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# WITHDRAWAL SHEET

## Ronald Reagan Library

**Collection Name** MATLOCK, JACK: FILES

**Withdrawer**

JET 5/18/2005

**File Folder** USSR-PIPELINE 2/6

**FOIA**

F06-114/9

**Box Number** 30

YARHI-MILO

3011

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
10713	MEMO	SOVIET OIL AND GAS OPTIONS <i>R 3/24/2011 F2006-114/9</i>	1	ND	B1
10714	LETTER	LENZ TO HORMATS <i>R 3/24/2011 F2006-114/9</i>	3	6/19/1981	B1
10715	PAPER	SIBERIAN PIPELINE OPTIONS BY LENZ <i>R 3/24/2011 F2006-114/9</i>	3	6/19/1981	B1
10716	MEMO	SCHWEITZER TO ALLEN RE EAST-WEST NEGOTIATIONS: DEFENSE GROUP CONCERNS <i>R 9/25/2012 F2006-114/9</i>	4	6/27/1981	B1
10717	MEMO	ALLEN TO HAIG/WEINBERGER RE REQUEST FOR DESCRIPTION OF SCENARIO FOR IMPLEMENTATION OF RECOMMENDED SIBERIAN PIPELINE AND OIL/GAS CONTROLS OPTIONS <i>R 3/24/2011 F2006-114/9</i>	2	7/6/1981	B1
10718	MEMO	DESCRIPTIONS OF OPTIONS NATIONAL SECURITY AND SOVIET ENERGY CONTROLS <i>R 9/25/2012 F2006-114/9</i>	1	ND	B1
10719	MEMO	PIPES TO BAILEY RE SIBERIAN GAS PIPELINE PROJECT <i>R 3/24/2011 F2006-114/9</i>	1	7/7/1981	B1

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

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

B-2 Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]

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

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

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

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

B-8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]

B-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

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

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ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
10720	MEMO	BAILEY TO LENZ RE NSC STAFF CONSENSUS POSITION ON OIL/GAS DEVELOPMENT AND TECHNOLOGY POLICY WITH THE SOVIET UNION: OBJECTIVES, POLICY, STRATEGY, AND TACTICS <b>R 3/24/2011 F2006-114/9</b>	6	7/8/1981	B1
10721	PAPER	TACTICAL IMPLEMENTATION OF STRATEGY <b>R 3/24/2011 F2006-114/9</b>	6	ND	B1
10722	MEMO	CASEY RE SIBERIAN PIPELINE <b>PAR 9/25/2012 F2006-114/9</b>	1	7/9/1981	B3
10723	PAPER	SIBERIAN PIPELINE <b>R 9/25/2012 F2006-114/9</b>	1	7/8/1981	B1
10724	PAPER	IMPACT OF THE PIPELINE PROJECT ON SOVIET MILITARY EFFORTS <b>R 9/25/2012 F2006-114/9</b>	2	ND	B1
10725	PAPER	IMPACT OF THE PIPELINE ON WESTERN EUROPE <b>PAR 9/25/2012 F2006-114/9</b>	3	ND	B1
10729	MEMCON	EAST-WEST TRADE ISSUES BLACK AND MOZUR MAY 12, 1981 AT DEUTSCHE BANK, FRANKFURT <b>R 3/24/2011 F2006-114/9</b>	1	ND	B1

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ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
10727	CABLE	STATE 063158 <i>R 3/24/2011 F2006-114/9</i>	1	3/6/1981	B1
10728	MEMO	STOESSEL RE SOVIET NATURAL GAS PIPELINE PROJECT <i>R 3/24/2011 F2006-114/9</i>	3	2/24/1981	B1
10726	MEMO	LENZ TO BREMER RE SIBERIAN PIPELINE <i>R 3/24/2011 F2006-114/9</i>	1	ND	B1

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NLRR E06-114/9 #10713

BY KML NARA DATE 4/7/2011

SOVIET OIL AND GAS OPTIONS~~CONFIDENTIAL~~

	1. 4	2. 3.	3. 2	4. 1.
West Siberian Pipeline	U.S. neutrality toward European participation.	Grudging U.S. acceptance of project in return for European commitment to work publicly to minimize strategic implications. Let U.S. firms sell non-strategic goods.	U.S. objection to project, denial of export licenses to U.S. firms for pipeline related contracts where foreign substitutes are not available. Heavy pressure (carrot/stick) on allies to withhold critical exports and financing, postpone project indefinitely.	U.S. objection to project, denial of export licenses to U.S. firms, heavy pressure on allies to cancel.
Oil and Gas Equipment and Technology Sales	Remove controls on all items except dual-use items (e.g. computers).	Maintain controls, deny technology, approve equipment (except dual-use).	Maintain controls, deny technology, deny equipment not available elsewhere for strategic projects (e.g. West Siberian pipeline), press allies - especially Japan, UK - to cooperate.	Control all oil and gas equipment and technology on national-security grounds, with presumption of denial in all cases. Seek allied support but be willing to deny unilaterally.
Caterpillar Case	Approve.	Approve.	Deny if Japan agrees not to replace Caterpillar	Deny.

~~CONFIDENTIAL~~

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~~CONFIDENTIAL~~

NLRRF 010-114/9 # 10714

BY KML NARA DATE 4/7/2011

NATIONAL SECURITY COUNCIL  
WASHINGTON, D.C. 20506

June 19, 1981

Dear Bob:

I want to enlarge on my comments at last Wednesday's "Rump group" meeting on the Oil and Gas and Siberian Pipeline papers. The following are my personal views and do not necessarily represent those of the NSC Staff or Dick Allen.

Looking back on our discussion, I believe we all agree that there is a need for more data and analysis that would distinguish between what the U.S. can do unilaterally through export controls, as compared to what can be accomplished through multilateral allied cooperation, or through U.S. restrictions coupled with parallel actions by, say, Japan and/or the U.K.

Similarly, in my judgment, the options in both the "Oil and Gas Equipment and Technology" and "Siberian Pipeline" papers need to be revised to more clearly indicate whether we are talking about unilateral U.S. action, or action in concert with one or more of our Allies.

To illustrate, Option I of the Oil-Gas paper is unclear as to whether we would proceed, regardless of the attitude and cooperation of our Allies. Option II makes no reference to the actions of our Allies. Do we proceed unilaterally under this option?

The problem is perhaps even more evident in the Siberian Pipeline paper options, where it is unclear under Option II (signal U.S. disapproval) whether we propose to signal disapproval by restricting exports before determining the position of our Allies, and whether we intend to go ahead regardless of the position they take.

At this late date, I hesitate to suggest a revision in the formulation of the options, but I think it may be necessary to a good discussion and a clear decision. A suggested revision to the Pipeline options is attached.

Also, I find it difficult to distinguish between the individual options in the Oil-Gas paper. Some sort of a one-page, tabular presentation of the options, highlighting the important differences would probably be a great aid to quicker understanding by the NSC members.

~~CONFIDENTIAL~~



3

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2

My guess is that it will be impossible to get over all four of the issues (National Security Controls, Oil-Gas, Siberian Pipeline, and Caterpillar license) in a single NSC meeting and difficult to do so even in two meetings. In approaching these four topics, logic would appear to argue that one would go from the general to the specific, attacking them in the sequence listed above.

However, the Siberian Pipeline is a high-visibility issue that is more tangible and easier to grasp than the more general subject of oil-gas controls. Also, the Pipeline/Caterpillar issue is not only the most time-urgent one, but is probably actually more important than decisions on the remaining oil-gas items. Additionally, the Pipeline transaction will be the real test of our ability to obtain allied cooperation on restrictive measures; what we learn from attempts to get allied cooperation on this matter will surely affect the broader Oil-Gas policy we adopt.

Finally, as currently structured, the linkages between the overall Oil-Gas Policy Options and those for the Siberian Pipeline are unclear. It appears to me that Pipeline Option II (signal disapproval) would be consistent with Oil-Gas Option I; Pipeline II is probably also consistent with Oil-Gas II, but this is not totally clear, since Oil-Gas II appears to rely solely on unilateral U.S. options.

Nevertheless, my betting is that the Pipeline Option selected will be carried out, whether or not it is consistent with a broader policy option elected from those in the Oil-Gas paper.

For all these reasons, I continue to feel that the decisions made on the Pipeline will, in large measure, drive the broader Oil-Gas policy and I argue that the Pipeline decision should be made first, with the broader Oil-Gas decision to be made in the light of allied reactions to our Pipeline policy proposal.

I also argue that we should not expect to come out of the NSC meeting with an announceable decision on the Caterpillar license matter. If either Option I or II of the revised set I have provided for the Siberian Pipeline were adopted, the Caterpillar License decision would have to await the results of consultations with the Allies. If we adopt Option III, a "no pipelayers" announcement could perhaps be made immediately, but if Option IV were elected, we would probably want to withhold the "yes" announcement until after the economic summit.

I understand Secretary Baldrige's desire to get a decision as soon as practical, but I also understand it is not legally required until sometime in August and feel that other considerations may outweigh quick action.

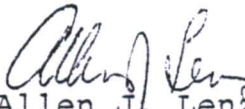
4

~~CONFIDENTIAL~~

3

A couple of questions: Page 1 of the Pipeline paper indicates that the Europeans have "pledged to encourage development of dual fired capabilities," etc. Does any paper exist documenting which Allies have made what pledges and assessing the likely effects of these intentions? Also, page 2 of the paper refers to discussions with the French and German foreign ministers and within NATO to ensure that Western European energy dependence would not raise the potential for increased Soviet political leverage over the Allies. What kind of records do we have of these discussions? In other words, if needed, can we pull together a good synthesis of what and how successful our efforts have been?

Sincerely,

  
Allen J. Lenz  
Staff Director

The Honorable Robert D. Hormats  
Assistant Secretary, Economic and Business Affairs  
The Department of State  
Washington, D. C. 20520

cc: Larry Brady  
Harry Kopp



DECLASSIFIED

~~CONFIDENTIAL~~

NLRRF06-114/9 #10715

BY KML NARA DATE 4/7/2011SIBERIAN PIPELINE OPTIONS

The four attached suggested options provide a hierarchy of actions in descending order of impact on the pipeline.

The important difference between Option I and II is that the former seeks to obtain allied concurrence in cancellation of the project, while Option II seeks its delay pending development of a safety net and better terms on the transaction. Option II would probably be seen by the Allies as a more plausible and realistic proposal and would also make it easier for Japan and/or the U.K. to join us in export restrictions without concurrence of the remaining Allies.

Under both Options I and II the U.S. would take no restrictive actions on non-strategic goods exports without allied support, whereas under Option III the U.S. would proceed unilaterally without first determining allied support.

Failure to achieve allied cooperation under Option I might allow a retreat to Option II. Similarly, failure under I and II would allow us to move to either Option III or IV, as appropriate, without changing an implemented policy.

Allen J. Lenz  
June 19, 1981

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

OPTION I

Indicate U.S. disapproval of the project and a U.S. proposal to deny all exports related to it. Approach our Allies to cancel further project negotiations.

This would entail high-level approaches to the Allies stressing that the threat of Soviet leverage outweighs the benefits of the project regardless of any safety net they might develop. The U.S. might have to present an "incentive package" to offset European loss of potential energy supplies from the U.S.S.R. and to gain general acceptance of our position. Additionally, however, opportunities to stop the project via bilateral arrangements with selected Allies would be explored. No unilateral U.S. export control actions would be taken without a degree of Allied support sufficient to measurably impact the pipeline project.

OPTION II

Indicate U.S. disapproval of the project under present conditions and a U.S. proposal to deny all exports related to it. Approach our Allies to delay further negotiations pending development of safety net procedures and terms and conditions of the transaction more favorable to the Western parties.

Opportunities to delay the project through bilateral arrangements with selected Allies would be explored. However, no unilateral U.S. export control actions would be taken without a degree of Allied support sufficient to measurably impact the pipeline project.

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2

OPTION III

Indicate U.S. disapproval of the project and that all exports related to it will be denied. The U.S. would proceed immediately and unilaterally to deny all exports related to the project, without determining if the Allies will follow our example. However, we would subsequently attempt to persuade our Allies to follow our lead, employing appropriate bilateral arrangements and incentive packages.

OPTION IV

Do not resist the project, but work with our Allies to minimize the strategic implications.

This would entail tacit U.S. acceptance of the project, implicitly linked to joint U.S.-Western efforts to reduce the threat of Soviet leverage and Western European vulnerability. We could seek to scale down the project and would assist in developing emergency energy supply arrangements and storage capacity as a safety net. However, our acceptance of the project would not be conditioned on specific West European actions. U.S. export licenses would be granted for equipment and technology for the pipeline within the parameters of overall U.S. export controls on oil and gas related goods.

Allen J. Lenz  
June 19, 1981

~~CONFIDENTIAL~~



## MEMORANDUM

10716

~~SECRET~~

## NATIONAL SECURITY COUNCIL

ACTION

June 27, 1981

MEMORANDUM FOR RICHARD V. ALLEN

FROM: ROBERT SCHWEITZER

SUBJECT: East-West Negotiations: Defense Group Concerns

We have just learned that there may be a Tuesday meeting of the NSC on East-West Trade Negotiations. We are concerned that a major split exists and that security aspects do not always seem to be fully recognized by the advocates. If I am bringing water to your mill, disregard, but here are our views:

- To give the Soviets \$20 billion in hard currency would be a major mistake; to set them up as a major supplier of oil and gas for Western Europe would compound that mistake.
- But the greatest mistake of all would be to allow them to become customers of Western European business in a big way.
- If Soviets were only to use \$5 billion of their \$20 billion in new money in backsliding NATO countries like Norway, Denmark, the Netherlands and Belgium, and in high defense performers like Germany and France, we would rapidly discover that Russian money will soon change the politics of those countries.
- Constituencies will develop among the business sectors which will press for the most amicable relations with the Soviets regardless of security interests, for fear the Russians will take their business elsewhere.
- The indebtedness for the \$20B will not lie with the Soviets but with the German company, Ruhr Gas, which borrows the money from German banks, gives it to the Russians, and then is repaid in gas. The German banks are guaranteed by Ruhr Gas, who is the one left without a guarantee.
  - Some of the advocates have argued that while the Russians get hard currency, they will pay back the same way. As you can see, this is not the case. Two years' output will pay entire indebtedness.
- The Soviets have never been shy about using economic leverage and have already stated publicly that they want the pipeline for political reasons. The \$20B, by the way, is an annual payment to the Soviets.

DECLASSIFIED

~~SECRET~~

Review June 27, 1987

NLRR FD6-114/9 #10716

BY KML NARA DATE 9/25/12



DOD is very concerned about the security implications, as is your Defense Group. There has not been an SIG, and the IG papers have obscured the issues rather than eliminated options.

- There is a split in the Administration, with Eagleburger (please the Europeans), Myer Rashish and Hormats at State all lined up in favor of the deal. DOD, while opposed, has not gotten Weinberger up to speed and will need more time to do so.
- Secretaries Regan, Baldrige and Brock are all in favor, but do not appreciate the Security aspects. If an NSC meeting does take place, Brock should not be there. He is not a member of the NSC; if we start bringing in heads of outside agencies we will shift the focus away from national security to other considerations.
  - Further, Brock is a natural politician who is emerging as the spokesman for business in the US. Baldrige feels threatened by this (according to business contacts).
  - If Brock is present in the NSC as STR on this issue, Baldrige will be driven to stronger positions in an effort to outdo him.
- The Republican Party Platform says that if national security is even indirectly affected, technology and resources should not be transferred.
  - The advocates argue that we will withhold technology for oil and gas development in the Soviet Union and allow only the end products to go.
  - This sounds like a tough policy but really is not; it is the old Carter policy (although the IG papers do not say so).
  - The fact is that most trade is in end products; not technology. In the case of oil and gas exploration, the things the Soviets need most are:
    - Sophisticated compressors
    - Submersible pumps
    - Oil drilling equipment
    - Pipe laying equipment
  - o And these are the things we will be giving to a nation which otherwise could not develop oil and gas resources without outside help.

- The real question, obscured in the IG papers, is whether it is in the national interest to further Soviet development of oil and gas; to allow the Soviets to become a major supplier for Europe; and in return to become a major customer of European businessmen.
- If one agrees that it is not in the US interest to allow this to happen, then the only question is what one can do to impede development of Soviet oil and gas.
- The key thing to decide first is whether or not you favor further development of the Soviet oil and gas industry-- then look for ways to impede.
- The advocates (who take somewhat a defeatist view) say that if we don't join in this venture, all we will do is deprive American businessmen of a share of the action because European and Japanese businessmen will simply take their place in the profit line.
  - Of course, if one has stupid policies and pursues them stupidly, this would be true, and the net result of export controls would be to depress American business.
  - But there are other than stupid policies: one could go to the Allies, make a hard sell that export to the Soviets of oil and gas end products is against their own security. Persuade them to adopt our analysis of the outcome as a matter of their own vital self-interest.

#### Summary

- Big issue; not well organized. IG papers have obscured rather than narrowed options, some of which are made to sound tough but are not.
- NSC is a place to resolve big issues, but this is not the way the process should really work, and we don't need another confrontation between State and Defense, especially over ill-defined papers.
- Defense interests are not tied together yet on this one and we do not have the votes to win.
- Haig's friendly pro-pipeline staff propelled him into a meeting with Baldrige as soon as he got off the plane from Hawaii, still agitated over the Kirkpatrick affair. He agreed to the NSC meeting before he had all the facts.
  - While first NSC meeting is supposed to be a discussion, the outcome cannot be controlled, and positions will only harden.

RECOMMEND

- Postpone the NSC until Thursday, 9 July, as it will take that long to get our act together and work on Al Haig.
- In the interim, require an SIG based on a more sharply focused IG paper.
- Separate the apples of whether or not the pipeline is desirable for US interests from the oranges of how to impede it. Both issues are mixed up in the IG paper.

\_\_\_\_\_ Approve                      \_\_\_\_\_ Disapprove

cc: Allen Lenz  
Norman Bailey  
Henry Nau  
Richard Pipes



DECLASSIFIED

~~SECRET~~

NLRRF016-114/9 #10717

4057

10717  
Allen Lenz  
Gas Pipe

BY KML NARA DATE 4/7/2011 THE WHITE HOUSE  
WASHINGTON

~~SECRET~~

July 6, 1981

MEMORANDUM FOR THE HONORABLE ALEXANDER M. HAIG, JR.  
The Secretary of State

THE HONORABLE CASPAR W. WEINBERGER  
The Secretary of Defense

SUBJECT: Request for Description of Scenario for  
Implementation of Recommended Siberian  
Pipeline and Oil/Gas Controls Options (C)

Today's NSC meeting revealed significant differences in your recommendations on U.S. policies concerning Oil and Gas Controls and the Siberian Pipeline. Despite these apparent wide differences, speaking to the necessarily broadly-stated policy choices provided in the options papers leaves ample opportunity for communication failures and lack of a mutual understanding of the respective positions. (S)

In view of the importance of the Siberian Pipeline issue and the urgent need to develop our position before the Ottawa Summit, I suggest that you both provide, by close of business Wednesday, July 8th, for use at the Thursday, July 9th meeting, a five to six page paper elaborating your position by describing what specific sequential actions should be taken to implement the options you support in the Oil/Gas and Siberian Pipeline issues. Each scenario should respond to, but need not be limited to, the following questions:

For Secretary Haig

- o Specifically, what is implied by a "very tough Option III" on the pipeline? What would our objective be? What pressures would be applied?
- o What specific steps should be taken to improve the safety net or scale down the project?
- o What specific steps, if any, should be pursued to improve Allied bargaining on terms of the transaction and to eliminate subsidized export credits?
- o What would the content be of the "strong alternative program" you indicated we should take to Ottawa to support our "skeptical view" of the pipeline?

~~SECRET~~



For Secretary Wienberger

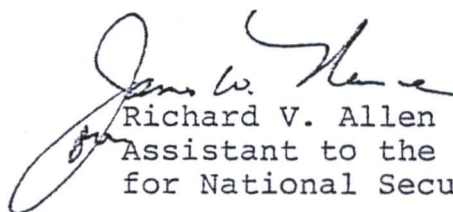
- o What is the objective of your pipeline recommendation? Stop? Delay? Scale down?
- o What incentives or pressures should be brought to bear on our Allies to motivate them to follow our leadership? How should this objective be implemented? Unilateral U.S. restrictions? Restrictions only after Allied cooperation is obtained?
- o What Allies would be approached and in what sequence? Do you recommend bilateral arrangements to stop the pipeline without French/German agreement? If yes, with whom?

For Secretaries Haig and Weinberger

- o What should the President say at Ottawa? To whom? Private conversations? To the group as a whole? If private conversations, in what sequence?
- o What should we propose for post-Ottawa actions? Follow-on meetings? When? At what level?

Your responses to the above considerations would be of great assistance in the NSC review of these important questions. (S)

FOR THE PRESIDENT:

  
Richard V. Allen  
Assistant to the President  
for National Security Affairs

~~SECRET~~

10718

14

DESCRIPTION OF OPTIONS  
NATIONAL SECURITY AND SOVIET ENERGY CONTROLS

	Security Controls	Oil/Gas	Siberian Pipeline	Caterpillar Pipelayer License
I	Restrict Equipment and technology critical to military production and use.	Deny all oil and gas equipment and technology licenses. Pressure our Allies to do same.	Deny U.S. Licenses. Press Allies to cancel negotiations.	Deny the license.
II	Restrict as in I plus items for Defense priority industries which would significantly enhance Soviet military.	Attempt less restrictive multilateral approach than in I. Deny licenses while consulting with Allies.	Withhold U.S. licenses. Encourage Allies to do same until safety net plans set.	Deny if Japanese will also deny.
III	Restrict as in II but for all items for use in Defense priority industries.	Strong effort to impede major Soviet energy projects thru multilateral action. Deny licenses while consulting.	Recognize inability to cancel or significantly delay project. Continue work to minimize strategic implications.	Approve the license.
IV		Deny exports of technology. License equipment.	Laissez faire. Let market determine European energy import and security policies.	
V		No special controls on oil/gas equipment and technology. Continue existing security controls.		<b>DECLASSIFIED</b> NLRR E06-114/a#10718

AGENCIES POSITIONS ON  
NATIONAL SECURITY AND SOVIET ENERGY CONTROLS

BY KML NARA DATE 9/26/12

	Security Controls	Oil/Gas	Siberian Pipeline	Caterpillar Pipelayer License
State	II	IV	Tough III	Issue License
Defense	II plus ad hoc III	Security Interest I or II?	I to II	I (Deny)
Commerce	II - Tighten at top - Loosen at bottom	IV	III	Issue (III)
Energy	II	III or IV	II, but III more practical	II
USTR	Modified II Limited to high technology - Less concern re product	IV	III	Issue (III)
Treasury	II	IV	III	Issue (III)
CIA	As close to III as Allies will accept	Implied I or II	Implied I or II	Implied deny
JCS	As tight as possible II - III	I	I-II	Deny (I)
OMB	II	IV	III	Issue (III)
USUN	II plus item by item analysis toward III	I	I	I

~~SECRET~~



MEMORANDUM

NATIONAL SECURITY COUNCIL

USSR/Pipeline 15

10719

~~CONFIDENTIAL~~

July 7, 1981

MEMORANDUM FOR NORMAN BAILEY

FROM: RICHARD PIPES *RP*

SUBJECT: Siberian Gas Pipeline Project

My personal preference would be for the position taken by the UN Delegation. The importance of a strong stand in this instance is not merely economic or military: it is above all political and psychological. If we go along with the pipeline project and license Caterpillar, we will merely confirm suspicions (engendered by the decision to lift the grain embargo) that we preach but do not practice economic warfare, and certainly do not intend to hurt our own interests. This issue may be well worth a drag-out fight with the Europeans, the more so because the rise in interest rates and the decline in gas consumption have already dampened European enthusiasm for the line. (C)

By the mid-1980s the Russians are expected to run out of oil reserves which bring them their largest hard currency returns. Just at that time the West is to come to their rescue with the completed gas pipeline. The money earned by the Soviet Union from energy exports goes for a variety of domestic and foreign causes that bode no good. The less hard cash the USSR has, the less mischief it can cause us and our friends. (C)

~~CONFIDENTIAL~~

Review July 7, 1987.

DECLASSIFIED

NLRRF06-114/9 #10719

BY KML NARA DATE 4/7/2011

~~CONFIDENTIAL~~

✓ ~~PIPES~~ 16  
Pipeline

MEMORANDUM

NATIONAL SECURITY COUNCIL

10720

July 8, 1981

~~CONFIDENTIAL~~

INFORMATION

MEMORANDUM FOR ALLEN LENZ

FROM: NORMAN A. BAILEY *MB*

SUBJECT: NSC Staff Consensus Position on Oil/Gas Development and Technology Policy with the Soviet Union: Objectives, Policy, Strategy and Tactics

Objective

As part of an overall objective of impeding major Soviet energy projects while consulting with allies, delay to the maximum the Siberian pipeline project through a lengthy process of consultations, in the hope that this will eventually kill or significantly scale-down the project and at a minimum drastically upgrade safeguards.

Policy Recommendations

1. The NSC should now determine that the project, at least as presently constituted, is a serious security threat to the Western alliance.
2. The presumption should be that the U.S. will vigorously and persistently oppose the project and others like it.
3. In the interim, the U.S. should deny the pending initial application by Caterpillar for the export of 200 pipelayers.
4. We should inform Europe and Japan that we are inclined actively to oppose the project but request high-level discussions designed to pool information, exchange viewpoints and arrive at a consensus. Included in the discussions would be alternative supplies, security concerns, identification of and commitment to vulnerability reduction measures and ways of modifying financial terms. The goals of such a move are:

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Review July 8, 1987

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(a) To eliminate undue friction and confrontation with our allies by first using persuasion to justify and promote our views, thus avoiding an outright veto of the project if possible.

(b) To give them a fair chance to modify our views and air their position, since we do not now have technical data allowing us to render a final, accurate judgment on their vulnerability.

(c) To provide an opportunity to institute emergency preparedness measures which are needed even in the absence of the project.

(d) To establish a precedent and forum for exchanges of views and closer cooperation on a broad range of energy security matters which would allow us, among other things, to head off similar projects before they are this far advanced.

5. It is unlikely but conceivable that the imports could be made minimally acceptable from the viewpoint of direct European vulnerability if they were scaled down drastically (perhaps by half or more), if they were financed on a commercial rather than subsidized basis, and if a very firm commitment were made to implement extensive emergency preparedness measures. The goal would be to persuade Europe to treat the USSR as an insecure interruptible source of marginal supplies, priced accordingly. This would not be possible if the USSR supplied 30-40% of Europe's gas supplies.

#### Backup Arguments

1. Projections of overall European supply needs depend upon many unknowns, especially on the price of gas (which is likely to rise considerably), the availability of oil, and the effect of these factors on demand for gas.

2. In any case, the 40 bcm/y level of the project cannot be and has never been justified by the level of absolute need. Rather Europe has contended that the partial replacement of oil imports with imported natural gas will be beneficial to its security, a highly dubious assumption given that the USSR and Algeria will supply about half the Continent's needs.

3. Volumetric reliance on Algeria will probably not be reduced from what it would otherwise be if the project is agreed, and vulnerability to Algerian manipulations under certain likely conditions would actually increase.



18

4. Even if Europe could convince the U.S. that vulnerability could be confined to an acceptable level, the overarching security problem associated with foreign exchange and technology transfers would continue to affect the U.S.' security in an indirect but important manner. The U.S. should immediately lay the ground for a consistent policy of denial to the Soviet bloc of energy, related equipment and technology. This will not be easy, however, because U.S. credibility in this area is low due to perception that we have taken advantage of our allies in the past and because of our policy on the grain embargo.

5. It is not a foregone conclusion that Europe will go ahead with the project in the face of forceful U.S. opposition. There is every indication that both the security and economic dangers involved in the project have been only superficially examined by Europeans. U.S. arguments are strong and might by themselves weaken European resolve or lead the Continent to impose conditions unacceptable to the Soviets. The universal enthusiasm engendered by the project only six months ago has now partially given way to second thoughts and increased caution. Even such relatively fleeting events as a temporary rise in interest rates has led them to reexamine and stall the deal. There are different interests and outlooks distinguishing the views of various countries. This is particularly true in the case of the French, who have indicated they might be weaned away from the pipeline project if certain attitudes are taken by the U.S. with reference to Algerian, Norwegian, Nigerian and Trinidadian gas.

6. The short-term tension which might be created by such a confrontation is preferable to the lasting and basic allied policy differences which would arise or be exacerbated as a result of Europe's increased uncritical commitment to detente and its growing economic dependence on USSR as embodied in the proposed gas imports. The U.S. must face the fact that Europe and especially West Germany have already been to a large extent neutralized by trade with the East and that a break and eventual reversal of this pattern of dependence will not therefore be accompanied without some clashes or protest.

7. A firm stance on the pipeline and energy technology issues would convince Europe that the Administration has adopted a consistent policy and one distinct from that of the Carter Administration. The U.S. would establish itself as a force with which to be reckoned on East-West and energy security matters. Increased respect for the U.S. and caution on the part of Europe are outcomes at least as likely as backlash and resentment. The



U.S. would lose all credibility with Europe on these issues and on trade embargoes and East-West policy if it were to approve the highly symbolic and intrinsically important Caterpillar export and pipeline construction proposals.

### Strategic Implementation of Policy

Considerable initial delicacy would be required because the U.S. would aim to establish a position sufficiently strong to force the Europeans to agree without delay to exchange information on the pipeline deal and its security implications and to deal with us seriously -- but not so strong that it seems the U.S. is dictating their policy and thus humiliating them internationally and before their left-wing domestic constituencies. President Reagan's personal exposition and endorsement of the policy will almost surely be needed to accomplish these goals.

The ideal opportunity to deal with this matter is presented by the upcoming Ottawa Summit, where the issue would have to be dealt with at three levels: in the final communique, in the President's speech and on the less formal and bilateral level. Consultation on this issue might be coupled with consultations on interest rates and exchange rates. This would be a powerful incentive and work to separate the French from the others, at least in terms of delay.

Since the final communique for the conference is even now being negotiated, the U.S. will have to move rapidly to insert language covering this issue. Because the boundaries for accepted communique language are rather narrow, the time for negotiation is quite short and the appearance of U.S. diktat must be avoided, it will probably be necessary to confine language to a rather vague and bland statement which avoids specific mention of the pipeline issue but which establishes the priority and mechanism for intensified and allied coordination on energy security matters. Under the energy section of the communique, this might be covered in language similar to the following:

- (The parties agree to) give priority to a high-level study of prospective changes in patterns of dependence on foreign energy supplies and of the need to bolster allied preparedness for energy emergencies.

In Reagan's speech, the U.S. would have to establish itself as a tough customer which must immediately be reckoned with in a serious manner on the pipeline and related issues. Language



along the following lines is recommended:

"The security of the West's energy supplies is now both a vital objective and essential condition for our alliance of industrial democracies. An issue of particular immediate concern is the proposal for a large natural gas pipeline from West Siberia to the European market. We do not wish to interfere with the national energy policies of our allies. Yet much greater dependence on Soviet energy supplies would impair allied unity and security, so joint consideration of these problems is essential. The U.S. will defer any judgment on the desirability of this pipeline until we have reviewed with our allies the implications of their vulnerability to interruptions in natural gas supplies. Because negotiations on the project are now far advanced, immediate, detailed yet high-level discussions of the issues involved should commence within the next few weeks, and it is the U.S. hope that regular coordination of energy security matters would continue even after this issue has been decided."

After the President's formal presentation, the U.S. delegation will be required to follow up with intensive lobbying on behalf of the U.S. position and the establishing of detailed arrangements for meetings on the issue. Such meetings should begin as soon as possible, in August; the U.S. could push for their conclusion sometime in the first half of 1982. Europeans will doubtless counter with the insistence that the contract is to be decided by the end of the year and that discussions therefore can take no more than a few months; the U.S. could push for a compromise date of late January 1982.

The composition of the working group will be important. At least on the immediate issue of the Siberian pipeline it would probably be advisable, for reasons of flexibility and due to the time constraints involved, to limit active participation to the U.S., the FRG and France, with other potential consumers, Norway, the UK and Japan kept well informed and able informally to have some input. If the core group was larger, it would logically include Italy and Netherlands as well, since they would be the other major buyers of Siberian gas and the Netherlands would represent countries which might be called on to maintain surge production capacity. The make-up of individual delegations should reflect the strong emphasis on security issues and avoid over-representation of the economics and finance ministries which have apparently dominated the European decision-making process thus far. Defense, foreign affairs and energy/technology/economics constituencies should probably be equally represented on

each national negotiating team. The delegations should contain sufficient expertise and back-up support to investigate technical aspects of vulnerability and emergency preparedness issues, but leadership and representations should also be at a high level so as to emphasize the seriousness with which the U.S. views the consultations. The U.S. delegation, for instance, should probably be at least nominally headed by the Secretary or Deputy Secretary of State or an official of equivalent prestige, and the actual negotiations could be supervised by senior experts from the three basic areas involved. A National Security Council coordinating committee at the Under Secretary level would be one possible alternative.

Attachment

Tactical Implementation of Strategy

cc: Robert Schweitzer  
Jim Lilley  
Don Gregg  
Henry Nau  
Rud Poats  
Richard Pipes  
William Stearman  
Jim Rentschler  
Dennis Blair  
Carnes Lord  
Mike Guhin



~~CONFIDENTIAL~~Tactical Implementation of StrategyI. Disseminate information on the political and economic dangers of the project.

Undermine support for the project at meetings of the proposed high-level energy security group, in financial circles, among shareholders and the politically active, and within the populace at large by providing information and implicitly or explicitly encouraging questioning or dissent from the prevailing view that the project is sound from an economic point of view and presents no security risk. Emphasize the dangers which have thus far apparently been largely ignored, including

- the possibility of and provisions for cost overruns
- the possibility that the gas will not arrive in time to alleviate a potential supply shortage in the late 1980s
- problems regarding the security of natural gas supplies in general, especially when the USSR and Algeria will provide about half of Europe's supplies and given the much lower fungibility of natural gas as compared to oil
- the USSR's poor record on and prospects for reliable winter delivery
- the dependence of certain industries on Soviet orders
- the potential disproportionate dependence of certain areas of the country on Soviet gas
- the many ways in which the Soviets and others could implicitly or explicitly reap political benefits from the project
- the arguments on behalf of a strict technology transfer policy.

Approaches to those with financial interests in the successful completion and operation of the line may be particularly effective, although circumspection would have to be observed to avoid improper interference in the domestic affairs of a friendly country.

- Encourage shareholders in Ruhrgas, Deutsche Bank and similar institutions in Germany and elsewhere which will have a financial stake in the deal to look more closely at the

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cost and viability of the project and the technical difficulties it may encounter.

-- Work especially through American-owned companies or affiliates and possibly encourage sympathetic allies to do the same (e.g. Exxon and Shell own 25 percent of Ruhrgas, the leading proponent of the project, and Mobil and BP apparently also own significant shares through their partial ownership of other companies).

Provision of information on the Alaska Natural Gas Transportation System (ANGTS) could be a particularly effective mode of dramatizing the economic and financial uncertainties involved in the project. Our thus-far unpublicized analyses of the technical, commercial, and financial risks and costs of the ANGTS could be used as a basis for pointed criticism of the terms and expectations for timely completion of the Siberian project. Although this analysis should be very persuasive, the danger would be that the material could be leaked and might damage U.S.-Canadian relations and undermine the ANGTS project itself, although this might not be a total liability if the Administration decides to extricate itself from commitment to the Alaska line.

## II. Tightening Contract Terms

1. Eliminate hidden or overt subsidies to the USSR. Force the project to compete in the commercial market with other energy development projects. This may imply abandonment of even the gap between normal commercial rates and the prime rate for large-scale long-term projects (e.g. in February Germany claimed the normal prime rate for a project such as the Siberian one was 9.75 percent, but the commercial rate even then was 13 to 14 percent).

2. Considerably shorten the loan payback period, which is one of the more dangerous provisions directly elevating European vulnerability to manipulation. Consider payback through means other than gas deliveries.

3. Remove direct government sponsorship of the deal by eliminating credit guarantees and forcing private industry and banking circles to stand behind or abandon their claim that the USSR is an extremely dependable commercial partner.

4. Insist that the price paid the Soviets be less than that accorded politically and technically reliable exporters such as Norway, Netherlands and Canada, on grounds that in the past they have not been reliable suppliers during peak



season when this is most important, and this necessitates the provision of expensive extra storage facilities plus increasing vulnerability to reduction in North African or other supplies.

5. Reject contract provisions designed to allow unusual flexibility in delivery schedules; at least some countries in Western Europe now maintain such provisions in their agreements with the USSR. Instead, institute a penalty for under-delivery of gas, especially when this occurs during peak season, thus giving the USSR some incentive to give first priority to foreign over domestic customers.

6. Eschew "take or pay" type provisions which would obligate Europe to offtake a certain amount of gas even if there is no market for it.

7. Cut the level of initial Siberian contracts to the bare minimum which individual countries feel they absolutely require and seek an option to import more later if oil supply, price and security considerations justify a policy of backing out oil with natural gas from the Soviet Union.

8. Insist upon floating interest rates so that Europe is protected if the money market remains in its present state or is volatile in the future.

9. Encourage Europe to bargain with the Soviets and others by means of a transnational consortium formed for each project. This would help lessen consumer competition, which now benefits the producers, help ensure that those most in need secure a share of available supplies, and reduce the financial exposure and political vulnerability of individual countries. Eventually such a history of cooperation might provide the basis for a counterweight to a gas producers' cartel if such a policy were deemed desirable.

Europe formerly negotiated with the USSR in this manner, but this time the Soviets have insisted upon negotiating with each nation individually. Italy has urged the other countries to form a consortium nevertheless, but claims that France and especially Germany have resisted this suggestion.

### III. Attempts to minimize the perceived need for Soviet gas

1. Limit U.S. competition for gas from Europe's natural suppliers (e.g. Algeria, Nigeria, Cameroon and possibly areas such as the Canadian Arctic) through accelerated decontrol of U.S. natural gas prices or a more stringent alternative fuels test for LNG imports approved by FERC.



2. If the ANGTS project should collapse, the U.S. could consider exporting natural gas from the Alaskan North Slope to Japan. A share of Japanese domestic demand for natural gas imports could thus be satisfied by Alaskan gas, freeing up Persian Gulf and possibly other gas for European consumption.

3. Encourage Norway to increase production of gas, at the expense of oil if necessary, in the context of their long-term hydrocarbon development plans for the 1990s, and explore options for installing and financing excess gas production capacity for emergency use.

4. Encourage the Netherlands to meet the needs of European suppliers during the late 1980s or early 1990s by offering short-term contracts above currently projected export levels.

5. Press the Dutch to accelerate offshore exploration and commit further onshore reserves to the export market as soon as discoveries are made.

6. Provide earlier or stronger assurances of additional infrastructure to provide much larger and cheaper supplies of U.S. coal for the European market. Press West Germany to relax its quota on coal.

7. Help restore the domestic credibility and viability of the nuclear power option in Germany.

8. Explore with the UK options for future surging of gas to the Continent during emergencies.

9. Encourage the Netherlands to store gas in depleted fields and maintain surge production and transportation capacity from operating fields.

10. It could be pointed out that Europe might spread its risks by cutting back the Siberian project considerably and offering to invest the unexpended loans in other gas or energy development projects. Nigeria represents an obvious opportunity for such a policy because the government there may delay the Bonny LNG project due to funding problems, and Bonny would probably come onstream before the Siberian project if work now proceeded at full pace.

11. An economic method of maintaining emergency surge capacity which would be available to Germany, Italy and Switzerland under certain circumstances if the Dutch cooperated



would be for these countries to reduce their allowable offtake from present Dutch contracts and extend them as long as possible (five years is the period presently allowed) so that the deferred offtake can be used in an emergency.

IV. Promote the implementation of vulnerability reductions measures

While conceding the advantage of having a Soviet supply to reduce European vulnerability to oil and gas supply interruptions in which the Soviets have no interest or involvement, we should insist on the importance of greater all-around preparedness (military as well as economic) for Soviet involvement in Near Eastern conflicts that threaten Western economic and security interests. This should occur whether or not the Siberian pipeline becomes a reality.

The vulnerability reduction measures potentially involved have been discussed elsewhere and need not be examined here in detail. Suffice it to say that care should be taken to gear them to the most likely and most dangerous supply interruptions -- which in turn will determine what proportion of attention should be paid to gas storage/surge and oil storage/surge options, along with the cost effectiveness of these measures. For instance, future research on dual-fired capability should probably concentrate on the possibility of coal-gas or oil-gas mixtures, since at present most gas burners which can be switched to another fuel are configured for oil and vice versa, but this will be of little help in the most dangerous scenario, that involving a combined Persian Gulf oil crisis and a reduction in gas supplies.

The question of what constitutes "adequate" vulnerability reduction measures will be a difficult one. Europe should be urged to gear its efforts to guard against the most dangerous scenario, mentioned above, and if such preparations are extensive, Europe will probably be protected against most other contingencies. However, given the problem even of dealing with a Persian Gulf oil interruption during tight market conditions, it is highly unlikely that satisfactory precautions could ever be taken to control the dangerous consequences of a simultaneous oil and gas interruption. Some would argue that protection is "adequate" when Europe judges that it would be sufficiently secure despite an interruption to commit itself ahead of time to aid U.S. efforts during the most dangerous Middle East crises, those involving Soviet activity or interests.

European security could be fostered by offers of access to U.S. oil storage facilities. This policy might be both economically and politically advantageous to the U.S.; it would help solve some of the budgetary problems of the SPR and would encourage Europe (and give it an excuse) to cooperate with the U.S. during a supply emergency.

One problem which may develop with vigorous pursuit of vulnerability reduction options is that they will probably be very expensive and the question will arise as to whether they are worth the financial burden required and whether Europe will be inclined to reduce military expenditures in order to divert funds to energy security measures. In addition, there are already signs that Europe may try to maneuver the U.S. into picking up part of the tab, especially for the surge production facilities discussed in an earlier section.



PIPELINE 28

THE WHITE HOUSE  
WASHINGTON

Dear Chuck:

I am glad to have this opportunity to express some of my thoughts concerning the Siberian gas pipeline project to Western Europe.

As you know, we oppose this project as making no sense economically, financially, politically, militarily or strategically. Our reasons are as follows:

First, there are many alternatives available which avoid dependence on Soviet gas.

Second, the Western banking system, already under severe pressure from multiple rescheduling requirements in Eastern Europe and elsewhere, should not increase its exposure.

Third, cost overruns and construction delays are inevitable. Further credit demands will be made. If acceded to, exposure will rise. If not, whatever has already been built will benefit only the Soviet Union and Eastern Europe and put repayment in jeopardy.

Fourth, the Soviets are not reliable suppliers, entirely aside from security considerations. There have already been multiple interruptions of supply from present, much more easily accessible fields for technical reasons.

Fifth, the Soviet bloc will require continued massive imports of foodstuffs. Earnings from the gas will largely go to the suppliers of foodstuffs, and not to purchases from the gas consuming countries, thereby jeopardizing debt repayment.

Sixth, the idea of the huge Soviet market for European goods is a myth. In 1980 total commerce of the six proposed European consumers of Siberian gas with Nigeria alone was 73% of their total commerce with the Soviet Union.

Finally, there is no valid comparison between the West selling grain to the Soviet Union and buying gas from it. Grain is an essential commodity, and we control the leverage it provides. Gas sales constitute leverage that they have.

I hope that this letter will be of assistance in the deliberations of your Subcommittee.

Sincerely,

Richard V. Allen  
Assistant to the President  
for National Security Affairs

The Honorable  
Charles H. Percy  
United States Senate  
Washington, D.C. 20510



~~SECRET~~

The Director of Central Intelligence

Washington, D.C. 20505

~~Ref~~ <sup>30</sup>  
Pipeline 17

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FOIA(b)(3)

9 July 1981

MEMORANDUM, FOR: The President  
The Vice President  
Secretary of State  
Secretary of the Treasury  
Secretary of Defense  
Secretary of Commerce  
Secretary of Energy  
Director, Office of Management  
and Budget  
United States Trade Representative  
Assistant to the President for  
National Security Affairs  
Chairman, Joint Chiefs of Staff

FROM: William J. Casey

SUBJECT: Siberian Pipeline

The attached has been prepared for your information in connection  
with the NSC meeting this afternoon.

  
William J. Casey

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BY KNL NARA DATE 9/25/12



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8 July 1981

BY KML NARA DATE 9/25/12

CIA MEMORANDUM ON SIBERIAN PIPELINE

The United States should attempt to dissuade the Europeans from consummating the agreement. At a minimum, the Allies should delay decision pending a joint study of their energy security in the changing economic and political environment of the 1980s. These are the basic arguments that can be made:

- The pipeline will improve future Soviet economic growth and facilitate a military buildup which the West (especially the US) will have to counter. (Tab A) This probably will be the most compelling argument to the Europeans.
- It would replace their current hard currency earnings from oil which seem likely to dry up during the second half of the 1980s. The Siberian pipeline would thus prevent a reduction of the hard currency they have to spend from the current level of \$24 billion to \$12 billion and enhance the Soviet ability to extend their influence over other countries.
- The Soviet gas will cover less than 3 percent of European energy requirements and is not needed to cover increases in European energy demand. Demand projections are being lowered greatly because of energy conservation and alternative, often cheaper supplies of gas and other energy sources will be available. The argument that the pipeline would increase the security and the price of energy supply by diversifying sources and reducing dependence on the insecure Persian Gulf is weak.
- The \$4 billion of annual Western exports for the pipeline would add less than 1/2 of 1 percent to the foreign trade of the Alliance. To the extent that these increments to Western energy and trade enable the Soviets to maintain or increase their military capability, the United States, carrying 54 percent of the COCOM defense burden, would bear the brunt of responding.
- The \$16 billion European investment would be better spent on alternative schemes to ensure Allied energy security. Some combination of American and Australian coal, Norwegian and British gas from the North Sea, and Western capability to produce synthetic gas can satisfy the Western European needs which the Siberian pipeline is intended to meet. (Tab B)



32

A

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The Soviet Military Effort

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- Soviets have increased defense spending in real terms at an average annual rate of 4-5 percent since late 1950s; military now consumes 12-14 percent of GNP.
- Economic growth is slowing and could drop to 2 percent or less by mid-decade. As a result, USSR will have increasing difficulty in maintaining pace of defense buildup. Military share of GNP could be a point or two higher in 1985 and three or four points higher in 1990 if past trends continue. More important, military could take as much as three-fourths of annual increment to GNP by end of the decade. (Figures A-1, A-2)
- Although the pipeline project would not eliminate economic problems (it would at best add a few tenths of a point to GNP growth), it could ease the strain considerably in key sectors and thus facilitate the military effort.
- Hard currency earnings from the project could maintain the Soviets' import capacity in the face of declining oil revenues. This would permit them to continue to import large amounts of Western machinery and equipment. (Table A-1)
- Technology transfer associated with the project will benefit domestic gas production--the key to meeting Soviet energy demands in the 1980s. It would enable the Soviets to purchase Western Arctic-design extraction and processing equipment, large-diameter pipe and compressors--items which the USSR cannot match in quality nor produce in the quantities required.
- These aspects of the project will aid the military effort in two ways: some imported equipment financed by gas sales will likely be used in military systems; other imports will be directed to civilian uses, reducing pressure on the defense industries to switch to non-military products.
- Collapse of the pipeline deal could significantly increase Soviet long range economic problems and the difficulty of maintaining the current pace of their military programs.
- Hard currency earnings could fall by \$10 billion or more by 1990, requiring major cuts in purchases of energy and of Western goods that cushion the defense effort.
- Defense-related industries such as electronics, chemicals and machine-building could be especially hurt, because they use much of the machinery and equipment imports.

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- Even without the 9,600 kilometers from Siberian gas fields to Western Europe, their five-year plan calls for them to build 15,000 kilometers of gas pipeline to meet their own energy needs. For them to produce in the USSR the equipment needed for these pipelines and domestic energy production, given likely trends in production of naval ships, ground force weapons, and aircraft engines, the Soviets would be forced to divert investment from other sectors and cope with important additional costs, delays, and stringencies. These could substantially increase the Soviets' overall economic problems and impose significant costs and difficulties in maintaining the pace of their military buildup.

These factors could induce the Soviets to at least reduce the growth of military spending (if not cut it in absolute terms).

- They would not necessarily result in a reduction in Soviet military capabilities. Soviet defense spending is now so high (Table A-3) that with reduced growth (or indeed with no growth at all) substantial modernization of the armed forces as a whole would continue.
- They could, however, require the Soviets to curtail or stretch out selected weapon programs and perhaps make them more forthcoming in arms control negotiations.

24

B



Tab BThe Impact of the Pipeline on Western Europe

Although construction of the proposed pipeline would have a substantial impact on the Soviet economy and military potential, it would have little effect on Western Europe's economies but would make Western Europe somewhat more vulnerable to Soviet political pressure.

Specifically, purchases of Soviet gas through the pipeline:

- Would not be needed to cover increased energy demand;
- Would add to the problem, not to the solution, of energy supply security.
- Would probably be an expensive source of energy.

1. Will the Soviet gas be needed?

(a) Projections of European energy demand are being substantially lowered.

- Between 1978, when the pipeline plans were first seriously discussed, and this year, IEA's projections of West European energy demand in 1990 were lowered by almost 4 million b/d. (See attached table).
- IEA projection of total industrial nation energy demand was lowered by 16 million b/d.
- The amount of Soviet gas to be imported through the proposed pipeline -- .5 to .8 million b/d equivalent is only about one eighth to one fifth as large as the reduction in projected European energy demand.
- This may not be the end of the story; demand projections may continue to be lowered as information on the strength of market reactions to higher oil prices pours in.

(b) Many projections of European demand for natural gas also are being lowered.

- During the past 2 years, [ ] have lowered their 1990 forecasts by about the volume of the projected Soviet deliveries.

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(c) Alternative energy sources are available;

- Recent and likely future U.S. withdrawals from LNG deals with Algeria and Nigeria will make available more LNG from these sources to Western Europe than is now projected in European plans. Indeed, Western Europe is the only alternative market for this gas. The amount of additional gas made available to Europe is about 2.3 billion cubic feet per day, or 50-75 percent of the additional Soviet gas. US needs can be met from domestic, Canadian, and Mexican sources.
- After 1990, more than enough Norwegian gas can be developed to offset the Soviet gas. A single gas structure, discovered and explored during the past 3 years, could produce at least two-thirds of the proposed Soviet deliveries by the early to mid-1990s.
- US coal supply will be ample to meet increases in European coal demand substantially larger than now planned. The necessary adjustments in European energy policies would not be particularly difficult. European investments in US coal infrastructure--for example, in building a large port capable of handling very large coal carriers--would make the coal cheaper. Loss of Soviet gas could be offset by some 40-60 million tons of coal imports, an increase of about one-third in current projections of West European coal imports.

2. Would the pipeline enhance or weaken European energy security?

- (a) The European argument that the pipeline would increase the security of energy supply by diversifying sources and reducing dependence on the insecure Persian Gulf is weak, if not totally invalid.
  - Even if Soviet gas supplies were secure, they would not provide insurance against the contingencies of interruptions of Persian Gulf oil, because--
    - (1) Soviet gas would substitute for only a small part (less than 10 percent) of Persian Gulf supplies and;
    - (2) The supply of Soviet gas could not be expanded if the Persian Gulf or other foreign supplies were interrupted.



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(b) Supplies of Soviet gas are themselves not reliable; they are subject to both technical and political risks.

-- The technical risks result from severe climatic conditions in the USSR and the near absence of spare Soviet pipeline capacity and gas storage; periodically the Soviets make large cuts in their exports to Western Europe to meet priority domestic needs (this point is well known to the Europeans).

-- Although in most likely circumstances Moscow would be loath to use its gas as a blunt weapon to pressure Western Europe, because it needs the gas revenue badly, it would be able to exert subtle political pressure.

-- Vulnerability to Soviet pressure would increase despite the fact that increases in imports of Soviet gas would about offset declines in imports of Soviet oil. For most of Western Europe, Soviet oil is a marginal and variable source of energy, for which alternatives can be quickly found. Soviet gas, however, would become part of the base load of European energy supply because of the high investment costs required.

(c) Although other sources of gas too are subject to technical and political risks, in a number of cases, these risks will probably decline;

-- Specifically, Algeria and Nigeria both will become highly dependent on a steady flow of gas revenues to cover their expenditures.

3. Is Soviet gas a source of cheap energy?

(a) Soviet gas, if priced at approximate parity with crude oil, is not cheap. US and Australian coal are substantially cheaper.

(b) If, as we believe, oil markets continue to be soft for several years, the bargaining position of gas importers will become stronger and stronger. Consequently, patient buyers are likely to get better terms.

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NSC/S PROFILE

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FILE - GAS PIPELINE 39

ID 8104201

(EUROPEAN

RECEIVED 10 JUL 81 18 PERCEPTIONS)

TO

BREMER

FROM LENZ

DOCDATE 10 JUL 81

DECLASSIFIED  
White House Guidelines, August 28, 1997  
By JS NARA, Date 7/29/02

KEYWORDS: USSR

GAS

HAIG, A

EAST WEST ECONOMICS

EXPORT CONTROLS

SUBJECT: SECSTATE & GOVT OFFICIALS CONVERSATIONS W/ WEST EUROPEAN COUNTERPARTS

ACTION: PREAPRE PAPERS

DUE: 13 JUL 81 STATUS D FILES

FOR ACTION

FOR COMMENT

FOR INFO

STATE

PIPES

STEARMAN

NAU

BAILEY

HUBERMAN

Rentschler

COMMENTS

REF#

LOG

NSCIFID

( D / )

ACTION OFFICER (S)

ASSIGNED

ACTION REQUIRED

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Lenz	S	7/14	Prepare memo for Allen	7/16	

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## DEPARTMENT OF STATE

Washington, D.C. 20520

July 13, 1981

~~SECRET~~with SECRET NODIS attachmentMEMORANDUM FOR MR. RICHARD V. ALLEN  
THE WHITE HOUSE

Subject: Siberian Pipeline

As requested in your memorandum of July 10, I enclose the following records of U.S.-European exchanges and statements regarding the proposed Soviet pipeline:

Schmidt Speech - May 22  
Black-Mozur - May 12  
Haig-Genscher - March  
Schmidt Spiegel Interview - February 23  
Haig-Francois-Poncet - February 23

*John H. Kelly*  
L. Paul Bremer, III  
fa Executive Secretary

Attachment:

As Stated.

DECLASSIFIED  
Department of State Guidelines, July 21, 1997  
By CIS NARA, Date 7/9/12

~~SECRET~~  
GDS 7/13/87

Chancellor Schmidt's Response  
to Questions at the National Press Club  
May 22, 1981

Western\*Europe-Siberian Pipeline

Q: Do you feel that the Soviet-German gas pipeline will erode German security by making Germany vulnerable to Soviet blackmail?

A: The answer is no, I don't feel that way. I would like to give you a more detailed answer; it's going to be a long one. Germany is lacking energy resources; what we do have is coal, and it's very deep in the earth, every new pit has to be dug down to 1100 meters down to the earth -- very expensive. To open up a new pit needs ten years, you have to spend \$1 billion before you get the first ton of coal out of it, so it's enormously expensive coal. Nonetheless, we have not given it up, we are still producing something like 90 million tons a year. We'll maintain that. On the other hand, we are shielding off our coal from cheap competition from the outside; now that's from Australia, from Poland, or the United States, all of you have cheaper coal -- can produce by strip-mining, we can't. We need our coal to be kept alive, because we want at least some independence from external sources of energy. And for the rest of our energy consumption, we try to diversify risks, so far we have too big a risk in oil, we have reduced our oil imports now, we have never had regulations on prices in Germany, we let the prices hit the public, and the public learned by these enormous prices at the gasoline station as well as regards heating oil. We have conserved a lot of oil and replaced oil by other sources of energy (I'm coming to that). Now there is less than 50% of all our total energy consumption. It had been 55%, it's now 37% or something.

As for the oil, most of it comes from the Middle East, which is dangerous, there is obviously some risk, some political risk to oil coming from the Middle East. Some of it is coming from England. We are trying to diversify the sources from which we get our oil. England is coming up, Norway will be coming up.

Secondly, on top of coal and oil, we also diversify to some degree by basing our industry on nuclear energy. We have some grievances, some sad experience in that field. It's not so long ago that an American administration together with their Canadian friends told us



either stop exporting nuclear plants to Latin America or we will stop supplying you with nuclear fuel. We didn't stop our exports and we got the fuel in the end, but it showed us that we must not be too dependent on other peoples' decisions. So we saw to it that although nuclear energy is very cheap, we are not going to put all our eggs into that one basket.

The third basket would be natural gas. We don't have any on our own soil, we have to import it. We try not to have too much natural gas in order to diversify our risks, and secondly, in importing natural gas, we try to diversify our imports from different countries: Algeria, Holland, England in the future, Norway in the future, while these very civilized countries prevailed as regards the prices, as if they were honorary members of OPEC.

As to the Soviet Union -- we will not allow the Soviet Union to supply us with too big a share of our total gas consumption, and some share of our total energy consumption. So we limit risks there as well, and it would be very unwise, in natural gas, for instance, to be dependent only on let us say Algeria, even Holland. So I feel it's a long answer to a short question, but I gave you some feeling for the strategy we are trying to pursue.

Memorandum of Conversation

DATE:

SUBJECT: East-West Trade Issues

PARTICIPANTS: Gunter Black, Vice President, Deutsche Bank AG,  
Frankfurt  
Michael C. Mozur, INR/EC

COPIES TO: EUR/EE  
EUR/CE  
EUR/SOV  
EB/TDC/EWT  
INR/SEE

DATE AND PLACE: May 12, 1981 at Deutsche Bank, Frankfurt

The discussion focused on the following three topics:

--Yamal pipeline project: Black expressed the conviction that the project negotiations would eventually be concluded successfully despite the current difficulties over Soviet demands for below-market interest rates. Renewed talks were planned for June when a Soviet delegation was expected to call upon the German seamless pipe representatives in Dusseldorf, as well as negotiation participants in Bonn and Paris. While the bankers recognize that the pipeline issue is fraught with political concerns, they will take a purely business attitude toward the deal. Black indicated that Deutsche Bank had made a review of the political issues involved and was satisfied that the Soviet Union had a basic economic interest in the project, one which would outweigh competing political objectives regarding FRG (and Western Europe) dependency upon Soviet gas supplies. Taking the attitude that "everyone in the industrialized world must be dependent upon someone and that the Middle East OPEC suppliers were not necessarily reliable partners", Black saw the potential 30 percent share of German gas imports as an acceptable level. Working in the pipeline's favor in the FRG was the substantial political clout wielded by the pipe industry.

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NLRRF06-114/9 #10729

BY KML NARA DATE 4/7/2011



EAST. HE URGED THAT ALLIES PUSH AHEAD IN MADRID ON BASIS OF BREZHNEV CONCESSION.

6. MBFR. ON MBFR, THE SECRETARY OBSERVED THAT NEGOTIATIONS HAVE SERVED A UNIFYING PURPOSE WITHIN NATO AND ADDED WE WOULD WISH TO CONTINUE TO UTILIZE THIS FORUM BOTH FOR ITS OWN SAKE AND AS A MODEL FOR ALLIED CONSULTATIONS. REFLECTING HIS TRADITIONAL

ATTITUDE, GENSCHER AGREED THAT MBFR WAS USEFUL IN PRESERVING WESTERN UNITY. HE POINTED OUT, HOWEVER, THAT SOVIETS SAW MBFR PRIMARILY AS MEANS TO IMPOSE LIMITS ON THE BUNDESWEHR, AND HE EXPRESSED PARTICULAR OPPOSITION TO PROPOSED 50 PERCENT RULE (ORIGINALLY SUGGESTED BY CHANCELLOR SCHMIDT) UNDER WHICH NO INDIVIDUAL ALLY COULD HAVE MORE THAN 50 PERCENT OF THE REMAINING FORCES FOLLOWING A REDUCTION AGREEMENT. IF THIS WERE SO, GENSCHER SAID, IN EVENT OF WITHDRAWAL OF US FORCES, WHICH HE SAID COULD NOT BE EXCLUDED, THIS COULD FORCE REDUCTIONS IN THE BUNDESWEHR IN ORDER TO KEEP UNDER THE 50 PERCENT CEILING. THE SECRETARY SAID THAT WE WERE ALSO SKEPTICAL OF LIKELY OUTCOME IN MBFR BUT FELT THAT THE FORUM COULD BE USEFUL.

7. (C) ECONOMIC RELATIONS (PROPOSED GAS PIPELINE). THE SECRETARY NOTED THAT PROPOSED GAS PIPELINE WAS A SENSITIVE INTERNAL QUESTION IN THE FRG. WHILE WE DID NOT INTEND TO BECOME INVOLVED, DESPITE EFFORTS BY SOME FRG OPPOSITION POLITICIANS, WE WERE CONCERNED ABOUT GREATER DEPENDENCE UPON SOVIET GAS SUPPLIES AS A RESULT OF THIS PROJECT. HE URGED THAT, AS LONG AS THE POLISH SITUATION REMAINS SO UNCERTAIN, THE GERMANS MOVE SLOWLY ON THIS PROJECT. IN REPLY, GENSCHER REITERATED FRG CONTENTION THAT DEPENDENCY QUESTION HAD BEEN CAREFULLY EXAMINED AND THAT SOVIET SHARE OF UP TO 30 PERCENT OF GAS SUPPLY WAS FOUND TO BE "ACCEPTABLE AND TOLERABLE." HE CLAIMED THE FRENCH AGREED WITH THIS CONCLUSION, AND ADDED THAT IT WAS IMPOSSIBLE AT THIS POINT TO PREDICT HOW VERY COMPLICATED NEGOTIATIONS WOULD PROCEED. ECONOMICS MINISTER LAMBSORFF, HE SAID, WOULD BE PREPARED TO DISCUSS THE PROJECT IN GREATER DETAIL WITH US OFFICIALS, BUT HE STRESSED AGAIN FACT THAT FRG AUTHORITIES HAD VERY CAREFULLY EVALUATED THIS PROJECT. HE ASKED THAT US HELP WESTERN EUROPEANS DIVERSIFY GAS SUPPLY BY PERSUADING NORWAY TO BE MORE FORTHCOMING. THE SECRETARY SUGGESTED THAT BOTH THE UK AND NORWAY COULD BE HELPFUL ON RESOURCES AND PRICING.

#### ALLIED MILITARY QUESTIONS

8. (S) THE SECRETARY ADVISED GENSCHER THAT HE HAD THREE MINOR POINTS INVOLVING US WEAPONS PROGRAMS WHICH WOULD BECOME PUBLIC KNOWLEDGE FROM THE NEW DEFENSE BUDGET AND WHICH COULD CAUSE PROBLEMS FOR THE

GERMANS IF THEY WERE NOT PREVIOUSLY INFORMED. HE CITED (A) SLGM DEVELOPMENT, WHICH HE CHARACTERIZED AS A CONVENTIONAL PROGRAM NOT OF IMMEDIATE CONCERN TO THE FRG; (B) DEVELOPMENT OF BINARY CHEMICAL WEAPONS, WHICH HE POINTED OUT WAS A FIVE YEAR LONG-TERM PROGRAM ON WHICH NO DEPLOYMENT DECISION HAD BEEN MADE. HE EXPLAINED THAT WE WERE UNDERTAKING THIS PROGRAM BECAUSE OF WHAT WE CONSIDERED TO BE INCREASING WESTERN VULNERABILITY, ADDING THAT IF WE DID NOT MODERNIZE IN THIS AREA THERE WOULD BE NO HOPE FOR NEGOTIATING RESTRAINTS WITH THE SOVIETS; AND (C) ERW, ON WHICH HE ADVISED GENSCHER THAT ALL US IS UNDER-

TAKING CURRENTLY IS PRODUCTION OF COMPONENTS. NO DEPLOYMENT DECISION HAD BEEN MADE, AND HE SAID WE WERE VERY WELL AWARE OF THE PROBLEMS ERW HAS CAUSED AND CAN CAUSE FOR OUR ALLIES. ON LATTER POINT, GENSCHER SAID HE WOULD NEVER FORGET HIS 1978 INVOLVEMENT IN THIS ISSUE.

9. (C) RDF COMMAND. REGARDING RDF, THE SECRETARY SAID HE BELIEVED THAT SACEUR SHOULD BE IN COMMAND NOT REPEAT NOT BECAUSE HIS TROOPS IN EUROPE WOULD BE DEPLOYED TO OTHER AREAS BUT BECAUSE SACEUR WAS UNIQUELY SITUATED GEOGRAPHICALLY AND IN TERMS OF HIS POLITICAL/MILITARY CONTACTS TO COMMAND THIS FORCE. IT WAS IMPORTANT, THE SECRETARY POINTED OUT, THAT THE COMMANDER OF THE RDF BE AWARE OF IMPLICATIONS OF RDF DEPLOYMENTS FOR SITUATION IN EUROPE. SACEUR WAS, CONSEQUENTLY, BEST ABLE TO EXERCISE THIS RESPONSIBILITY. GENSCHER SAID HE FOUND THIS ARGUMENTATION CONVINCING AND SAID HE THOUGHT IT WAS IMPORTANT THAT US EXPLAIN DECISION ON THIS TO THE ALLIES IF SACEUR WERE DESIGNATED AS COMMANDER OF RDF.

10. (C) ON QUESTION OF POSSIBLE REDUCTION OF US FORCES IN EUROPE, THE SECRETARY SAID HE FULLY UNDERSTOOD THAT ANY REDUCTION WOULD HAVE AN ENORMOUS PSYCHOLOGICAL IMPACT IN EUROPE. GENSCHER SAID HE SHARED THIS VIEW ENTIRELY.

11. (C) FRG DEFENSE BUDGET. REFERRING TO DEFENSE MINISTER APEL'S ANNOUNCEMENT OF CHANGES IN WEAPONS PROCUREMENT SCHEDULES, GENSCHER SAID APEL WOULD EXPLAIN THESE DECISIONS HIMSELF DURING HIS MARCH 23-25 VISIT. HE ADDED, HOWEVER, THAT HE WANTED THE SECRETARY TO KNOW THAT THE FRG WOULD CARRY OUT ITS NATO PROGRAMS, CITING IN PARTICULAR "TORNADO" AND LEOPARD II. ACQUISITION OF SEVENTH AND EIGHTH FRIGATES WOULD BE DELAYED AND "ROLAND" WOULD GO ONLY TO THE ARMY. HE CONFIRMED THAT THE FEDERAL GOVERNMENT HAD REACHED POSITIVE DECISION ON ALL EIGHT POINTS OF AMBASSADOR STOESSEL'S NOVEMBER 4, 1980 HOST NATION SUPPORT DEMARCHE AND SAID APEL WOULD BE PREPARED TO DISCUSS THE DETAILS. THE SECRETARY SAID HE WELCOMED THIS EXPLANATION, ADDING THAT WE WERE NOT ALARMED BY PRESS REPORTS. HE SAID WE ARE PLEASED WITH DECISION ON HOST NATION SUPPORT IN VIEW OF URGENT NEEDS TO IMPROVE FORCE DEPLOYMENT AND LIVING CONDITIONS. ON GENERAL SUBJECT OF DEFENSE BURDEN, HE STRESSED NEED TO AVOID GIVING SKEPTICS IN OUR CONGRESS AMMUNITION ON ISSUE OF ALLIED BURDENSARING. ALL NATO MEMBERS MUST DO MORE FOR COMMON DEFENSE, DESPITE DIFFICULT ECONOMIC SITUATIONS THROUGHOUT THE ALLIANCE, HE ADDED. THE THREE PERCENT DEFENSE SPENDING TARGET HAD LED TO UNNECESSARY DISPUTES BETWEEN THE US AND THE FRG AND REFLECTED A LACK OF UNDERSTANDING IN WASHINGTON OF HOW THE FRG PLANNING PROCESS WORKS.

#### INNER-GERMAN RELATIONS

12. (C) AT THE SECRETARY'S REQUEST, GENSCHER REVIEWED CURRENT STATE OF INNER-GERMAN RELATIONS, STRESSING IN PARTICULAR THAT THIS RELATIONSHIP COULD NOT BE ISOLATED FROM OVERALL EAST-WEST SITUATION. HE NOTED RELATIVELY HARSH GDR MOVES VIS-A-VIS FRG IN OCTOBER AND NOVEMBER OF LAST YEAR, WHICH HE ATTRIBUTED PRIMARILY TO GDR ASSUMPTION THAT WARSAW PACT INTERVENTION IN POLAND WAS LIKELY AND THAT EASTERN COUNTRIES SHOULD "PREPARE FOR IT." HE ADDED THAT

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BY KML NARA DATE 4/7/2011

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AUTHORIZATION OF THE EXECUTIVE SECRETARY



UNDER SECRETARY OF STATE  
FOR POLITICAL AFFAIRS  
WASHINGTON

February 24, 1981

~~CONFIDENTIAL~~

MEMORANDUM FOR THE SECRETARY

Subject: Soviet Natural Gas Pipeline Project

As you requested, George Vest asked our Embassy in Bonn to check with the Germans regarding reports that a meeting of German bankers in Bonn February 23 would result in final agreement on financing for the pipeline project. The Embassy also made clear to the Germans your view that agreement on the pipeline prior to your meeting March 9 with Foreign Minister Genscher would be undesirable.

The German response (Embassy Bonn reporting telegram 3703 attached) makes clear that considerable negotiation remains on this exceptionally complex deal before any final agreement can be reached. Even if this were not the case, the Germans are now on notice that you wish to discuss this deal with Genscher before any final decisions are taken.

On the same subject, I want to call to your attention a statement on the gas pipeline by Chancellor Schmidt in a February 23 Spiegel interview which indicates the extent of the problem we will face should we seek to dissuade the Germans from going ahead with this project. Schmidt is quoted as having said:

"To put it in plain language: the German industrial and banking firms which negotiate with Soviet agencies are doing so not without support by the Federal government. Please infer from this what the basic position of the Federal government is."

Walter J. Stoessel, Jr.

~~CONFIDENTIAL~~  
GDS 2/24/87

Drafted: EUR/CE:TMTNiles  
2/24/81:ext.21484

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NLRR F06-114/9 #10728  
BY KML NARA DATE 4/7/2011



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The Secretary responded that our problem is with our farmers. They are concerned with their investment and planning, and are happier with a five-year agreement. However, he said he was impressed by the French approach and would keep the French apprised of our thinking.

#### Soviet Gas Pipeline

Turning to the question of the Soviet gas pipeline, Francois-Poncet said this was of concern to him. It was a real problem for Europe. France has a huge nuclear energy program but this does not solve the problem of gas supplies. There is a potential for shortage of production in relation to consumption needs, and no one knows where the additional supplies will come from. The Soviets have proposed a huge supply pipeline. Nothing has been concluded yet, but the French gas people want to get 30% of French consumption from this pipeline. The question is whether this is too much and will inhibit European freedom of action, for example in a post-Polish situation. It is hard to believe that the Europeans could implement the post-Polish measures now being considered if they are that dependent on Soviet gas. Francois-Poncet said he had put forward his view strongly and the project was temporarily stopped. But French businessmen regard the Soviets as good partners -- they pay and they deliver -- compared to the Algerian experience. French industry is based on the possibility of an alternative energy source and being able to switch in times of shortage. Francois-Poncet's view was that France could take Soviet gas up to the level the French could accommodate in switching to alternate energy sources. This could be 10-15% but certainly not as much as 30%. Francois-Poncet said he had told Schmidt this very strongly, and there will be a Franco-German discussion of the matter. However, if the U.S. is concerned about this problem then there should be bilateral U.S.-French talks on ways around the use of Soviet gas. The only way Francois-Poncet could see which would stop the possibility of the pipeline would be alternate supplies, for example from Norway. Francois-Poncet wondered whether a Western approach to Norway could change their minds on broader exploitation of their gas fields. Francois-Poncet also said that when the French had explored the possibility of additional gas from Trinidad, U.S. companies had told them to get out. So if the U.S. thinks it is important, then we should have discussions on the possibility of developing other sources.

~~SECRET~~

NODIS

Haig, Stoessel, Rashish, Hartman, Eagleburger with Francois-Poncet,  
Laboulaye, Robin et al February 23, 1981 in the State Department

47

~~SECRET~~ NODIS

- 5 -

Francois-Poncet said that unless alternate sources are found he would be overruled and the pipeline project would go forward.

The Secretary asked about the size of current French gas imports from the USSR. Francois-Poncet said that France now gets 5% of its gas from the USSR and this would rise to 30% with the pipeline. The Secretary then said that Francois-Poncet's criteria sounded good to him and asked whether the Germans have the same possibility of switching to alternate energy sources. Francois-Poncet said that this was generally the case, but that in any event the French are interested in having a European position on the issue. This was necessary because the gas systems in Europe are linked. He had not found much sympathy for his view from Schmidt but had also spoken firmly to Genscher.

The Secretary said he thought bilateral discussions were a good suggestion. This could be at a technical level. Francois-Poncet said he would send someone from the Quai to supervise the French team. He stressed that the U.S. had to be forthcoming in finding alternate sources -- not necessarily U.S. sources. The Secretary replied that he could not promise new sources because we have the same supply problem, but we would be in touch very quickly on the possibility of discussions. Whatever decisions are taken should be conscious ones.

#### Other Bilateral Pol/Mil Issues

The Secretary said he was aware of the Roland issue. There is some interest in Congress, but the Administration is pursuing it with good will. On the KC-135 refit the Secretary thought private competition should be kept open, but was aware that the two-way street was needed. He said he was also aware of the NATO air defense issue and thought the U.S. could be helpful to France on this in NATO.

#### COCOM

Francois-Poncet said that on COCOM one aspect had been covered during the morning meeting. The French have been thinking about what is sensitive and what is not. After an inter-ministerial meeting in Paris on

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WASHFAX RECEIPT

THE WHITE HOUSE

RECEIVED

JUL 10 PM 5:08



DEPARTMENT OF STATE

1981 JUL 10 PM 5:30

MESSAGE NO. 688 CLASSIFICATION ~~Secret~~ No. PAGES 1  
FROM Allen Lenz (Name) (Extension) (Room Number)

MESSAGE DESCRIPTION \_\_\_\_\_

TO (Agency)	DELIVER TO:	Dept/Room No.	Extension
	<u>L Paul Bremer</u>		

REMARKS: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

NATIONAL SECURITY COUNCIL  
WASHINGTON, D.C. 20506

VIA LDX

~~SECRET~~

## MEMORANDUM FOR:

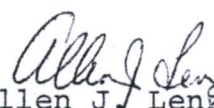
Mr. L. Paul Bremer III  
Executive Secretary  
Department of State

SUBJECT: Siberian Pipeline (U)

During recent discussions concerning the Siberian Pipeline several references have been made to numerous conversations of Secretary Haig and other high level departmental officials of this Administration with their West European counterparts in which the West Europeans have rejected our requests not to enter into the Pipeline transaction. (S)

In making urgently required policy decisions it would be most useful for the President to have the details of these conversations. Accordingly, it is requested that the most detailed accounts available of these conversations be provided not later than close of business Monday, July 13. (U)

If practical, we would prefer to have only those portions of the conversations relating to this particular issue. (U)

  
Allen J. Lenz  
Staff Director

~~SECRET~~

Review on July 10, 1987

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NLRRF06-114/9#10726

BY KML NARA DATE 4/7/2011



97TH CONGRESS  
1ST SESSION

## H. CON. RES. 159

Expressing the sense of the Congress that the United States should not participate in the Yamal natural gas pipeline project, and urging the President to secure the cooperation of the nations of Western Europe and Japan in developing alternative free world energy sources.

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### IN THE HOUSE OF REPRESENTATIVES

JULY 21, 1981

Mr. LEBOUTILLIER (for himself and Mr. NELLIGAN) submitted the following concurrent resolution; which was referred to the Committee on Foreign Affairs

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## CONCURRENT RESOLUTION

Expressing the sense of the Congress that the United States should not participate in the Yamal natural gas pipeline project, and urging the President to secure the cooperation of the nations of Western Europe and Japan in developing alternative free world energy sources.

Whereas the Union of Soviet Socialist Republics proposes to construct a three-thousand-six-hundred-mile natural gas pipeline at a cost of \$15,000,000,000, running from the Yamal Peninsula in northwest Siberia to the Federal Republic of Germany;

Whereas the Union of Soviet Socialist Republics proposes that the Yamal natural gas pipeline be built with Western financial, material, and technological resources;

Whereas the construction of the Yamal natural gas pipeline would substantially increase the economic and energy dependence of Western Europe on the Soviet bloc, increase the possibility for economic and political blackmail by the Union of Soviet Socialist Republics, and undermine the historic cultural, economic, and security ties between the United States and Western Europe;

Whereas the construction of the Yamal natural gas pipeline would provide the Union of Soviet Socialist Republics with a substantial source of revenue to further finance its continuing military buildup and worldwide geopolitical offensive;

Whereas the security and economic stability of Western Europe require energy diversification; and

Whereas the United States and its allies possess manifold energy sources in need of development: Now, therefore, be it

1        *Resolved by the House of Representatives (the Senate*  
2 *concurring)*, That it is the sense of the Congress that the  
3 President, exercising such authority as is available to him,  
4 should—

5            (1) prohibit any participation by the United States  
6            in the Yamal natural gas pipeline project;

7            (2) urge the nations of Western Europe not to  
8            participate in the construction of such project;

(3) P  
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(3) propose and enlist the cooperation of the nations of Western Europe and Japan in an alternative energy diversification project in order to develop and maximize the vast energy potentials existing within the free world; and

(4) promote this alternative energy diversification project as part of an effort—

(A) to strengthen the security of all free world nations;

(B) to assure reliable and diverse energy supplies within the free world;

(C) to strengthen the Western economy and increase levels of employment;

(D) to strengthen the bond between the United States and its allies; and

(E) to enhance the role of the United States as the leader of the free world.

○

MEMORANDUM

NATIONAL SECURITY COUNCIL

INFORMATION

August 3, 1981

MEMORANDUM FOR:

RICHARD V. ALLEN

FROM:

ALLEN J. LENZ *ajl*

SUBJECT:

Questions and Answers on the Pipelayers

Attached are:

- o The Commerce press release on the Pipelayers.
- o The Commerce prepared questions and answers same subject.
- o State contingency press guidance on pipelayers and pipeline.

These have been provided to Phyllis Kaminsky for turnover to the White House press office.

*Pipes*  
4623  
*Pipeline*



# UNITED STATES DEPARTMENT OF **COMMERCE** **NEWS**

WASHINGTON, D.C. 20230

INTERNATIONAL  
TRADE  
ADMINISTRATION

CONTACT: DANIEL LANDA (202) 377-2253

ITA 81-136

FOR RELEASE AT 5:30 P.M. EDT  
FRIDAY, JULY 31, 1981

SALE OF U.S. PIPELAYERS  
TO USSR APPROVED

The Administration has approved the license for the proposed sale of 100 pipelayers to the Soviet Union, the Commerce Department announced today.

The Model 594 pipelayers, supplied by the Caterpillar Tractor Company, are replacements for units exported to the USSR in previous years. The Soviet Union has imported more than 1,500 pipelayers, principally from Japan and the United States, for various oil and gas pipeline projects over the past decade.

The pipelayers represent low technology equipment, the export of which is controlled by the United States for foreign policy reasons. The units are not designated as strategic and are not multilaterally controlled by our allies in the Coordinating Committee on Export Controls (COCOM) to which the United States and 15 other nations adhere. Similar equipment is readily available from other foreign suppliers.

This licensing action in no way diminishes the Administration's intent to address the long term security aspects of Western investment in and dependence on Soviet gas supplies. The Administration has begun actions with our allies, to minimize long-term Western strategic dependence and vulnerability.

Under the terms of the license and sales agreement, the pipelayers involved in this transaction are not to be used in construction of the proposed 3,000 mile Siberian-West European gas pipeline project.

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7/31/81



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PRESS GUIDANCE FOR SALE OF U.S. PIPELAYERS  
TO SOVIET UNION

QUESTION

Does licensing the sale of pipelayers to the Soviet Union represent a change in policy by the Reagan Administration?

ANSWER

Absolutely not! Over the past several months, the Reagan Administration has conducted a fundamental review of our East-West trade policy in the context of overall East-West relations. Controls on equipment, such as pipelayers, are for foreign policy consideration. These controls were instituted by the Carter Administration in 1978 in response to U.S. objections to the trials of Soviet dissidents.

The pipelayers are replacements for some of the 1,000 pipelayers previously sold by the United States to the Soviet Union. In addition, comparable equipment is readily available from other industrial nations.

The pipelayers do not represent technology or commodities which would significantly enhance Soviet military capability.



QUESTION

Didn't the previous Administration approve a license for 200 pipelayers for the controversial Yamal project?

ANSWER

Yes. On November 15, 1980, President Carter directed that a license be approved for Caterpillar to export 200 pipelayers to the Soviet Union for the Western Siberia-West European (Yamal) gas pipeline. On February 6, 1981, however, Caterpillar requested an amendment to this license to reduce the number of pipelayers for export to 100 and for construction of pipelines to supply oil and gas to various Soviet cities and towns and not for the proposed 3,000 mile Siberia-West European line. It is this amended license which the Reagan administration has now approved.

357

QUESTION

What assurance does the Administration have that the pipelayers will not be used for the controversial 3,000 mile proposed Siberia-West European (Yamal) gas pipeline? Can the United States enforce its decision to bar U.S. technology and commodities for the Yamal pipeline project?

ANSWER

The sales agreement and license both state that the pipelayers will not be used in the construction of the Siberia-West European gas pipeline. The Soviets know of our serious concern over the construction of this pipeline. They also are well aware that if these pipelayers are used for the construction of the Yamal pipeline contrary to the license, further exports of non-strategic goods would be seriously jeopardized.

While we cannot have on-site inspections, we can monitor whether the pipelayers are being illegally used in the construction of the Yamal pipeline. At the Ottawa Summit, the United States expressed serious reservations to its allies over the economic and energy dependencies which construction of the pipeline would represent.



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QUESTION

Will the 100 pipelayers be used for construction of the proposed 3,000 mile Siberian-West European gas pipeline?

ANSWER

No. The pipelayers will be used for pipelines already under construction within the Soviet Union to supply oil and gas to various cities and towns such as Moscow, Mangyschlak and Polatsk. These 100 pipelayers are replacements for those exported to the Soviet Union in previous years. Under the terms of the sales agreement and license, they are not to be used for the proposed 3,000 mile Siberian-West European gas pipeline.

QUESTION

How will approval of this sale affect COCOM?

ANSWER

This sale does not affect COCOM because pipelayers are not strategic equipment and thereby fall outside the multilateral control system. Because the President expressed his concern at the Ottawa Summit over the sale of strategic technologies and equipment, we are encouraged that our allies, as expressed in the Ottawa communique, agreed to "consult to improve the present system of controls on trade and strategic goods and related technology with the USSR." We hope to begin high-level meetings in Europe this fall.

The United States continues to enforce the "no exceptions rule" on strategic exports of technology and equipment to the Soviet Union. The United States, for example, denied 39 license applications for export of spare parts for sophisticated electronic equipment earlier this week.



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SECSTATE WASHDC

TO EC COLLECTIVE IMMEDIATE  
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USMISSION GENEVA IMMEDIATE 3032  
AMEMBASSY MOSCOW IMMEDIATE 4467  
USMISSION USNATO IMMEDIATE 3631

UNCLAS STATE 201071

PARIS ALSO FOR USOECD; EXCON  
F.O. 12065: N/A

TAGS: ENRG, EEWT, WB

SUBJECT: PRESS GUIDANCE: SIBERIAN PIPELINE

REF: STATE 199158

1. FOLLOWING IS FURTHER CONTINGENCY PRESS GUIDANCE ON  
THE SIBERIAN PIPELINE:

BEGIN TEXT: SIBERIAN PIPELINE--JULY 29, 1981

QUESTION: DO YOU HAVE ANY FURTHER CLARIFICATION OF THE  
SECRETARY'S STATEMENT YESTERDAY THAT THE U.S. WAS WORKING  
UP ALTERNATIVE ENERGY PROPOSALS TO THE YAMAL PIPELINE?

ANSWER: AT OTTAWA THE PRESIDENT AND EUROPEAN LEADERS  
DISCUSSED WHETHER THERE MIGHT BE ALTERNATIVE ENERGY  
PROPOSALS, THAT WOULD BE AS ATTRACTIVE AS THE PIPELINE IN  
TERMS OF BOTH ECONOMIC AND SECURITY CONSIDERATIONS. HE  
OFFERED TO WORK WITH THE EUROPEANS TO SEE WHETHER OR NOT  
THERE MIGHT BE ALTERNATIVES, WHICH WOULD BETTER SERVE  
THEIR LONG-TERM INTEREST.

WE ARE CURRENTLY DOING THE GROUNDWORK IN PREPARATION FOR  
CONTINUED CONSULTATIONS WITH OUR FRIENDS AND ALLIES.

QUESTION: WHEN WILL DISCUSSION TAKE PLACE?

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SIT:

EOB: POATS,PIPES,RENT,GUIN

WHSR COMMENTS:

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ANSWER: NO DATE HAS BEEN SET. IT DEPENDS ON WHEN WE FINISH OUR INITIAL ASSESSMENT.

QUESTION: WHAT ALTERNATIVES ARE YOU CONSIDERING?

ANSWER: THE DETAILS ARE ONLY BEING WORKED OUT NOW. IN GENERAL TERMS WE ARE TALKING ABOUT WAYS TO IMPROVE THE COMMERCIAL COMPETITIVENESS, SECURITY OF SUPPLY, AND AVAILABILITY OF COAL, OIL AND NON-SOVIET GAS, AS WELL AS MEANS TO PROMOTE INCREASED RELIANCE ON NUCLEAR POWER.

QUESTION: IS THERE ANY REAL CHANCE OF GETTING THE EUROPEANS TO BACK OFF THE PIPELINE, PARTICULARLY IN LIGHT OF THE INCREASED PACE OF NEGOTIATIONS AND REPORTS OF AGREEMENT ON FINANCIAL TERMS?

ANSWER: AS FAR AS WE KNOW, TERMS FOR THE PIPELINE HAVE NOT YET BEEN FINALIZED. THE PRESIDENT AND HIS COUNTER-PARTS AGREED AT OTTAWA THAT IT WOULD BE USEFUL TO EXPLORE ALTERNATIVES. END TEXT. HAIG  
BT