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WITHDRAWAL SHEET
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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
1. NSC profile	#8190115 <i>CLS 2/14/01</i>	7/9/81	P-1 <i>PS</i>
2. minutes	NSC meeting [8190115] (13 pp) <i>R 10/31/05 M1278 #1</i>	7/9/81	P-1 P-5 <i>CLS 2/14/01</i>
3. NSC profile	#8105001	8/27/81	P-1
4. memo	A. Lenz to "Bud" Nance, re NSC meeting [8105001] <i>R 10/31/05 M1278 #2</i>	9/18/81	P-1 P-5 <i>PS</i>
5. note	Dick Allen to the President, re options [8105001]	9/8/81	P-5
6. memo	A. Lenz to Bud Nance, re NSC meeting [8105001] <i>R 10/31/05 M1278 #3</i>	9/18/81	P-1 P-5 <i>PS</i>
7. memo	R.V. Allen to the President, NSC meeting [8105001] (2 pp) <i>R 10/31/05 M1278 #4</i>	9/18/81	P-1 P-5 <i>PS</i>
8. paper	re options [8105001] (2 pp) <i>R 10/31/05 M1278 #5</i>	n.d.	P-1 P-5 <i>PS</i>
9. memo	A. Haig to the President, re options [8105001] (2 pp) <i>R 10/31/05 M1278 #6</i>	9/2/81	P-1 P-5 <i>PS</i>
10. memo	A. Lenz to R.V. Allen, re oil/gas controls option paper	9/8/81	P-5
11. memo	A. Lenz to R.V. Allen, re options memo [8105001] (2 pp) <i>R 10/31/05 M1278 #7</i>	9/1/81	P-1 P-5 <i>PS</i>
12. memo	C. Weinberger to the President, re technology [8105001] (2 pp) <i>R 10/31/05 M1278 #8</i>	9/8/81	P-1 P-5 <i>PS</i>
13. memo	F. Carlucci to the President, re technology [8105001] <i>R 10/31/05 M1278 #9</i>	8/28/81	P-1 P-5 <i>PS</i>
14. summary	NSC, re technology [8105001] (3 pp) <i>R 10/31/05 M1278 #10</i>	n.d.	P-1 P-5 <i>PS</i>
15. paper	policy options re technology [8105001] <i>R 10/31/05 M1278 #11</i>	n.d.	P-1
16. statement	of pros and cons, re options [8105001] (3 pp) <i>R 10/31/05 M1278 #12</i>	n.d.	P-1
17. memo	L. Brady to A. Lenz, re Commerce position [8105001] <i>R 10/31/05 M1278 #13</i>	8/28/81	P-1 P-5 <i>PS</i>
COLLECTION: EXEC. SECRETARIAT, NSC (NSC Mtg. Files)			DSD
FILE LOCATION: NSC00017 09 Jul 81 (2/3) Box 91282			4/7/94

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

- P-1 National security classified information [(a)(1) of the PRA].
- P-2 Relating to appointment to Federal office [(a)(2) of the PRA].
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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
18. memo	T. Leddy to A. Lenz, re Treasury position [8105001] <i>R 10/13/06 M03-1278 #14</i>	8/27/81	P-1 P-5 <i>PS</i>
19. memo	draft for the President (with handwritten notes), re decision [8105001] (3 pp) <i>R 10/3/05 M1278 #15</i>	n.d.	P-1 P-5 <i>PS</i>
20. transmission	WASHFAX, re decision [8105001]	8/27/81	P-1 P-5 <i>PS</i>
21. memo	draft for the President, re decision [8105001] <i>R 11/3/05 M1278 #17</i>	n.d.	P-1 P-5 <i>PS</i>
22. memo	A. Haig et al. to the President, re proposal [8105001] (2 pp) <i>R 11/3/05 M1278 #18</i>	7/18/81	P-1 P-5 <i>PS</i>
23. memo	draft for the President, re decision [8105001] (3 pp) <i>R 11/3/05 M1278 #19</i>	n.d.	P-1 P-5 <i>PS</i>
24. statement	of options, re technology [8105001] (2 pp) <i>R 11/3/05 M1278 #20</i>	n.d.	P-1 P-5 <i>PS</i>
25. summary	NSC, re technology [8105001] (3 pp) <i>R 11/3/05 M1278 #21</i>	n.d.	P-1 P-5 <i>PS</i>
26. paper	policy options, re technology [8105001] <i>R 11/3/05 M1278 #22</i>	n.d.	P-1
27. paper	re options [8105001] (4 pp) <i>R 11/3/05 M1278 #23</i>	n.d.	P-1
28. transmittal	WASHFAX [8105001]	8/28/81	P-1
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PENDING REVIEW IN ACCORDANCE WITH E.O. 13233

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Collection: Executive Secretariat, NSC: Meeting Files
 OA/Box: 91282
 File Folder: NSC 00017 7/9/81 (2)

Archivist: cas
 FOIA ID: M1278
 Date: 3/20/07

DOCUMENT NO. & TYPE	SUBJECT/TITLE	DATE	RESTRICTION
2. minutes	of NSC meeting (13 pp.) (#1)	MVH 3/13/08	7/9/81
4. memo	Allen Lenz to Bud Nance re NSC meeting (1 p.) (#2)	MVH 3/13/08	9/18/81
6. memo	Same as item #4 (1 pp.) (#3)	MVH 3/13/08	9/18/81
7. memo	Allen to the President re decision (2 pp.) (#4)	MVH 3/13/08	9/8/81
8. paper	Re options (2 pp.) (#5)	MVH 3/13/08	Nd
9. Memo	Haig to the President re options (2 pp.) (#6)	MVH 3/13/08	9/2/81
11. memo	Lenz to Allen re options (2 pp.) (#7)	MVH 3/13/08	9/1/81
12. memo	Sec. Weinberger to the President re technology (2 pp.) (#8)	MVH 3/13/08	9/8/81
13. memo	Frank Carlucci to the President re technology (1 p.) (#9)	MVH 3/13/08	8/28/81
14. summary paper	Re technology (3 pp.) (#10)	MVH 3/13/08	Nd
17. memo	Lawrence Brady to Lenz re Commerce position (1 p.) (#13)	MVH 3/13/08	8/28/81
19. draft memo	For the President re decision (3 pp.) (#15)	MVH 3/13/08	Nd
21. draft memo	For the President re decision (1 p.) (#17)	MVH 3/13/08	Nd
22. memo	Haig et al to the President re USSR (2pp) (#18)	MVH 3/13/08	7/18/81
23. MEMO	to the President re controls (3 p.) (#19)	MVH 3/13/08	Nd
24. statement	Re options (2 pp.) (#20)	MVH 3/13/08	Nd
25. summary	Re technology (3 pp.) (#21)	MVH 3/13/08	Nd

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NATIONAL SECURITY COUNCIL MEETING

Date, Time Thursday, July 9, 1981; 3:30 - 4:30 p.m.;
and Place: The Cabinet Room

Subject: East-West Trade Controls

Participants:

The President
The Vice President

State:

Secretary Alexander M. Haig, Jr.
Dep Sec William P. Clark
Mr. Robert D. Hormats

OSD:

Secretary Caspar W. Weinberger
Dep Sec Frank C. Carlucci

Treasury:

Secretary Donald T. Regan

Commerce:

Secretary Malcolm H. Baldrige
Mr. Lawrence J. Brady

Energy:

Dep Sec W. Kenneth Davis

OMB:

Mr. Edward Harper

CIA:

Mr. William J. Casey

USTR:

Ambassador William E. Brock

USUN:

Ambassador Jeane Kirkpatrick

JCS:

General David C. Jones
Lt Gen John S. Pustay

White House:

Mr. Edwin Meese III
Mr. James A. Baker III
Mr. Richard V. Allen
Admiral James W. Nance
Ms. Janet Colson
Mr. Frank Hodsoll

NSC:

Dr. Allen J. Lenz, Notetaker
Dr. Henry Nau

OPD:

Mr. Martin Anderson

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Review July 9, 1987

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The discussion began at 3:40 p.m.

The President: Before we get down to the serious business of the day -- Happy birthday to General Jones.

An exchange of pleasantries followed.

Mr. Allen: Mr. President, we have a full agenda today. If you will permit me, I would like to state the objective of today's meeting and then a suggested method of procedure.

We have two topics to cover. We will continue our discussion of East-West controls. We would also like to devote some attention to the Caribbean Basin Policy. Secretary Haig and Ambassador Brock will be going to Nassau this weekend for a Foreign Minister's meeting.

With regard to the East-West portion of our discussion, we have only a short period to make decisions required to be presented to our Allies at the Ottawa Summit meeting. We need, at that meeting, to seek their support for important initiatives that will have a profound effect on both near- and longer-term military, political and economic facets of our East-West relations.

Our objective today is to complete the NSC discussion of the East-West trade topics, though the President may choose not to make his final decisions for a few more days.

There is a great deal of complex material to be covered and each agency should have an opportunity to advance its key arguments. Therefore, I propose to proceed as follows:

There appear to be substantial areas of agreement on the Allied Security Controls topic. While there is not unanimity on the precise course to be followed, I believe the positions of individual departments are quite well defined. Perhaps some adjustments could be made to narrow if we spent more time. However, I believe it would be better to spend the major portion of time on those key issues where wider divergencies exist; that is, on the Oil/Gas and Siberian Pipeline issues. Additionally, we have three new papers to consider on these issues.

Therefore, Mr. President, unless you wish to propose some questions on the Allied Security Controls, I suggest we move on to the Oil/Gas and Siberian Pipeline problems.

The President: I suggest Mac, Al and Cap get together to work out something. Leaning a little toward Option III would be fine with me.

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Mr. Allen: Mr. President, I suggest the following procedure for the remaining items. Based on an NSC memo request to Secretaries Haig and Weinberger, they have made two additional submissions, answering certain questions. These two additional submissions have been provided to all the participants here. Additionally, today I sent them two further questions based on their submissions. If you will forgive the somewhat rigid nature of this procedure, I will now pose to them the two questions they were provided earlier and they could then answer these questions.

Following that we could then go around the table for additional comments and questions. Secretaries Haig and Weinberger could collect the questions for a response in one fell swoop.

Is that satisfactory to you gentlemen?

Secretary Haig: Yes.

Secretary Weinberger: Yes.

Mr. Allen: Mr. President?

The President: O.K.

Mr. Allen: Secretary Haig, your July 8 paper proposes a "very tough Option III" under which we would "press" our Allies to take several specific measures to minimize their dependency on Soviet gas. If we do not ourselves deny licenses on exports related to the project, and if we do not enlist the aid of the Japanese and British in restricting exports critical to the project, what is it that is "tough" about our policy? Also, what kind of pressure would we put on our Allies to get them to give anything more than lip service to the program of minimizing dependence you have outlined?

Secretary Haig: We should be clear on the two questions. You have singled out the pipeline. The other issue is Oil/Gas Controls. On that issue we don't believe we could get Allied cooperation on controls on technology and equipment. We want to control the technology, but don't believe we can do the equipment as well.

Related to the original question, "Where are we on the pipeline?" Gentlemen, we have been talking about "jawboning" -- that's what it is. And we have been doing it. We have talked with Genscher. We have talked with Schmidt. They want the pipeline! It is important to them! If we ask them to stop, we are asking them to sacrifice from a goal of diversifying their energy supply and on trade at the same time. We lifted the controls on three-fourths of our own trade with the Soviets when we lifted the grain embargo. It would be inconsistent to put pressure on them when we are loosening our own controls.

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We have been trying to get them to stop the pipeline, but cannot get them to do it. Schmidt has committed himself publicly to this transaction. Public arm-twisting by us would be counter-productive. However, I believe intelligent handling can convince them to decrease their vulnerability and to increase their protective measures.

Now, as far as a "tough Option III is concerned, "tough" may be a misnomer. We need to be tough vis-a-vis the Soviets. We need to be tough on our budgeteers; we need to be tough on our Allies. We need to be tough on getting a program to put in place on energy security. We need to press our Allies to cut in half the size of the pipeline deliveries. We need to assist them to diversify -- to limit their imports of Soviet gas.

In recent weeks the increase in interest rates, the decrease in the projected demand for gas, etc., has been causing consumption problems and a glut in oil.

We should be prepared to give our Allies an alternative package that would involve, perhaps, Alaskan oil. We should deregulate natural gas, make provisions to deepen our harbors to expand coal shipments. This may require some Federal financing. We should reinforce and increase energy sharing arrangements. We must do this whether or not the pipeline is built. We had to help the Dutch in the last oil crisis.

I think, Mr. President, you should mobilize at the Summit a high-level monitoring group.

(The following question was posed in writing to Secretary Haig before the meeting. He answered without the question being reposed.)

Mr. Allen's question submitted earlier in writing follows:

Would it be inconsistent with your scenario to press very strongly at Ottawa, especially on the Germans and French, perhaps privately, for their agreement to delay further negotiations on the pipeline for, say six months, pending a thorough inter-Allied review of the project and alternatives to it?

Secretary Haig: With regard to the second question, "Would we ask them to delay six months?" We shouldn't do this. If we start the work to demonstrate there are other alternatives, they don't want to spend their money there (on the pipeline). But the pipeline is a public problem for Schmidt. He is publicly committed to it. They will tread water anyway, without our requiring them to do so.

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Mr. President, you will find at Ottawa that our European Allies are in a blue funk about their economic situation. They blame us in part for their problems, because of our approach to our own economic problems -- because of our interest rates. A rigid approach to this problem of the pipeline will bring a repeat of the disastrous Carter Administration confrontation with the Germans over the sale of German nuclear technology to Brazil -- with a far more significant effect on our ability to deal on East-West matters!

Mr. Allen: You asked and answered the second question.

Secretary Weingerger, why couldn't your objectives be best served by imploring -- persuading our Allies to delay the pipeline, rather than stop it (Mr. Allen paraphrased the following question that had earlier been delivered to Secretary Weinberger:)

Your objective, as stated in your paper, is to stop the pipeline or, if that is not possible, to scale it down. Why wouldn't this objective be best served by requesting, at least as a first step, that our Allies, especially the Germans, agree to delay further negotiations for at least six months, until a full examination of all aspects of the project can be completed, rather than approaching them now with a statement that the project must be stopped, and with threats to block exports by the U.S. and other Allies of critical components?

Secretary Weinberger: We are unequivocally in favor of stopping the pipeline. Leadership does not add up the columns on the opinions of our Allies, then conclude you are defeated. You decide what is needed and you do it. The Europeans should be clear on that.

I suspect that the speculation re a shaky economic base for the pipeline is true. We should drive home that we are unalterably opposed to it.

Nobody here at this table wants it built. We can do all the things listed that have been talked about to provide alternatives to the Europeans. They are all good. We can do all the substitutes. But why do all that and build the pipeline too?

We have the objective of stopping it. That may be impossible, but we must try. If built, it will produce large hard currency earnings for the Soviet Union. It will increase European dependence on the Soviets. We worry, even now, about the course of the Germans.

Realistically, we have persuasive power. We must exercise it. Otherwise, to offer these alternatives is useless. If the pipeline is built, we have lost. We give the impression of a weak, undecided country. We must use all reasonable leadership and tactics and alternatives.

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If someone believes we can use delay as a means -- fine, but our objective should be to stop the pipeline. We need to be firm, resolute, in our objective to stop it. We must use all the proper tactics and strategy.

Mr. Allen: My second question is: "As you indicated, compressors that must come from either the U.S. or the UK are critical to the pipeline. However, these compressors offer potential sales of as much as \$300-\$600 million to Rolls Royce, a sick company in a sick British economy with a current unemployment rate of about ten percent. Faced with high levels of unemployment and with a German and French desire to go ahead with the pipeline, what incentive would there be for the British government to block the sale of these compressors? What pressures or incentives could we bring to bear to motivate the British to go along with our desire to block the pipeline? Wouldn't British cooperation be significantly easier to obtain if our stated objective was only to delay the pipeline, pending a review of alternatives and/or steps to minimize European dependency, as compared to a position where we propose to the Allies that the pipeline be permanently blocked?"

Secretary Weinberger: In the last three years, we have spent \$265.3 million with Rolls Royce. We have under current consideration purchase of the Harrier aircraft. There are many other co-production possibilities. It is very easy to give them other sales. Of course, we must not publicly bludgeon them, but motivating them can be done by giving them other contracts.

Mr. Allen: Mr. President, we also have a new submission from the CIA providing new information. Bill, would you like to summarize your paper?

Mr. Casey: Yes, Mr. President, I would like to make three points.

First, minimizing their dependence (on OPEC oil) would not be achieved by Soviet gas which would provide only three percent of West European energy. More important, this pipeline is the largest East-West deal ever. We have to take this matter very seriously. This is our greatest opportunity ever to force the Soviets to divert resources from military programs.

Second, the \$16 billion to be lent to the Soviets for this project should better be lent on this side of the curtain to develop Western sources. There are probably better and less expensive alternatives in the West than the pipeline.

Third, with regard to the tactics at Ottawa, at a minimum we should put it off until we explore other alternatives that will be permanent assets to the West.

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Mr. Allen: Mr. President, the CIA paper was delivered this morning. You may wish to look it over at your leisure. I commend it to you as I do the other papers received since the last meeting.

We can now move around the table for the comments and questions of others.

Secretary Baldrige: Mr. President, the essence of leadership is to take the strongest possible position. But we are weakened if we fail. We don't believe it is practical to stop compressors and pipelayers and the other equipment needed for the pipeline. There is a cable in today that reports a Japanese sale of 500 pipelayers to the Russians. Caterpillar has been told by the Soviets that if they do not have a license by 30 July, Caterpillar loses the sale. There are 1,400 pipelayers in the USSR now. They can be moved to work on the pipeline. Other smaller equipment alternatives are available now from other than the U.S. and Japan. These other alternatives can be developed over time to build the pipeline.

The same is true of the compressors. There are two sources now, but others can make compressors in the reasonably near future. In the time needed to get the pipeline going -- three to four years -- many other alternatives can be developed.

Mr. Casey: What about the money?

Secretary Weinberger: If they can't get the money, they can't build it. We need to stop the entire European support, including the money.

Secretary Haig: I think Mac is talking about the technology.

Secretary Baldrige: My point, is that simple bilateral arrangements with two countries cannot stop the line. I would like to associate my position with that of State. I recommend a strong program to develop alternatives. We have said we want financing of dredging of harbors, etc., by the private sector. We want foreign capital to develop our resources.

Mr. Allen: Mr. Davis, please keep your comments to two minutes, or less.

Deputy Secretary Davis: We would like to see it stopped or scaled down. However, we defer to others for evaluations of the prospects of success of doing so.

In either event, we need to increase other alternative sources. However, the other alternatives are not necessarily direct substitutes for gas. Nuclear power development takes considerable time. Deregulation of U.S. gas would free supplies for Western Europe. But we need to get going on such programs.

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Ambassador Brock: In the last meeting I spoke about the economic aspects of this issue. Now I want to look at it as a politician. There are desperate economic problems in Europe. There is the effect of high U.S. interest rates, which has resulted in a revaluation of the dollar that has brought to Western Europe the equivalent of a "third oil shock." Western Europe has a \$13 billion trade deficit with us.

It is better to go with a request that they delay. I am intrigued with Bill Casey's suggestion of gas from coal. We have lots of coal here, but we can't guarantee it will be economic until we cost it out.

How we do it (persuade the Allies to stop/delay) is important. I support, essentially, State's position.

Mr. Harper: I think the points that Mr. Stockman wanted me to make are that by discouraging the pipeline today and subsidizing other sources, we will wind up later with the Soviets having their energy, while we are depleting ours.

The key question is where are we going on a broad picture basis?

Secretary Regan: I would support delay of the pipeline.

Secretary Haig: Code words cause problems. We could not (in the State Department) be able to support going to Schmidt with a request for him to delay. We seek delay, but the way we skin that cat is not to go to Europeans now with a request to stop a project three years along.

We cannot be seen as intervening in their economic fate. It's their money! It's their project! We must be very careful on how we intervene.

Mr. Allen: There is no intention to use code words. We are talking about our security.

Secretary Weinberger: Our interest rates won't decrease if the pipeline is built. Their deficit won't be decreased if it is built. We must make our position clear. Is the best way to stop the pipeline to go for a delay?

The alternative supply concept is useful, but not much good if the gas is already coming in.

General Jones: We want to stop the pipeline, but others are best qualified to decide how.

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Mr. Casey: Our approach should be that we want to show them another way -- a way to avoid building the pipeline.

The President: I don't understand.

Mr. Casey: I want to spend the \$16 billion some other way. We could add to the kitty -- do a better job.

Mr. Allen: Your argument is that we want the \$16 billion of investment on our side of the line -- not theirs.

Mr. Harper: There are budget implications in "adding to the pot."

Ambassador Kirkpatrick: The pipeline would tie Western Europe to the Soviet Union. It's already tied strongly. Three hundred thousand West German jobs are now dependent on East-West trade. If the Federal Republic becomes thirty percent dependent on Soviet gas, the number of jobs dependent on East-West trade will increase.

Will this make the Germans or us more secure?

We don't want to increase the tendency toward the Findlandization of Europe. We don't want to help the Soviets. We don't want to sell them the rope to hang us!

_____: The question is, if you stop or slow the pipeline, does it hurt the Soviet economy?

Secretary Haig: This is a fundamental Foreign Policy and Security Policy issue. We have just lifted the grain embargo. Three-fourths of U.S. trade with the Soviet Union has been decontrolled. We are about to negotiate a new grain agreement with them. We must be careful that we do not follow inconsistent policies.

I have just spent time with Thorn (EC). There are riots in Europe -- unemployment, disaffected youth; there are problems in the Federal Republic of Germany.

No one at this table should think we have not taken a hard position on the pipeline -- and I have done it personally! I have already told them no. They have gone ahead anyway.

Nobody here wants this pipeline. The question is how can we best manage this problem. It would be a tragedy even to demand a six-month delay. We must provide alternatives. We must suggest they don't need it. It is interesting that the Department of Defense and State papers use the same statistics. Yet, we come to different conclusions.

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Secretary Weinberger: There are significant differences. We have have not yet done anything unequivocal concerning a position against the pipeline, coupled with a positive alternative program. If they think we are going to plead with them, they will not go along.

The pipeline won't stop the unemployment or the riots. If we are uneuivocal, we may stop the pipeline. If we are not unequivocal, we will not have assumed a leadership role.

The President: Is the idea the Europeans are going to do the financing? If they do not, the Soviets will do it themselves for their own use?

Mr. Casey: There are two separate projects. This one is for exports. If there is no prospect of exports, they won't build it.

The President: I'm glad no one has said "have a happy weekend!"

Mr. Allen: We would welcome added papers on this topic of three or four pages if you wish to submit them to summarize your arguments. Mr. President, we could devote some portion of Monday's meeting to this subject, if needed.

Secretary Regan: I don't buy the argument that Western Europe is in such tough economic shape. Much of what they are saying is posturing. The French Socialists are finding the money to nationalize their industries.

Secretary Haig: I hope my comments did not indicate that I thought they were in such desperate economic condition.

Secretary Weinberger: Building the pipeline won't stop their economic problems.

The President: Could the same individuals get together (as on the Allied Security Controls issue) on this issue and without bloodshed work out a solution?

Secretary Haig: Mr. President, that would be O.K., but DOD has all the armaments. (Laughter).

The arguments are the same.

I suggest we handle the problem as we (State) have recommended.

If I thought to stop or delay was achievable, I would be leading the charge, but I do not think that it is.

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11

Mr. Meese: As I see it, there are three basic questions:

1. Should we oppose unequivocally?
2. Should we develop alternatives?
3. Does the President say anything at Ottawa?

Ambassador Brock: Isn't there a fourth?

What are we willing to pay in damages?

Secretary Weinberger: It's not a function of damages. The pipeline would cause us damage.

Mr. Meese: It's part of the question.

The President: Is this an oversimplification? Sixteen billion dollars to build the pipeline -- to buy something that will then come through the pipeline? Is there an alternative in the West?

Mr. Casey: Yes.

Mr. Allen: It would take some development. But what is the inconsistency of "why don't you look at what we have to offer before you go ahead?"

Secretary Weinberger: The ways of saying you oppose vary, but leadership is a firm, consistent position.

Mr. Allen: Mr. President, this clearly is a monumental issue. It is very important. Do we need one more attempt at a synthesis position? We can devote time on Monday if needed.

The President: It seems we are all saying the same thing.

Secretary Haig: Let's be frank. It will take us years to develop alternatives. The Europeans know that. We have been working seven years on alternatives. Nothing has happened! We need to go in with something. Not because we are subservient, but because they are our Allies and we need them!

The President: How long, if they go ahead, before completion of the pipeline?

Response: Three to four years.

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The President: Why is it impossible during that same three to four year period to supply them from other alternatives?

Secretary Weinberger: If we can say to them, you'd have to wait that long to get gas, why not wait that long for other alternatives? It involves resources for coal and nuclear development, etc.

The President: It involves harbor development, among other things. I remember those ships lined up at Norfolk.

Deputy Secretary Davis: In a three to four year period, there are small prospects of increase of supply to Western Europe by anything we can do. We are talking eight to ten years to accomplish anything.

The President: What about nuclear? We are the only ones that take eight to ten years to build a nuclear plant.

Deputy Secretary Davis: It takes about six years actual construction time to build a nuclear plant. And electricity is not a direct substitute for all uses of gas.

Mr. Allen: We have exhausted all our time with no discussion of the Caribbean Basin.

Secretary Haig: I don't see this (lack of NSC discussion on the Caribbean Basin) as a problem. Ambassador Brock and I are going down there this weekend to talk about our Caribbean Basin Policy.

The President: Portillo indicated to me they want to be a conduit for our Latin American Policy. He did seem to listen when I said we are talking about the whole area.

As they begin to see some of this in other places, I wonder if Castro won't begin to wonder if he shouldn't get back where he belongs (in the Western camp).

Ask him one thing. We'd have a lot better time if they would take back all those Cubans we have.

Mr. Allen: Mr. President, I'm sure you have been pleased not to read this past week about the Monday NSC meeting in the Washington Post or the New York Times.

The President: Yes. There are sometimes leaks -- perhaps in background briefings. I don't think by anyone in this room. Perhaps by persons not here, who know only a little. But if we can get through another week, perhaps it will become a habit. I want to see an end to the stories of our speaking with different voices. We only speak with different voices in this kind of briefing. If there

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13

is no other way to cure it -- other than blowing up the Post and the Star -- then, if I found out about them (the leakers), then they are going back to South Succotash, Wisconsin, in a hurry.

The meeting terminated at 4:40 p.m.

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NSC/S PROFILE

~~SECRET~~

ID 8105001

RECEIVED 27 AUG 81 18

TO AGENCIES

FROM LENZ

DOCDATE 26 AUG 81

BREMER

27 AUG 81

BREYN, S

27 AUG 81

KEYWORDS: USSR

EXPORT CONTROLS

COCOM

OIL

GAS

CM

SUBJECT: DRAFT OF OPTIONS PAPER ON OIL & GAS CONTROLS

ACTION: LENZ SGD MEMO TO AGENCIES

DUE: 05 SEP 81 STATUS C

FILES IFM O

FOR ACTION

FOR CONCURRENCE

FOR INFO

PIPES

WEISS

SCHWETTZER

MEMORANDUM

5001 add on

~~CONFIDENTIAL WITH NATIONAL SECURITY COUNCIL
SECRET ATTACHMENTS~~

September 18, 1981

MEMORANDUM FOR BUD WANCE

FROM: ALLEN LENZ *AL***NOTED**SUBJECT: Information for RVA Use in Meeting with the
President on September 21 on Oil/Gas Controls

Per your request, attached is a copy of the oil/gas options paper that was forwarded from your office to the President on September 10.

The memo to the President cites the urgent need for a decision on several grounds: impact on our Siberian Pipeline efforts; will be seen as an important indication of our Soviet policy; increasing backlog of export control cases pending a decision.

Additional arguments for prompt action include:

- o Secretary Haig will meet with Dobrynin on Wednesday, September 23, and Monday, September 28. Even if he does not address the oil/gas controls directly in his discussions with Dobrynin, it would be desirable for him to have the President's decision in planning his strategy and tactics. Indeed, lacking a decision through the NSC mechanism, it would seem to me Haig may try to get one directly from the President, citing the Gromyko meetings. I see it as particularly important to have a pre-meeting decision in view of the wide interagency differences on this topic and because there are some indications that Haig expects a less restrictive policy than the President may, in fact, choose.
- o State has decided to push for significant changes in the economics segments of the "East-West Relations" paper, which will open up the topic for extended NSC debate and possibly force the paper back into the SIG system, further delaying statement and implementation of an already long delayed and badly needed U.S.-Soviet policy, as well as further enhancing the public image of a disorganized NSC/foreign policy process. A Presidential decision on oil/gas controls will not necessarily eliminate a State reclama on the economics chapter, but it will certainly mute it if the decision is for Option I or II. In any event, work toward resolving the differences and another NSC meeting on the East-West Relations paper should be delayed until the oil/gas decision. The President's choice will represent a tangible implementation of the more abstract goals stated in the East-West Relations Policy Study.

N.C. 10/27/81
BY CJS *DATE 10/27/81*

~~CONFIDENTIAL WITH
Secret Attachments~~

THE WHITE HOUSE
WASHINGTON

September 8, 1981

MR. PRESIDENT

You will note that Secretary Haig indicates our NSC package presents five options for your consideration. In fact, only four options are spelled out at Tab A. The fifth, which would have liberalized existing controls, was supported by none of your advisors and was deleted as redundant.

Dick
Dick Allen

27 OCTOBER

5001 addon

This was returned to NSC/Mr.

Allen's office on yesterday,

10/26, by Mr. Darman's office.

THE WHITE HOUSE
WASHINGTON

9/1

Allen Lung

See RIA's notes.
Please let me know
the status of things.
Thanks
Jamb

THE WHITE HOUSE
WASHINGTON

September 8, 1981

MR. PRESIDENT:

If you wish further information
on this matter, we can provide
it promptly. The issues need
resolution now.

Dick

Dick Allen

OBE
Discussion in
NPE
and
has been
directed by
CIA.

This obvious paper never
actually went to the
President, did it?

This is overkill

somebody tell
Cay's people.

THE WHITE HOUSE
WASHINGTON

#5001
Allen

Allen Lenz:

This package was ready to go to
the President, as amended by RVA.

When the Haig memo arrived, however,
it clearly referred to an NSC
package presenting five options.
Our memo only refers to four options.
Hence, I think we need to amend our
memo or give the President an
explanation as to the difference.


Janet

9/08

NATIONAL SECURITY COUNCIL

September 18, 1981

MEMORANDUM FOR BUD NANCE

FROM:

ALLEN LENZ *AL*

SUBJECT:

Information for RVA Use in Meeting with the President on September 21 on Oil/Gas Controls

Per your request, attached is a copy of the oil/gas options paper that was forwarded from your office to the President on September 10.

The memo to the President cites the urgent need for a decision on several grounds: impact on our Siberian Pipeline efforts; will be seen as an important indication of our Soviet policy; increasing backlog of export control cases pending a decision.

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- o State has decided to push for significant changes in the economics segments of the "East-West Relations" paper, which will open up the topic for extended NSC debate and possibly force the paper back into the SIG system, further delaying statement and implementation of an already long delayed and badly needed U.S.-Soviet policy, as well as further enhancing the public image of a disorganized NSC/foreign policy process. A Presidential decision on oil/gas controls will not necessarily eliminate a State reclama on the economics chapter, but it will certainly mute it if the decision is for Option I or II. In any event, work toward resolving the differences and another NSC meeting on the East-West Relations paper should be delayed until the oil/gas decision. The President's choice will represent a tangible implementation of the more abstract goals stated in the East-West Relations Policy Study.

FILED
NLS M1278 #3
BY AS DATE 10/3/85

~~SECRET~~

MEMORANDUM

5001 addon

THE WHITE HOUSE

WASHINGTON

~~SECRET~~

September 8, 1981

ACTION

MEMORANDUM FOR THE RESIDENT

FROM: RICHARD V. ALLEN

SUBJECT: Decision on Controls on Exports of Oil and Gas Equipment and Technology to the USSR

DECLASSIFIED
NLS M1778 #4

TE 10/3/15

At the July 6 and 9 NSC meetings your advisors unanimously recommended that the U.S. should request the 15 Allied nation Coordinating Committee (COCOM) to agree to significantly ~~tighten controls on exports to the USSR~~. However, there was some disagreement on the degree of increase to be sought. You instructed Secretaries Haig, Weinberger and Baldrige to work out a compromise position. This has been done and reflected in a July 18 memo to you (Tab B). Work on implementing these decisions has begun.

You will recall, however, that ~~no agreement~~ was reached during the July meetings on export controls on oil and gas equipment and technology to the USSR that would go beyond the COCOM security controls which, even if the new proposals you have approved are accepted by the Allies, would have a relatively minor restrictive effect. Indeed, the discussions revealed generally ~~sharp differences~~ among your advisors.

All agencies support some control over the export of oil and gas equipment and technology to the Soviet Union. The degree of support varies, ranging from those who support comprehensive national security controls to those who support controls only for major Soviet projects and to those who wish to control only the export of sophisticated technology. It should be noted that we currently control sophisticated technology under an interim measure adopted by the Carter Administration. One option is to continue this policy.

A central factor in this debate is whether our Allies and friends will join us in supporting such an embargo that will cover more than sophisticated technology. There is no doubt it will be difficult to get their agreement. Thus, a decision to control oil and gas equipment and technology -- almost none of which is currently under COCOM security controls -- will require U.S. export restrictions that, at least initially, will be unilateral, with uncertain prospects of subsequent Allied cooperation. This does not mean that we should stop trying to persuade our Allies to implement tight controls.

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Additionally, the U.S. export losses that may result from increased restrictions on oil and gas equipment may be larger -- though perhaps less immediately visible -- than those that would have ensued from pipelayer license denials. On the other hand, it can be argued that enhanced controls on oil and gas equipment and technology are essential to give credibility to our efforts on the Siberian Pipeline.

Your decision on oil and gas controls will be seen domestically, as well as by our Allies and by the Soviets, as an important indicator of your overall policy and will also affect our efforts to block or delay the Siberian Pipeline. Further, ~~pending your policy decision, no export licenses are not being made by the relevant U.S. agencies and a substantial backlog of applications has accrued.~~ All these factors call for an ~~early decision.~~

It is most unlikely that further NSC discussion would narrow the division of opinion among the agencies. A recent Senior Inter-departmental Group concurred in this judgment. I recommend you make your decision on oil and gas equipment and technology controls based on the information available.

Aware of these recommendations that ~~a decision be taken promptly,~~ Secretary Haig, Secretary Weinberger and Deputy Secretary Carlucci have submitted final statements of their positions (Tab C).

An NSC Staff prepared summary of the issue is at Tab D.

The original interagency prepared policy options paper and statement of pros and cons used in the July NSC discussions is at Tab E.

RECOMMENDATION

That you indicate your decision on the statement of options at Tab A.

Approve _____

Disapprove _____

Attachments

Tab A	Statement of Options
Tab B	July 18, 1981, Memo from Haig-Weinberger-Baldrige-Brock
Tab C	Haig-Carlucci Recommendations
Tab D	NSC Staff Prepared Summary
Tab E	Options Paper and Statement of Pros and Cons

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STATEMENT OF OPTIONS

Controls on Export to the USSR of Oil
and Gas Equipment and Technology

Option I

The U.S. will actively impede Soviet oil and gas production and export projects. The U.S. will impose national security controls on, and deny exports licenses for, all oil and gas equipment and technology. We will use our available leverage to pressure our Allies and friends to adopt similarly restrictive measures.

Supported by: Weinberger (I or II); Casey (I or II);
Kirkpatrick; General Jones; NSC Staff (I or II)

Approve _____

Disapprove _____

Option II

The U.S. will attempt to impede Soviet oil and gas production and export projects. Recognizing that our Allies and friends may not follow suit without unacceptably high political costs, we will use less leverage than in Option I. We would consider, after consultations with our Allies, adopting a multilateral approach less restrictive than implied in Option I. Until this is worked out, the U.S. will deny export licenses for technology and equipment.

Supported by: Weinberger (I or II); Casey (I or II);
NSC Staff (I or II)

Approve _____

Disapprove _____

Option III

The U.S. is most concerned about major Soviet projects which contribute to Soviet production capability and our Allies' vulnerability to Soviet energy leverage (e.g., West Siberian Pipeline). The U.S. will make a major effort with other countries to restrict exports of equipment and technology for such projects. Until this is worked out, the U.S. will deny all technology and end-use equipment exports for major projects while approving end-use equipment exports not for major projects.

Supported by: Under Secretary Davis, Energy (III or IV)

Approve _____

Disapprove _____

~~SECRET~~

~~SECRET~~

NLS H 1270 #5
BY CJS NARA, DATE 10/3/65

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2

Option IV (Carter Administration Policy)

Rather than attempting to impede oil and gas production and exports, our goal will be to deny exports of technology that allow the Soviets to replicate advanced Western equipment; this technology would give them an independent capability to improve oil and gas output and infrastructure. The U.S. will approve exports of end-use equipment.

Supported by: Haig; Regan; Baldrige; Under Secretary
Davis, Energy; Stockman; Brock

Approve _____

Disapprove _____

~~SECRET~~

THE SECRETARY OF STATE
WASHINGTON

September 2, 1981

~~SECRET~~

MEMORANDUM FOR: THE PRESIDENT

FROM: Alexander M. Haig, Jr. 

SUBJECT: Controls on Exports of Oil and Gas
Equipment and Technology to the Soviet
Union

You have before you an NSC package presenting five policy options on exports of oil and gas equipment and technology to the Soviet Union. Your decision on this issue will have significant implications for our relations with Western European Allies and with the Soviet Union.

Option IV, a policy of restricting technology exports and permitting equipment sales on a case by case basis, would best meet your desire for a consistent policy. It would hinder independent Soviet energy capabilities, without weakening our alliance or unnecessarily penalizing U.S. exporters.

In an ideal setting, I would propose an extremely restrictive approach to all energy trade with the Soviets, along the lines of Options I or II. But if our export controls are to have any real impact we need the full support of our Allies. A unilateral U.S. embargo of oil and gas equipment is unlikely to restrain significantly Soviet energy development. Based on your consultations at the Ottawa Summit, and Cap Weinberger's recent talks with his British counterparts, I am convinced that it would be impossible to obtain Allied support for highly restrictive controls on oil and gas equipment and technology (Options I and II).

We have not been able to convince key foreign equipment suppliers in bilateral consultations to restrict exports of selected oil and gas equipment. The Japanese, at Ottawa, gave no commitment to cooperate in a U.S.-Japan bilateral embargo on pipeline exports. The British told Cap Weinberger that they would not participate in a U.S.-U.K. embargo of gas pipeline turbines. I am virtually certain that a proposal that all our Allies and friends restrict all sales of oil and equipment technology will be soundly rejected.

~~SECRET~~
GDS 8/28/87

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M1276#6

BY

CH

A DATE

10/3/85

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~~- 2 -~~

Compromise Option III targeted at major Soviet energy projects is fraught with problems. The policy would require us to decide on a case-by-case basis which Soviet projects and exports are major. We would not be able to provide a consistent policy to our business community, our Allies, and the bureaucracy which administers our export control laws.

Option IV is the only option which would establish a policy that would be both predictable and effective, even if pursued on a unilateral basis. This approach, restricting exports of technology while going ahead with end-use energy equipment sales on a case-by-case basis, would:

--establish clear export license criteria and thus give U.S. business predictable guidelines;

--preclude the Soviets' ability to manufacture key oil and gas equipment, thereby forcing them to remain dependent on imports from the West; and

--capitalize on the U.S. lead in technology, which is generally more pronounced than our lead in standard oil and gas equipment.

We must keep in mind that our main strategic goal is not to restrict sales of oil and gas equipment, but to establish tighter alliance-wide controls over East-West trade in strategic goods and technology--such as powerful computers and advanced metallurgy techniques. If we pursue a maximalist objective on oil and gas equipment, we risk having our views rejected by the Allies. Such a setback would gain us nothing, weaken the bonds of the alliance, and compromise our ability to attain our primary strategic goals.

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NATIONAL SECURITY COUNCIL

UNCLASSIFIED WITH
SECRET ATTACHMENTS

ACTION

September 8, 1981

MEMORANDUM FOR RICHARD V. ALLEN

FROM: ALLEN J. LENZ

SUBJECT: Oil/Gas Controls Option Paper for the
President

You requested that we note via an asterisk and footnote on Haig's memo that the fifth option was deleted from the options paper since no one supported it.

After carefully reviewing Haig's memo, I note he individually addressed Options I through IV but did not speak to Option V.

Therefore, it seems to me best to not make any additions on his memorandum on two grounds:

1. Leaving off the asterisk/footnote minimizes attention to the fifth option, avoiding raising the question "What was Option V?"
2. Avoids altering Haig's memo, which could be criticized.

Should the question later be raised, the answer would be "It was deleted as redundant, since no one supported it and Secretary Haig did not address it in his memorandum."

In view of delay in transmittal, your note to the President has been retyped to indicate today's date.

RECOMMENDATION:

That you sign the redated cover note.

Approve _____ Disapprove _____

That the memo go forward with explicit recognition of Haig's noting of "five options."

Approve _____

No, put in the asterisk and footnote on Haig's memo _____

UNCLASSIFIED WITH
SECRET ATTACHMENTS

NATIONAL SECURITY COUNCIL

September 1, 1981

MEMORANDUM FOR: JANET COLSON

FROM: ALLEN J. LENZ

SUBJECT: Presidential Options Paper on Oil-Gas Controls

Dick has edited the options paper which has been retyped to reflect the changes he desired. Could you please do the following:

- o Have him sign the revised version.
- o Return signed file to Kathy or Carol for insertion of the Haig memo when it arrives. They will clear with you, after you have seen the Haig memo, before dispatching the file.
- o Verify that Dick wanted to show "NSC Staff" only for option II at Tab A. Originally he said II; Subsequently he said I or II, but my impression is that he returned to II only (he was interrupted during the process and I did not clarify before he left for a meeting). If he wants to be shows as I or II, Kathy/Carol can correct the Tab A attachment.
- o Dick wants to be advised while in Paris of any significant happenings on this matter.

~~SECRET~~

MEMORANDUM

5001 add on

NATIONAL SECURITY COUNCIL

~~SECRET~~

ACTION

September 1, 1981

MEMORANDUM FOR RICHARD V. ALLEN

FROM:

ALLEN J. LENZ *AL*

SUBJECT:

Oil/Gas Controls Options Memo for the President

As you know, the August 25 State-led SIG served to reemphasize the continuing disagreement among the agencies on U.S. policy on controls on exports of oil and gas equipment and technology to the USSR. The meeting was useful, however, in arriving at a consensus that no purpose would be served by further interagency discussion and that the matter should be referred to the President for decision.

The options memorandum for the President (Tab I) highlights the controversial nature of this matter and emphasizes the urgent need for a decision. It attempts an unbiased presentation of important factors without taking a position. Should you desire to support a particular option, please advise me and I will revise the memo.

You will recall that the Decision Directive that we had drafted earlier called for Option III (denial of all technology and end-use equipment exports for major projects, while approving end-use equipment exports not for major projects). This is, of course, a compromise position between the DOD recommendation (deny exports for all oil and gas equipment and technology) and the State-led position (license equipment, including that for the Siberian Pipeline, but deny technology).

In my judgment, Option III is probably the best choice because I see no realistic chance of getting the Allies to go along with total controls on oil-gas equipment; also, Option III enhances the credibility of our pipeline position and our COCOM initiative on Allied Security Controls more than would the tougher Options I and II.

As a result of interagency circulation of the draft of this options paper some suggested changes were incorporated, but those that attempted to lead the President to a particular conclusion were rejected. All suggestions for change or deletion of the originally stated options as presented in the July meetings were also rejected. This rejection included DOD's suggestion that Option V, which no one supported in the final discussions, be deleted. I took this stand to head off other requests for tampering with other option statements. Fred Ikle has since called Admiral Nance about the matter. If you want to delete Option V, let me know. However, unless there is good reason to do so, suggest we use the original options statements.

~~SECRET~~

BY Review September 1, 1987

~~SECRET~~

NLS 41270-7
A TEL 10/31/85
CIS

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2

Secretary Haig and Deputy Secretary Carlucci have submitted final pleas of their cases, which are included in the package for the President.

Upon receipt of the President's decision, I believe we should move promptly to issue decision directives:

- o Oil-Gas Controls
- o Siberian Pipeline
- o Allied Security Controls

RECOMMENDATION

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

Approve ✓

Disapprove _____

Attachments

Tab I Memo to the President
 A Statement of Options
 B July 18, 1981, Memo from Haig-Weinberger-Baldrige-Brock
 C Haig-Carlucci Recommendations
 D NSC Staff Prepared Summary
 E Options Paper and Statement of Pros and Cons

*Note: RMA agreed with the following
attention: NSC staff supports Option I
or II.*

Johnson 9/2/81

~~SECRET~~

~~SECRET~~

~~SECRET~~

THE SECRETARY OF DEFENSE

WASHINGTON, D.C. 20301



8 SEP 1981

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Oil and Gas Equipment and Technology for the USSR

(S) I write to urge you to act to put oil and gas equipment and technology for the Soviet Union under national security controls. Option I in your decision paper, which I support, is necessary in order to implement faithfully your decision on the West Siberian pipeline. Without Option I, or as a fallback Option II, there will be substantial leakage of equipment and technology from other projects to the West Siberian pipeline which you oppose. In addition, this measure is essential if we are to have any hope of persuading our allies to stop the West Siberian natural gas pipeline to Europe. It will force the Soviet Union to divert scarce resources from the military to the civilian sector, thus slowing the Soviet military build-up. This can only help us preserve the balance of power both in Europe and the Middle East.

(S) Option IV in your Statement of Options paper is no more than a continuation of the policy of the Carter Administration. Despite the impression that it entails controls on energy production exports, Option IV would leave beyond Government control virtually all the equipment the Soviets want for oil exploration and development. Its almost certain consequence would be to propel the Soviets into a lead position as a supplier of natural gas to Europe and it will provide many tens of billions of dollars annually to fuel the continuing growth of Soviet military power.

(S) Your support for Option I -- placing oil and gas equipment and technology under national security controls, and rapidly implementing a vigorous diplomatic effort to bring our considerable leverage to bear, would give us a fighting chance of halting the pipeline or slowing and/or diminishing its adverse consequences.

(S) Recent evidence has come to light that had we held off on the approval of the license to the Caterpillar company for pipelayers to the USSR, the Japanese would have refrained from exporting similar equipment. Recent CIA information indicates the Soviets are carefully following our oil and gas export policy decisions as an indication of our seriousness toward the West Siberian pipeline.

Classified by:

Review on 28 August 1987

~~SECRET~~

Sec Def Cont Nr. X-16102

NLS #8
DATE 10/31/85
BY GTS

~~SECRET~~

2

(S) We believe, given the interest of Great Britain in selling to the United States the Harrier war plane and its associated Rolls Royce Pegasus engine, that the British Government can be convinced to join us in an embargo on oil and gas equipment for the West Siberian pipeline (particularly Rolls Royce compressors which use technology similar to that found in the war plane engines). To get British agreement we must, necessarily, show our own resolve by refraining from our own sales of equipment and manufacturing know-how to the USSR.

(C) With the bad wheat harvest now projected in the USSR, we have an opportunity to press them hard to slow their military build-up. Our actions should be coordinated to achieve this goal, which is vital to American and allied security.

Sgt-

~~SECRET~~

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THE SECRETARY OF DEFENSE

WASHINGTON, D.C. 20301

August 28, 1981

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Oil and Gas Equipment and Technology for the USSR

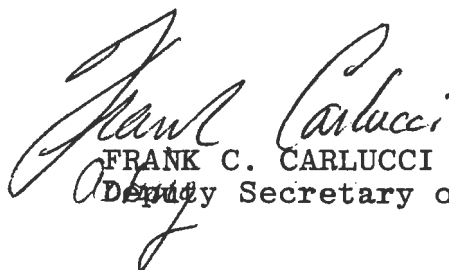
(S) I write to urge you to act to put oil and gas equipment and technology for the Soviet Union under national security controls. Option I in your decision paper, which I support, is necessary in order to implement faithfully your decision on the West Siberian pipeline. Without Option I, or as a fallback Option II, there will be substantial leakage of equipment and technology from other projects to the West Siberian pipeline which you oppose. In addition, this measure is essential if we are to have any hope of persuading our allies to stop the West Siberian natural gas pipeline to Europe. It will force the Soviet Union to divert scarce resources from the military to the civilian sector, thus slowing the Soviet military build-up. This can only help us preserve the balance of power both in Europe and the Middle East.

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(S) With the bad wheat harvest now projected in the USSR we have an opportunity to press them hard to slow their military build-up. Our actions should be coordinated to achieve this goal, which is vital to American and allied security.

NLS M1278#9
BY CIS ATE 10/31/85


FRANK C. CARLUCCI
Deputy Secretary of Defense

Classified by I TSP
Review on 28 August 1987

~~SECRET~~

Sec Def Cont Nr. X-15929

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~~SECRET~~

NSC STAFF PREPARED SUMMARY

Controls on Exports to the USSR of Oil and Gas
Equipment and Technology

Issue: What licensing policy should the United States adopt on controlling exports to the USSR of equipment and technology for the exploration and development of Soviet oil and natural gas? Implicit in this decision is whether the U.S. should treat oil and gas production equipment and technology as strategic commodities.

The U.S. Policy on Soviet Energy Developments

The State options papers do not directly examine the basic question, "Is it in the interest of the U.S. and the Western industrial democracies to assist energy development in the Soviet Union?" The major arguments are:

Yes

- Developing Soviet energy helps them overcome potential energy and hard currency shortages and reduces their motivation to aggression in the Persian Gulf area.
- Increases the world oil supply and keeps the Soviets from purchasing on Western oil markets, reducing pressure on world oil prices.
- Maintains a cooperative relationship with the Soviet Union in an important economic area to offset the competitive relationship in military sectors.
- Results in substantial export and employment benefits for U.S. and Allied countries.

No

- It is unlikely that the Soviet Union will ever become dependent on the world market for oil imports; if it decides to intervene in the Persian Gulf, it will do so for reasons other than to obtain oil; e.g., to deprive the West of oil.
- Western equipment and technology reduces the costs of energy development to the Soviet Union and frees resources for application in the Military Sector.

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- Western assistance contributes to an expansion of Soviet energy exports to the West and to Eastern Europe and increases their dependency on the USSR.
- It is inconsistent to seek increases in defense expenditures while making it easier for the Soviets to devote resources to their military.

Current U.S. Policy

The Carter Administration imposed special licensing requirements on exports of oil and gas related items in 1978, and tightened controls in early 1980 as part of the response to the Soviet invasion of Afghanistan. The 1980 policy, currently in force, sets a general presumption to deny exports of technology for the manufacture of oil and gas equipment, but retains the presumption to approve exports of end use equipment not subject to multilateral COCOM controls.

We need to clarify or modify current policy on oil and gas equipment and technology -- a key element in our overall export control policy -- to inform U.S. business, our European Allies, and the Soviets of our intentions and to provide a framework for U.S. actions concerning the Siberian Pipeline.

Soviet Energy

The Soviet Union needs to expand its gas production and increase oil exploration and drilling to offset anticipated declines in oil production. Without such development it may be increasingly difficult to meet domestic and East European energy requirements, let alone to generate hard currency earnings by exports of oil and gas. The Soviets plan to use Western equipment in developing their resources, since it is substantially more efficient than Soviet equipment.

U.S. Technological Leverage

U.S. based firms are the sole source suppliers of certain advanced types of equipment and technology and generally dominate the world market in these areas. However, opinions differ widely on the quality and availability of substitutes for these items and on the effectiveness of unilateral U.S. restrictions. It is generally agreed, however, that Allied restrictions would have much more significant long-term effects on Soviet production than unilateral U.S. efforts.

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Western European Perspective

Western European leaders generally favor unrestricted exports of oil and gas equipment and technology to the USSR and do not currently control exports in this area. Some see the Soviets as a more secure source than the Middle East and as a means to reduce their dependence on OPEC oil. They recognize that energy purchases from the Soviets will be spent in their own economies. A number of West European leaders also see development of domestic Soviet energy resources as mitigating Soviet adventurism in the Persian Gulf. They are thus likely to resist a restrictive approach to East-West energy trade.

Soviet Hard Currency Earnings

Oil exports currently provide about 50 percent of Soviet hard currency earnings. If Soviet oil production declines as CIA predictions indicate, the Soviets will be forced to discontinue oil exports by the end of this decade. Loss of this major source of hard currency could constrain Soviet ability to maintain current levels of imports from the West unless natural gas exports can be increased significantly.

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POLICY OPTIONS PAPER

Controls on Export to the USSR of Oil
and Gas Equipment and Technology

Issue: What policy should the United States adopt on controlling oil and gas equipment and technology exports to the Soviet Union? Should the United States treat Soviet oil and gas development and exports to Western Europe as a national security concern?

Approach: The Administration's decision on this issue should take into account:

- the extent to which we wish to impede Soviet energy development exports;
- the political costs vis-a-vis our Allies we are willing to pay in pursuit of this policy; and,
- the extent to which we wish to control export of technology.

In order to make those options that restrict energy exchange with the Soviet Union both effective and equitable, the U.S. should present a substantial incentives package, which will contribute to Allied energy security. Such a package should aim at increasing Alliance access to additional sources of energy and at furthering sustained Alliance cooperation on energy security concerns.

Attachment

Statement of Pros and Cons

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BY CU, NARA, DATE 10/31/05

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Statement of Pros and Cons

NLS Mr 278 #12

BY CL, NARA, DATE 10/31/05

Option I

The U.S. will actively impede Soviet oil and gas production and export projects. The U.S. will impose national security controls on, and deny export licenses for, all oil and gas equipment and technology. We will use our available leverage to pressure our Allies and friends to adopt similarly restrictive measures.

Pro:

(a) Hinders development of a strategically significant industry which is a key component of the Soviet's military-industrial base. Insofar as oil and gas production is an instrument of Soviet domestic and foreign policy, we should actively impede the Soviets' economic strength, political influence and military potential.

(b) Diminishes Soviet ability to earn hard currency through energy exports to the West. Frustrates the Soviets' professed aim to acquire Western technology. Promotes increased competition between the military and civilian sectors.

(c) Discourages European dependence on Soviet natural gas, thereby avoiding a potential weakening of NATO Alliance cohesion.

Con:

(a) Experts disagree on whether, without Allied cooperation, an embargo would have a significant effect on Soviet energy production, and on Soviet ability to pursue major export projects including the Siberian Pipeline.

(b) Would strain U.S. and Allied relations. Europeans would view U.S. action as insensitive to their economic and energy needs. This would contribute to a long-term Soviet objective of driving a wedge between the U.S. and our NATO Allies and Japan.

(c) Hindering Soviet energy development could prompt further Soviet adventurism or efforts to increase their influence in the Middle East.

Option II

The U.S. will attempt to impede Soviet oil and gas production and export projects. Recognizing that our Allies and friends may not follow suit without unacceptably high political costs, we will use less leverage than in Option I. We would consider, after consultations with our Allies, adopting a multilateral approach less restrictive than implied in Option I. Until this is worked out, the U.S. will deny export licenses for technology and equipment.

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Pro:

Retains the basic benefits of Option I, but is more flexible and thereby avoids straining relations with Allies.

Con:

Contains same drawbacks as Option I, but additionally may indicate less U.S. resolve to limit Soviet energy developments.

Option III

The U.S. is most concerned about major Soviet projects which contribute to Soviet production capability and our Allies' vulnerability to Soviet energy leverage (e.g., West Siberian Pipeline). The U.S. will make a major effort with other countries to restrict exports of equipment and technology for such projects. Until this is worked out the U.S. will deny all technology and end-use equipment exports for major projects while approving end use equipment exports not for major projects.

Pro:

(a) Would focus U.S. leverage on major projects.

(b) More likely to be accepted by Allies because it is more closely related to Western security concerns.

(c) Offers commercial benefits to U.S. and Allied exporters in areas not of major security concerns.

Con:

(a) Difficult to identify discrete major projects or to prevent diversion of mobile oil/gas equipment. Opportunities for leverage may therefore be limited to those items which are essentially stationary, such as pipe, wellhead assemblies, down hole equipment, and compressors.

(b) Effectiveness would be limited unless Allies agree to restrict comparable sales of technology and equipment to the Soviets. To the extent Allies fail to cooperate, compromises Western security.

(c) Denies possibility to U.S. companies of participating in major Soviet oil and gas related trade opportunities.

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Option IV

Rather than attempting to impede oil and gas production and exports, our goal will be to deny exports of technology that allow the Soviets to replicate advanced Western equipment; this technology would give them an independent capability to improve oil and gas output and infrastructure. The U.S. will approve exports of end use equipment.

Pro:

(a) Hinders Soviet energy independence by impeding their efforts to develop technological capabilities. Denying certain critical equipment and expertise in conjunction with our Allies could also retard Soviet oil/gas production, distribution and exports.

(b) Reduces possibility of confrontation with Allies. Would permit continued European purchases of Soviet energy which acts as a hedge against dependence on Middle Eastern oil and gas from less reliable suppliers.

(c) Encourages some Soviet dependence on imports of U.S. equipment and contributes positively to the U.S. balance of payments.

Con:

(a) Increases European reliance on Soviet energy, which, regardless of any safety net, could to some extent make our Allies more vulnerable to Soviet pressure.

(b) To some extent, supports inefficient Soviet civilian sector by giving USSR access to equipment it chooses not to develop, thereby perhaps facilitating resource allocation to the military.

(c) Prevents U.S. companies from competing for some Soviet oil and gas related trade opportunities, and creates incentives for the Soviets to seek U.S. imports.

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

August 28, 1981

MEMORANDUM FOR Allen J. Lenz, Staff Director
National Security Council

FROM: Lawrence J. Brady *LJB*
Assistant Secretary for
Trade Administration

SUBJECT: Oil and Gas Export Control Policy

I was asked to pass along the Department's position on the oil and gas policy options paper going to the President. The Department favors retaining foreign policy controls on oil and gas equipment and technology and for that reason recommends Option 4. Secretary Baldrige reviewed the options and strongly supports this option. The memorandum to the President should reflect the Secretary's position.

It might also be helpful for the memorandum to the President to reflect, for each option, whether the particular option meant controls would remain foreign policy or become national security. The memorandum should also note that the Japanese and British already turned us down when asked to refrain from exporting pipelaying equipment and compressors for the pipeline.

This came in at 5:30 pm, Sept 4

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BY

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DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

August 27, 1981

ASSISTANT SECRETARY

MEMORANDUM FOR MR. ALLEN J. LENZ
STAFF DIRECTOR
NATIONAL SECURITY COUNCIL

Subject: Treasury Views on Draft of Options Paper
on Oil/Gas Controls

The several options are accurately presented and the Treasury position supporting Option IV is correctly shown in the papers you transmitted on August 26.

The only comments we have are editorial suggestions in the draft memorandum to the President. On page 2 the last sentence in the first paragraph beginning with: "On the other hand..." should be deleted. It is a pro/con statement which already appears in Tab D, as it properly should. In contrast, all of the other sentences in that paragraph are factual statements. A second suggestion for clarity's sake is to insert the word "security" before the word "controls" in the first sentence of the draft memorandum.

Thomas Leddy

Thomas Leddy
Acting Assistant Secretary

cc: M. Rashish - State

DECLASS

NLRR 1108-1278 #14

BY CL

- 10/13/06

DERIVATIVE CLASS BY NSC

☐ DECLASS ☒ REVIEW ON 8/26/88
DERIVED FROM Memo w/Secret
Attachment frm A.J.Lenz

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DEPARTMENT OF STATE

Washington, D.C. 20520

August 27, 1981

MEMORANDUM TO MR. RICHARD V. ALLEN
THE WHITE HOUSE

SUBJECT: Draft of Options Paper on Oil/Gas Controls

The State Department has reviewed the subject NSC Options Paper and concurs fully with the attachments to it, Tabs A through D.

With regard to the covering draft memorandum to the President, the Department offers the suggestions shown on the attached mark-up of the text.

The Department appreciates the promptness and efficiency with which the NSC prepared the subject papers for circulation.

L. Paul Bremer, III
Executive Secretary

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Decision on Controls on Exports of Oil and Gas Equipment and Technology to the USSR

At the July 6 and 9 NSC meetings your advisors ^{reached} ~~unanimously~~ recommended that the U.S. should request the 15 Allied nation Coordinating Committee (COCOM) to agree to significantly tighten controls on exports to the USSR. However, there was some disagreement on the degree of increase to be sought. You instructed Secretaries Haig, Weinberger and Baldrige to work out a compromise position. This has been done and reflected in a July 18 memo to you (Tab B). Work on implementing these decisions has begun.

~~You will recall, however, that~~ no consensus ~~was reached~~ ^{on export controls on} ~~during the July meetings on~~ oil and gas equipment and technology ^{for} ~~the U.S.S.R. controls.~~ Indeed, the discussions revealed generally sharp differences among your advisors and positions have not changed in the interim.

Pending a policy determination, decisions on oil and gas export licenses have not been made and a substantial backlog of applications has accrued. Both this situation and the fact that our policy will affect the implementation of U.S. efforts on the Siberian Pipeline call for an early decision.

~~[on oil and gas equipment and technology export controls.]~~

Your decision on this matter will ~~[therefore]~~ be seen by our allies and by the Soviets as an important indicator of your overall policy.

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BY

CIS

NARA, DA

10/31/05

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DRAFT

— almost
A decision to control oil and gas equipment and technology ~~not~~ none of which is now under control in the 15-nation allied Coordinating Committee (COCOM) — ~~currently under COCOM security controls~~ will require export

restrictions that, at least initially, will be unilateral. Indeed, U.S. controls on exports of this equipment and technology, imposed for foreign policy reasons, already Further Allied cooperation in invoking similar controls may be especially in the COCOM framework where unanimity is required. difficult to obtain, ^{exceed allied controls.} Additionally, you should note that the

export losses that may result from increased restrictions on oil and gas equipment may be larger — though perhaps less immediately visible — than those that would have ensued from pipelayer license denials. On the other hand, it can be argued that enhanced controls on oil and gas equipment and technology are essential to give credibility to our efforts on the Siberian Pipeline.

While this is a controversial matter, it seems unlikely that further NSC discussion would narrow the division of opinion that still exists among the agencies. A recent Senior Inter-departmental Group concurred in this judgment and recommended that a decision memo be forwarded to you. Accordingly, I recommend you make your decision on oil and gas equipment and technology controls based on the information available and without further interagency deliberation.

An NSC Staff prepared summary of the issue is at Tab C.

^{interagency}
The original ~~[State prepared]~~ policy options paper and statement of pros and cons used in the July NSC discussions is at Tab D.

The recommendation of Secretaries Haig, Weinberger and Baldrige, and Trade Representative Brock on controls that the U.S. should seek in COCOM in other sectors is attached at Tab B.

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DRAFT

RECOMMENDATION

That you indicate your decision on the statement of the options at Tab A.

Approve _____

Disapprove _____

Attachments

Tab A	Statement of Options
Tab B	July 18, 1981, Memo to you from Haig-Weinberger-Baldrige-Brock
Tab C	NSC Staff Prepared Summary
Tab D	Options Paper and Statement of Pros and Cons

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BY AS

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REQUEST/RECEIPT FOR TRANSMISSION

NSC FAX AUG 1981 18	SITE D	-27 P7:05
	974 SSN NBR	DATE AND TIME RECEIVED
DATE AND TIME TRANSMITTED		

TO BE COMPLETED BY REQUESTER

FROM DASD/IETSP/ISP OFFICE/DESK Dr. Steve Bryen PHONE NBR 697-9347SUBJECT Decision on Controls on Exports of Oil and Gas Equipment and Technology to the USSR (S)

CLASSIFICATION

PAGES 1DELIVERY
INSTRUCTIONS
☐
 XXXX

HOLD FOR NORMAL DUTY HOURS

IMMEDIATELY

NOTE: FURNISH AFTER DUTY HOUR CONTACT TELEPHONE
NUMBER FOR EACH ADDRESSEE REQUIRING AFTER HOUR
DELIVERY.

TRANSMIT TO

AGENCY	INDIVIDUALS NAME	OFFICE	ROOM NBR	PHONE NBR
NSC	Allen Lenz -	SD/NSC	376A/OEOB	395-3044
NSC	Norman Bailey	Planning & Evaluation	373/OEOB	395-4985
	JP NAN Col USC			
	Pipes -			
	Weiss -			
	Schweitzer -			
	Huberman -			
	Nau -			
	Stearman -			
	Berta Feith ✓			

REMARKS: Attached is the Department of Defense ~~secret~~ draft for the
NSC paper on oil and gas.S. Bryen
DASD/IETSP*S Bryen*

~~SECRET~~

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Decision on Controls on Exports of Oil and Gas Equipment and Technology to the USSR

At the July 6 and July 9 NSC meetings your advisors unanimously recommended that the United States should request the 15 Allied nation Coordinating Committee (COCOM) to agree to significantly tighten controls on exports to the USSR.

However, there was some disagreement on the degree of tightening to be sought. You instructed Secretaries Haig, Weinberger and Baldrige to work out a compromise position. That was done and is reflected in a July 18 Memorandum to you (TAB B). Work on implementing these decisions has begun.

No consensus was reached, however, on how the United States should deal with the question of the export of oil and gas equipment to the Soviet Union (aside from the West Siberian pipeline). There are sharp differences among your advisors and a number of "options" are suggested. These "options" are summarized by the NSC at TAB A. We have indicated which department support the various options.

All agencies support some control over the export of oil and gas equipment and technology to the Soviet Union. The degree of support varies between those who support comprehensive national security controls to those who support controls only for major Soviet projects and to those who wish to control only the export of sophisticated technology. It should be noted that we currently control sophisticated technology under an interim measure adopted by the Carter Administration. One option is to continue this policy. Embedded in this debate is whether our allies and friends will join us in supporting such an embargo that will cover more than sophisticated technology. There is no doubt it will be difficult to get their agreement.

At the heart of the issue is whether we wish to impede Soviet oil and gas development ventures beyond our opposition to the West Siberian pipeline project. A successful embargo over both equipment and technology would force the Soviets to use their own strapped resources to develop their oil and gas reserves. This might force the Soviets to divert resources they are now using to sustain their military buildup. The price we will have to pay for this will be some loss of exports to the East. However, with the exception of electronic equipment, the oil and gas equipment industry is extremely active now because of a strong surge in oil and gas exploration and development in the Free World.

The credibility of our opposition to the West Siberian pipeline will heavily depend on European perceptions of the depth of our security concerns. We must demonstrate that we are willing to forgo exports of oil and gas equipment that contributes to Soviet energy development so the Allies will not suspect we are seeking commercial advantage as they did in the case of the Caterpillar pipelayers.

RECOMMENDATION

That you indicate your decision on the statement of Options at TAB A.

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BY CS , DATE 10/31/05

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BY C1 NARA, DATE 10/31/05

July 18, 1981

MEMORANDUM FOR: THE PRESIDENT

FROM : Alexander M. Haig, Jr. *AMH*
Secretary of State
Caspar W. Weinberger *CW*
Secretary of Defense
Malcolm Baldrige *MB*
Secretary of Commerce
William E. Brock *WEB*
U.S. Trade Representative

SUBJECT : Security Controls on Exports to the USSR

At last week's NSC meeting on this subject, you asked us to develop a proposal for controlling exports to the USSR that went beyond restricting technology and equipment critical to production in defense priority industries (Option II), but did not go so far as to restrict all items for use in these industries (Option III).

We recommend that our approach be to strengthen COCOM restrictions on exports to the USSR by controlling (1) equipment and technology critical to production in defense priority industries as defined in Option II*, and (2) technology for production in these industries without regard to whether the Soviets already have such technology data (i.e., without the "criticality" condition).

In our own licensing policy, we will pursue such an approach while attempting to obtain Allied support. We would reexamine our position in the fall, after we have obtained Allied reactions. We would avoid any publicity in our approach.

A similar emphasis on production technology was recommended by the Defense Science Board in a 1976 report and by the Congress in 1979 amendments to the Export Administration Act. In June 1981 COCOM negotiations of U.S. metallurgy proposals, our Allies indicated only an interest in further discussions of this approach. It is clear that the Allies will resist controls on technology for industries where the military connection is not readily apparent or may not be strong. Thus a major effort may be necessary to bring them around to our position.

*Defense priority industries include computers, communications, high-technology micro-electronics, aerospace, machine building, ship building, metallurgy, chemicals, heavy vehicles.

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- 2 -

While we are seeking to impose restraints in the above mentioned areas, we would also propose to loosen controls on equipment and technology which is not critical to defense related industries and on technology not needed for production in those industries. This would serve your objectives of predictability and consistency.

If you approve our recommendation, we would have a sound basis for developing and negotiating in COCOM the multilaterally agreed and technically precise definitions which are necessary for effective controls.

A handwritten signature in cursive script, appearing to read "Billings".

~~SECRET~~

NATIONAL SECURITY COUNCIL

WASHINGTON, D.C. 20506

UNCLASSIFIED WITH
SECRET ATTACHMENT

August 26, 1981

MEMORANDUM FOR:

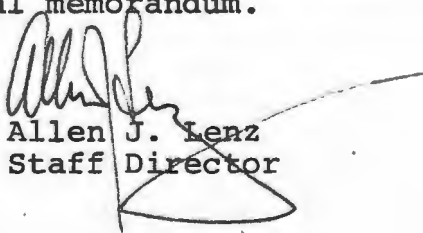
Mr. L. Paul Bremer III
Mrs. Nancy Bearg Dyke
Ms. Jean Jones
Mr. Jay Rixse
Lt Col Edward Bucknell
Mr. David Pickford
Mr. David Macdonald
Mr. Peter Borre
Mr. Thomas B. Cormack
Amb Harvey Feldman

SUBJECT: Draft of Options Paper on Oil/Gas Controls

Attached is a draft of the options paper concerning controls on oil and gas equipment and technology.

Since the memorandum contains little new material it is anticipated that further editing will be minimal.

However, comments and suggestions received by close of business Thursday, August 27, can be considered for incorporation in the final memorandum.


Allen J. Lenz
Staff Director

Attachment

Draft Memo to President with Options Paper

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SECRET ATTACHMENT

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OF CLASSIFIED INFORMATION

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MEMORANDUM FOR THE PRESIDENT

SUBJECT: Decision on Controls on Exports of Oil and Gas Equipment and Technology to the USSR

At the July 6 and 9 NSC meetings your advisors unanimously recommended that the U.S. should request the 15 Allied nation Coordinating Committee (COCOM) to agree to significantly tighten controls on exports to the USSR. However, there was some disagreement on the degree of increase to be sought. You instructed Secretaries Haig, Weinberger and Baldrige to work out a compromise position. This has been done and reflected in a July 18 memo to you (Tab B). Work on implementing these decisions has begun.

You will recall, however, that no consensus was reached during the July meetings on oil and gas equipment and technology controls. Indeed, the discussions revealed generally sharp differences among your advisors and positions have not changed in the interim.

Pending a policy determination, decisions on oil and gas export licenses have not been made and a substantial backlog of applications has accrued. Both this situation and the fact that our policy will affect the implementation of U.S. efforts on the Siberian Pipeline call for an early decision on oil and gas equipment and technology export controls. Your decision on this matter will, therefore, be seen by our allies and by the Soviets as an important indicator of your overall policy.

~~SECRET~~~~DRAFT~~

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NLS - 11/27/84
BY - CAL, NARA, DATE 10/31/05

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A decision to control oil and gas equipment and technology not currently under COCOM security controls will require export restrictions that, at least initially, will be unilateral. Further Allied cooperation in invoking similar controls may be difficult to obtain. Additionally, you should note that the export losses that may result from increased restrictions on oil and gas equipment may be larger -- though perhaps less immediately visible -- than those that would have ensued from pipelayer license denials. On the other hand, it can be argued that enhanced controls on oil and gas equipment and technology are essential to give credibility to our efforts on the Siberian Pipeline.

While this is a controversial matter, it seems unlikely that further NSC discussion would narrow the division of opinion that still exists among the agencies. A recent Senior Inter-departmental Group concurred in this judgment and recommended that a decision memo be forwarded to you. Accordingly, I recommend you make your decision on oil and gas equipment controls based on the information available and without further interagency deliberation.

An NSC Staff prepared summary of the issue is at Tab C.

The original State prepared policy options paper and statement of pros and cons used in the July NSC discussions is at Tab D.

~~SECRET~~ DRAFT

~~SECRET~~RECOMMENDATION

That you indicate your decision on the statement of the options at Tab A.

Approve _____

Disapprove _____

Attachments

Tab A	Statement of Options
Tab B	July 18, 1981, Memo to you from Haig-Weinberger-Baldrige-Brock
Tab C	NSC Staff Prepared Summary
Tab D	Options Paper and Statement of Pros and Cons

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BY

JA

DATE

10/31/5

STATEMENT OF OPTIONSControls on Export to the USSR of Oil
and Gas Equipment and TechnologyOption I

The U.S. will actively impede Soviet oil and gas production and export projects. The U.S. will impose national security controls on, and deny exports licenses for, all oil and gas equipment and technology. We will use our available leverage to pressure our Allies and friends to adopt similarly restrictive measures.

Supported by: DOD (I or II); CIA (I or II); JCS

Approve _____

Disapprove _____

Option II

The U.S. will attempt to impede Soviet oil and gas production and export projects. Recognizing that our Allies and friends may not follow suit without unacceptably high political costs, we will use less leverage than in Option I. We would consider, after consultations with our Allies, adopting a multilateral approach less restrictive than implied in Option I. Until this is worked out, the U.S. will deny export licenses for technology and equipment.

Supported by: DOD (I or II); CIA (I or II)

Approve _____

Disapprove _____

Option III

The U.S. is most concerned about major Soviet projects which contribute to Soviet production capability and our Allies' vulnerability to Soviet energy leverage (e.g., West Siberian Pipeline). The U.S. will make a major effort with other countries to restrict exports of equipment and technology for such projects. Until this is worked out, the U.S. will deny all technology and end-use equipment exports for major projects while approving end-use equipment exports not for major projects.

Supported by: Energy (III or IV)

Approve _____

Disapprove _____

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Option IV

Rather than attempting to impede oil and gas production and exports, our goal will be to deny exports of technology that allow the Soviets to replicate advanced Western equipment; this technology would give them an independent capability to improve oil and gas output and infrastructure. The U.S. will approve exports of end-use equipment.

Supported y: State; Treasury; Energy (III or IV); USTR;
USUN

Approve Disapprove

Option V

The U.S. will lift special foreign policy controls on the export of oil and gas technology and equipment. (Existing strategic controls under COCOM will remain in place, some of which may incidentally cover equipment and technology for oil and gas production and exploration.)

Supported y: No One

Approve Disapprove

~~SECRET~~

INTERNAL MEMO FROM SECRETARIES HAIG,
WEINBERGER AND BALDRIGE AND
AM BROCK -- NOT AVAILABLE TO
THE AGENCIES

DECLASSIFIED

NLS

VARA, DATE

BY

CPS

NSC STAFF PREPARED SUMMARY

CONTROLS ON EXPORTS TO THE USSR OF OIL AND GAS
EQUIPMENT AND TECHNOLOGY

Issue: What licensing policy should the United States adopt on controlling exports to the USSR of equipment and technology for the exploration and development of Soviet oil and natural gas? Implicit in this decision is whether the U.S. should treat oil and gas production equipment and technology as strategic commodities.

The U.S. Policy on Soviet Energy Development

The State options papers do not directly examine the basic question, "Is it in the interest of the U.S. and the Western industrial democracies to assist energy development in the Soviet Union?" The major arguments are:

Yes

- Developing Soviet energy helps them overcome potential energy and hard currency shortages and reduces their motivation to aggression in the Persian Gulf Oil area.
- Increases the world oil supply and keeps the Soviets from purchasing on Western oil markets, reducing pressure on world oil prices.
- Maintains a cooperative relationship with the Soviet Union in an important economic area to offset the competitive relationship in military sectors.
- Results in substantial export and employment benefits for U.S. and Allied countries.

No

- It is unlikely that the Soviet Union will ever become dependent on the world market for oil imports; if it decides to intervene in the Persian Gulf, it will do so for reasons other than to obtain oil; e.g., to deprive the West of oil.
- Western equipment and technology reduces the costs of energy development to the Soviet Union and frees resources for application in the Military Sector.

- Western assistance contributes to an expansion of Soviet energy exports to the West and to Eastern Europe and increases their dependency on the USSR.
- It is inconsistent to seek increases in defense expenditures while making it easier for the Soviets to devote resources to their military.

Current U.S. Policy

The Carter Administration imposed special licensing requirements on exports of oil and gas related items in 1978, and tightened controls in early 1980 as part of the response to the Soviet invasion of Afghanistan. The 1980 policy, currently in force, sets a general presumption to deny exports of technology for the manufacture of oil and gas equipment, but retains the presumption to approve exports of end use equipment not subject to multi-lateral COCOM controls.

We need to clarify or modify current policy on oil and gas equipment and technology -- a key element in our overall export control policy -- to inform U.S. business, our European Allies, and the Soviets of our intentions and to provide a framework for U.S. actions concerning the Siberian Pipeline.

Soviet Energy

The Soviet Union needs to expand its gas production and increase oil exploration and drilling to offset anticipated declines in oil productions. Without such development it may be increasingly difficult to meet domestic and East European energy requirements, let alone to generate hard currency earnings by exports of oil and gas. The Soviets plan to use Western equipment in developing their resources, since it is substantially more efficient than Soviet equipment.

U.S. Technological Leverage

U.S. based firms are the sole source suppliers of certain advanced types of equipment and technology and generally dominate the world market in these areas. However, opinions differ widely on the quality and availability of substitutes for these items and on the effectiveness of unilateral U.S. restrictions. It is generally agreed, however, that Allied restrictions would have much more significant long-term effects on Soviet production than unilateral U.S. efforts.

Western European Perspective

Western European leaders generally favor unrestricted exports of oil and gas equipment and technology to the USSR and do not

currently control exports in this area. Some see the Soviets as a more secure source than the Middle East and as a means to reduce their dependence on OPEC oil. They recognize that energy purchases from the Soviets will be spent in their own economies, and see substantial political benefits from trade with the USSR. A number of West European leaders also see development of domestic Soviet energy resources as mitigating Soviet adventurism in the Persian Gulf. They are thus likely to resist a restrictive approach to East-West energy trade.

Soviet Hard Currency Earnings

Oil exports currently provide about 50 percent of Soviet hard currency earnings. If Soviet oil production declines as CIA predictions indicate, the Soviets will be forced to discontinue oil exports by the end of this decade. Loss of this major source of hard currency could constrain Soviet ability to maintain current levels of imports from the West unless natural gas exports can be increased significantly.

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POLICY OPTIONS PAPER

Controls on Export to the USSR of Oil
and Gas Equipment and Technology

ISSUE: What policy should the United States adopt on controlling oil and gas equipment and technology exports to the Soviet Union? Should the United States treat Soviet oil and gas development and exports to Western Europe as a national security concern?

APPROACH: The Administration's decision on this issue should take into account:

- the extent to which we wish to impede Soviet energy development and exports;
- the political costs vis-a-vis our allies we are willing to pay in pursuit of this policy; and,
- the extent to which we wish to control export of technology.

In order to make those options that restrict energy exchange with the Soviet Union both effective and equitable, the U.S. should present a substantial incentives package which will contribute to Allied energy security. Such a package should aim at increasing alliance access to additional sources of energy and at furthering sustained Alliance cooperation on energy security concerns.

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Option I:

The U.S. will actively impede Soviet oil and gas production and export projects. The U.S. will impose national security controls on, and deny exports licenses for, all oil and gas equipment and technology. We will use our available leverage to pressure our allies and friends to adopt similarly restrictive measures.

Pro:

(a) Hinders development of a strategically significant industry which is a key component of the Soviet's military-industrial base. Insofar as oil and gas production is an instrument of Soviet domestic and foreign policy, we should actively impede the Soviets' economic strength, political influence and military potential.

(b) Diminishes Soviet ability to earn hard currency through energy exports to the West. Frustrates the Soviets' professed aim to acquire Western technology. Promotes increased competition between the military and civilian sectors.

(c) Discourages European dependence on Soviet natural gas, thereby avoiding a potential weakening of NATO Alliance cohesion.

Con:

(a) Experts disagree on whether, without Allied cooperation, an embargo would have a significant effect on Soviet energy production, and on Soviet ability to pursue major export projects including the Siberian pipeline.

(b) Would strain US and Allied relations. Europeans would view US action as insensitive to their economic and energy needs. This would contribute to long-term Soviet objective of driving a wedge between the US and our NATO Allies and Japan.

(c) Hindering Soviet energy development could prompt further Soviet adventurism or efforts to increase their influence in the Middle East.

Option II:

The US will attempt to impede Soviet oil and gas production and export projects. Recognizing that our Allies and friends may not follow suit without unacceptably high political costs, we will use less leverage than in Option I. We would consider, after consultations with our Allies,

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adopting a multilateral approach less restrictive than implied in Option I. Until this is worked out, the US will deny export licenses for technology and equipment.

Pro:

Retains the basic benefits of Option I, but is more flexible and thereby avoids straining relations with Allies.

Con:

Contains same drawbacks as Option I, but additionally may indicate less US resolve to limit Soviet energy developments.

Option III:

The US is most concerned about major Soviet projects which contribute to Soviet production capability and our Allies' vulnerability to Soviet energy leverage (e.g., West Siberian Pipeline). The US will make a major effort with other countries to restrict exports of equipment and technology for such projects. Until this is worked out the US will deny all technology and end-use equipment exports for major projects while approving end-use equipment exports not for major projects.

Pro:

- (a) Would focus US leverage on major projects.
- (b) More likely to be accepted by Allies because it is more closely related to Western security concerns.
- (c) Offers commercial benefits to US and Allied exporters in areas not of major security concerns.

Con:

- (a) Difficult to identify discrete major projects or to prevent diversion of mobile oil/gas equipment. Opportunities for leverage may therefore be limited to those items which are essentially stationary, such as pipe, wellhead assemblies, down hole equipment, and compressors.
- (b) Effectiveness would be limited unless Allies agree to restrict comparable sales of technology and equipment to the Soviets. To the extent Allies fail to cooperate, compromises Western security.
- (c) Denies possibility to US companies of participating in major Soviet oil and gas related trade opportunities.

Option IV

Rather than attempting to impede oil and gas production and exports, our goal will be to deny exports of technology that allow the Soviets to replicate advanced Western equipment; this technology would give them an independent capability to improve oil and gas output and infrastructure. The US will approve exports of end-use equipment.

Pro:

(a) Hinders Soviet energy independence by impeding their efforts to develop technological capabilities. Denying certain critical equipment and expertise in conjunction with our Allies could also retard Soviet oil/gas production, distribution, and exports.

(b) Reduces possibility of confrontation with Allies. Would permit continued European purchases of Soviet energy which acts as a hedge against dependence on Middle Eastern oil and gas from less reliable suppliers.

(c) Encourages some Soviet dependence on imports of US equipment and contributes positively to the US balance of payments.

Con:

(a) Increases European reliance on Soviet energy, which, regardless of any safety net, could to some extent make our Allies more vulnerable to Soviet pressure.

(b) To some extent, supports inefficient Soviet civilian sector by giving USSR access to equipment it chooses not to develop, thereby perhaps facilitating resource allocation to the military.

(c) Prevents US companies from competing for some Soviet oil and gas related trade opportunities, and creates disincentives for the Soviets to seek US imports.

Option V:

The US will lift special foreign policy controls on the export of oil and gas technology and equipment. (Existing strategic controls under COCOM will remain in place, some of which may incidentally cover equipment and technology for oil and gas production and exploration).

Pro:

(a) Promotes the expansion of world energy supplies and helps reduce pressures on Free World oil prices, thereby aiding Western economic growth.

(b) provides fewer incentives for the USSR to adopt an adventurous policy towards the Persian Gulf and other oil producing regions.

(c) promotes Soviet dependence on US imports and contribute positively to the US balance of payments.

Con:

(a) signals our Allies and the Soviets that we are less concerned than before about Soviet policies.

(b) supports inefficient Soviet civilian sector by giving USSR access to equipment and technology it chooses not to develop thereby facilitating resource allocation to the military.

(c) Contributes to continued Soviet energy supplies to Eastern Europe.

NATIONAL SECURITY COUNCIL

August 26, 1981

MEMORANDUM FOR: THE SITUATION ROOM
FROM: ALLEN J. LENZ
SUBJECT: LDX

Please LDX the attached to the following people as soon as possible:

B Mr. L. Paul Bremer III
Rm 7224
Department of State
(Telephone: 632-2540)

D Mr. Jay Rixse (OSD)
Rm 3E880
The Pentagon
(Telephone: 697-8388)

D Lt Col Edward Bucknell (JCS)
Rm 2E983
The Pentagon
(Telephone: 695-4824)

K Mr. David Pickford (Treasury)
Rm 3414
Department of the Treasury
(telephone: 566-2269)

H Mr. Peter Borre (Energy)
Rm 7C016
Department of Energy
(Telephone: 252-5858)

A Mr. Thomas B. Cormack (CIA)
Rm 7E12
Hq CIA
(Telephone: 351-4301)

B Amb Harvey Feldman (USUN)
Rm 7511
Department of State
(Telephone: 632-8647)

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