in the construction of the Soviet pipeline to Western Europe. That business has been lost. There are, however, announced plans by the Soviets to construct a large number of pipelines over the next five years within the country. It is that potential sales opportunity and our ability to compete for it which is of current concern. The ban on the sale of Caterpillar pipelayers has failed to have any effect on the Soviets' pipeline construction activities. This would suggest an exemption from the sanctions now in effect.

The impact of the loss of present and potential business would be painful in any circumstance. But it is made doubly so by the economic slump faced by Caterpillar and the communities in which we're located. Today, we have over 17,000 employees on indefinite layoff in the United States, and thousands more are affected by periodic shutdowns. In addition, there is a ripple effect that hits our suppliers at an estimated rate of two jobs for each Caterpillar job.

In short, we now have a situation where the Soviet market is closed to us; the Japanese have the business; the unemployment lines in Peoria have grown longer; and it appears that the Soviet gas pipeline to Western Europe will be built anyway.

CATERPILLAR TRACTOR CO.

Last year, Mr. President, you objected to the grain embargo against the USSR, noting that it is unfair to allow one sector of our economy to bear the burden of such a policy decision. Let's review that point. The Commerce Department recently reported that the sanctions applied against the USSR in December have resulted in suspension of some 224 export licenses valued at $130 million. This means that Caterpillar, its employees, and its suppliers, with a $90 million license denied, are absorbing over two-thirds of the impact of the sanctions on U.S. commercial interests. It is hard for me to imagine a less equitable share of the burden than this.

Moreover -- and of greater long-term importance -- we are not competing for Soviet business in <u>any</u> of our U.S. product lines. The Soviets started to question our reliability as a supplier in mid-1978 when President Carter established the initial sanctions affecting our product. With the continuation and broadening of sanctions, the Soviets are no longer turning to us for any of their heavy equipment needs (and those needs will be substantial).

We are anxious to reestablish our ability to compete for sales to the Soviet Union where, prior to 1978, we were the leading supplier of heavy equipment.

Mr. President, I believe it is time to lift the ban on the sale of Caterpillar pipelayers and other construction equipment for use on Soviet petroleum and natural gas projects. All Caterpillar products are non-strategic goods, which should be exportable to the Soviet Union under general license. I am writing, now, specifically to request that you direct such treatment of our equipment.

Sincerely,

Lee Morgan

Lee L. Morgan
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MEMORANDUM

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NATIONAL SECURITY COUNCIL

INFORMATION

July 22, 1982

MEMORANDUM FOR WILLIAM P. CLARK

FROM: NORMAN A. BAILEY NB

SUBJECT: European Attitudes Towards East-West Trade

Mike Deaver has sent you the attached memorandum from Wick (Tab I) indicating less European support for East-West trade than is generally assumed.

cc: Lord
Pipes
Robinson
Rentschler

International Communication Agency
United States of America
Washington, D.C. 20547

Office of the Director

USICA

JUL 2 1982

3A

MEMORANDUM FOR: The Honorable
Michael K. Deaver
Deputy Chief of Staff and
Assistant to the President
The White House

FROM: Charles Z. Wick
Director

SUBJECT: [redacted]

MKD
cope
Interesting

I would like to recall to your attention findings on the Yamal natural gas pipeline from our recent surveys in Western Europe. On the eve of the Versailles Summit, USICA opinion polls found that:

- o Most French (57%), Germans (50%), and Italians (64%) favored building the gas pipeline with the USSR.
- o But nearly one-half (Germany) to two-thirds (Italy and France) changed their minds and opposed the pipeline if they thought that Soviet hard-currency earnings would be used to beef-up Soviet military strength.

Europeans were of several minds on whether buying energy supplies would: make them more vulnerable; moderate Soviet actions; or have no effect. The most popular response was "vulnerable" (32%-37%) -- an increase of 12-14 percent over last year (except in Italy).

On trade generally, Europeans did not see their economies dependent on Soviet trade and, at the same time, their prevailing view was that trade should continue regardless of Soviet actions in Poland and elsewhere.

While having little desire for trade sanctions or halting detente, they agreed with key U.S. positions:

- o The prevailing view (except in Italy) was to restrict "high technology" sales to the USSR. The Italians were split, but a year ago the prevailing view opposed restrictions (as was also true in France).
- o Though desiring trade, they did not want to subsidize the Soviet economy. Most (60% in Italy to 84% in Britain) opposed granting special trade concessions to Moscow -- such as low interest loans and credit.
- o And, Europeans preferred coordinating their Soviet trade policy with the U.S. -- even if it means less trade -- rather than making their own "best deals."

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I

E-W T.

97TH CONGRESS
2D SESSION

H. R. 6838

To amend the Export Administration Act of 1979 to terminate certain export controls imposed on December 30, 1981, and June 22, 1982.

IN THE HOUSE OF REPRESENTATIVES

JULY 22, 1982

Mr. FINDLEY (for himself and Mr. BONKER) introduced the following bill; which was referred to the Committee on Foreign Affairs

---

A BILL

To amend the Export Administration Act of 1979 to terminate certain export controls imposed on December 30, 1981, and June 22, 1982.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 6 of the Export Administration Act of 1979 (50 U.S.C. App. 2405) is amended by adding at the end thereof the following new subsection:

"(l) TERMINATION OF CERTAIN CONTROLS.—Those export controls imposed under this section on December 30, 1981, and June 22, 1982, on goods or technology shall not

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86766	REPORT RE SOVIETS DEBATE EAST-WEST TRADE	1	ND	B1

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JW
to Bailey
RWR - worth reading
38
RUSH!
The Heritage Foundation Executive Memorandum
513 C Street N.E. Washington, D.C. 20002 (202) 546-4400
7/27/82 Number 2
SWT.

RESISTING PIPELINE PRESSURES

President Reagan's ban on sales of U.S. technology for the Soviet gas pipeline was the right decision, at the right time, in the right way. Had it been taken by a President several years earlier, it would have been much better. But even late, it had to be done.

The pipeline poses a clear strategic threat to the NATO alliance, has been moving forward while the Kremlin is crushing Poland, and symptomizes Western Europe's disturbing emerging attitude of appeasement. By standing firm on principle, Reagan demonstrates the sort of moral leadership expected of America. Yet short-sighted European leaders are mounting pressure on the administration to reverse its pipeline decision. Pipeline advocates, regrettably, see the issue as a simple business deal, ignoring economic, strategic, and political implications.

Among the most important of these considerations is the enormous transfer of wealth from the West to Moscow. European governments are granting subsidized loans--at interest rates as low as 7.8 percent (about half the market rate)--to pay nearly the full cost of the line. The contracts determining the price Europe eventually will pay for the Soviet gas could be far above the world market price.

The cascade of hard currency from gas sales will allow Moscow to divert substantial amounts of its GNP to military spending. This NATO will have to match, meaning increased defense outlays for the U.S. and its allies.

Pipeline boosters argue that the European sale of technology to Moscow is no different than U.S. grain sales to the Soviets. This is simplistic nonsense. While a grain embargo on the U.S.S.R., in fact, is desirable, grain sales are a one-way transaction. The U.S. sells Moscow grain and for it receives hard currency. The pipeline is quite a different matter. For one thing, though Europe will sell some technology to Moscow, it will buy far more from Moscow in gas; it is even loaning the Kremlin the money to buy the technology. With grain sales, hard currency flows from the U.S.S.R. With the pipeline, it flows to the U.S.S.R.

For another thing--and more critical--with grain sales, the U.S. is furnishing a commodity which is immediately consumed and whose future deliveries can be halted at short notice. Grain gives the West leverage over Moscow. With the pipeline, however, the Kremlin

AD

E-WT.

NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

July 28, 1982

Judge Clark:

Calls on the grain issue were received this morning from Republican Congressmen Pat Roberts (KS), Clint Roberts (SD), and Cooper Evans (IA). Same message as before on the need for increased minimum tonnage under a one-year extension, but the message was delivered with a sharper edge:

Specifically, in the wake of a session yesterday with Secretary Weinberger, this group of Congressmen and their Republican colleagues on the Agriculture Committee are threatening to withdraw their support on some major Defense budget initiatives, e.g., M-X. Since the House is almost done with its Defense authorization bill, this is a somewhat hollow threat, but House action on the Defense appropriation bill is still to come. Our margin of support in the House on Defense issues is razor thin, so we should be concerned about Republican defections.

One last point: Pat Roberts said a one-year extension would be much more palatable if it were accompanied by a statement guaranteeing delivery of grain up to 6-9 months after contracts had been concluded. Apparently, Secretary Weinberger thought this idea had merit.

Bob Kimmitt
Robert M. Kimmitt

cc: Norman Bailey
Roger Robinson
Henry Nau
Dick Pipes

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86767	MEMO FROM MAYER RE TRIP TO EUROPE	3	7/29/1982	B1

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

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THE WHITE HOUSE

Office of the Press Secretary

Embargoed for wire transmission
and release at 10:15 am EDT

July 30, 1982

E-W T.

U.S.-USSR Grain Agreement

FACT SHEET

Background:

The U.S.-Soviet Long-Term Grain Agreement (LTA), which originally covered the 1976-81 period, was extended last August for a sixth year, through September 30, 1982. The President has now decided to explore the possibility with the Soviets of a simple extension of the agreement for a seventh year, with no changes in its substantive provisions. Article I of the agreement commits the Soviets to purchase at least six million tons of U.S. grain annually (three million tons each of wheat and corn), and allows them to purchase an additional two million tons without prior consultations with the U.S. Government. Article II guarantees these eight million tons against U.S. discretionary controls. Other provisions provide for semi-annual consultations, spacing of purchases, and an "escape clause" in the event of very short supplies in the U.S. Grain sales to the Soviets under the LTA are made by the private trade at prevailing market prices.

Except during the period of the partial grain embargo, which was in effect from January 1980 to April 1981 and applied only to amounts above eight million tons, the U.S. has always offered the Soviets access to additional amounts of U.S. grain. For instance, for this agreement year, the Soviets have been authorized to purchase up to 23 million tons of U.S. grain, of which they have bought about 14 million tons. The U.S. now supplies about 30% of Soviet grain imports (compared to about 70% before the embargo). Other key suppliers are Argentina, Canada, Australia and the European community. Canada and Argentina also have long-term grain agreements with the USSR.

In December 1981, the United States postponed the negotiation of a new long-term grain agreement with the Soviet Union. It did not suspend the existing agreement, nor did it embargo grain to the Soviet Union. The decision today extends the existing agreement as is on a short-term basis for one year.

The President further authorized his negotiators to explore in the consultations with the Soviets, normally conducted under the agreement, the possibility of additional grain sales to the Soviet Union.

History of U.S. - USSR Grain Agreement:

An unfavorable climate, poor soil, backward technology, and an extremely inefficient agricultural system make periodic crop failures in the Soviet Union a virtual certainty. As a result, the Soviets have, during the last twenty years, imported increasing amounts of grain to accommodate their domestic needs.

The U.S. first sold grain to the Soviet Union in 1963, when a poor crop compelled the Soviets to import 10.4 million metric tons (mmt) of grain, including 1.8 mmt from the U.S. and 8 mmt from Canada. The Soviets bought no more U.S. grain during the 1960s.

Conditions in the early 1970s rekindled Soviet interest in American grain. The Soviets committed themselves to upgrading their diet, and the U.S. had ample supplies of grain to export.

MORE

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	Total USSR Grain Imports (mmt)	U.S. Grain Exports to USSR (mmt)	U.S. share of Total USSR Grain Imports (%)
FY 1973	22.5	14.1	63
FY 1974	5.7	4.5	79
FY 1975	7.7	3.2	42
FY 1976	25.6	14.9	58
FY 1977	8.4	6.1	73
FY 1978	22.5	14.6	65
FY 1979	19.6	15.3	78
FY 1980	27.0	8.3	31
FY 1981	38.8	9.5	24
FY 1982 (projected)	45.0	17.8	40
FY 1983 (Estimated)	40.0-50.0		

The Soviet Grain Embargo of 1980:

On January 4, 1980, in response to the Soviet military invasion of Afghanistan, President Carter cancelled contracts for the sale of grain beyond the 8 mmt assured against embargo by the agreement. The cancelled contracts included the sale of 13.5 mmt of U.S. corn and wheat to the Soviet Union. The U.S. also denied the Soviets access to an additional 3.5 mmt of grain which had been offered to but not yet purchased by the Soviets. Finally, shipments of soybeans, broilers, and some other agricultural products were halted.

The Soviets were able to minimize the effects of the embargo by drawing down their grain stocks and by increasing grain, soybean, rice, flour, and meat imports from non-U.S. origins, primarily Argentina, Canada, Australia, and the European Economic Community (EEC).

The Soviets have since entered into new long-term purchasing agreements with Argentina, Brazil, Canada, Hungary and Thailand in an attempt to diversify their sources of supply and reduce the threat of future embargoes.

In April 1981, President Reagan lifted the Soviet grain embargo. This was followed by an agreement in August to extend the expiring U.S.-USSR grain accord for an additional year, through September 30, 1982. In October 1981, the U.S. offered the Soviets an additional 15 mmt of grain, raising to 23 mmt the amount of U.S. grain available to the Soviets during fiscal year 1982. To date, the Soviets have purchased a total of 13.9 mmt of U.S. wheat and corn.

U.S. Sanctions Against the Soviets in Aftermath of the Polish Declaration of Martial Law:

Discussions concerning negotiation of a new U.S.-USSR long-term grain agreement were under way within the Administration when the Polish government declared a state of martial law in December 1981. In response to that situation, the President announced a number of sanctions against the Soviets, including postponement of negotiations on a new grain agreement. He did not suspend the existing one-year agreement nor embargo the sale of any grain.

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