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DOCUMENT NO. & TYPE	SUBJECT/TITLE	DATE	RESTRICTION
1. memo (8663)	Colin Powell to Chief of Staff re Cummins Diesel, 1p R 5/24/11 F97-066/6 #154	11/27/87	B1
2. background paper	re Kama River truck plant, 2p R " " #155	n.d.	B1

RESTRICTIONS

- B-1 National security classified information [(b)(1) of the FOIA].
- B-2 Release could 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 commercial 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-7a Release could reasonably be expected to interfere with enforcement proceedings [(b)(7)(A) of the FOIA].
- B-7b Release would deprive an individual of the right to a fair trial or impartial adjudication [(b)(7)(B) of the FOIA].
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- B-7d Release could reasonably be expected to disclose the identity of a confidential source [(b)(7)(D) of the FOIA].
- B-7e Release would disclose techniques or procedures for law enforcement investigations or prosecutions or would disclose guidelines which could reasonably be expected to risk circumvention of the law [(b)(7)(E) of the FOIA].
- B-7f Release could reasonably be expected to endanger the life or physical safety of any individual [(b)(7)(F) 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].

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THE WHITE HOUSE
WASHINGTON

SECRET

8663

November 27, 1987

INFORMATION

MEMORANDUM FOR THE CHIEF OF STAFF

FROM: COLIN L. POWELL *CP*

SUBJECT: Cummins Diesel and the Kama River Truck Plant

Henry Schacht, Chairman of the Board of Cummins Engine Company, Inc., called on you November 20, 1987 to review his discussions with the Soviets on a Cummins sale which would upgrade the Kama River Truck Plant. You asked that we provide you with a memorandum of conversation (Tab A). You also asked that we research the facts surrounding prohibition of the export of technology, goods or services to the Kama River Truck Plant (Tab B).

Given the foreign policy situation described in Tab B, Frank asked Bob Dean to phone Henry Schacht indicating that the Administration cannot support lifting foreign policy controls on Kama River at this time. Bob called Schacht, who appreciated our candor. As Schacht told you, their primary objective was to get a reading from the Administration as we approach the Summit. Schacht will probably infer that the issue is dead absent high level intervention from the Soviets. So far, we have no concrete indication that this is on the Soviet agenda.

Attachments

Tab A Memorandum of Conversation
Tab B Background on Foreign Policy and Technical Data
Export Controls on the Kama River Truck Plant

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NLRR F97-D66616#154
BY RW NARA DATE 5/24/11

NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

November 24, 1987

MEMORANDUM OF CONVERSATION

Date and Time: Friday, November 20, 1987 - 3:45 p.m.

Place: Office of the Chief of Staff

Participants: Senator Howard Baker, Chief of Staff
Ms. Pamela L. Frazier, Deputy Director,
International Programs and Technology
Affairs, National Security Council

Mr. Henry B. Schacht, Chairman of the Board,
Cummins Engine Company, Inc.

Mr. Robert Campbell, Vice President for
International Affairs, Cummins Engine
Company, Inc.

Ms. Martha Lamkin, Executive Director,
Government Relations, Cummins Engine
Company, Inc.

Mr. Stephen Chapman, Director, International
Business Development, Cummins Engine
Company, Inc.

Subject: Cummins Engine Company, Inc. Discussions with
the Soviets on a Potential Upgrade of the
Kama River Truck Plant

Mr. Henry B. Schacht, Chairman of the Board, Cummins Engine Company, Inc., called on the Chief of Staff to advise him that significant Soviet interest exists for the purchase from Cummins of hardware and technical data to upgrade the Kama River Truck Plant, a contract which could net Cummins approximately \$243 million over the next few years. Schacht said the purpose of his call was to inform the Senator about Cummins' recent discussions with the Soviets and to seek his advice about to how to proceed. Schacht added that he was well aware that existing foreign policy controls and technical data export restrictions make such a sale impossible.

Schacht reported that he visited the Soviet Union the week of October 26, and the Soviets were indeed very anxious to update the Kama facility. The Cummins team visited Kama River, and in Schacht's view, the operation was quite out-of-date. The heart of the matter was the redesign of diesel engines at Kama, which Cummins was prepared to provide. The program Cummins envisaged with the Soviets, absent the existing foreign policy controls, would span over several years and net as much as \$243 million in hard currency. In the end, the Soviets told Schacht that Cummins was the Soviet choice for the contract in spite of foreign availability.

Schacht noted that IBM equipment was still operating in the plant, and Schacht questioned the plant manager about how he acquired spare parts given the foreign policy controls prohibiting U.S. firms from doing business with Kama River. The manager replied that he could get whatever he needed somewhere in the world; it was not necessary to go directly to the U.S.

In addition to visiting Kama River, Schacht said he had direct access to high levels of the Soviet bureaucracy. Essentially, Schacht told the Soviets that if they wanted to do business with Cummins, U.S. policy relative to Kama River would have to change. Soviet intervention at the highest levels of the U.S. Government was the only way to achieve this. Minister N.A. Pugin, Ministry of the Automobile Industry, told Schacht that he would recommend that this issue be raised during the Summit. It was not clear to Schacht what chance Pugin would have of actually convincing his superiors. In spite of their mutual understanding that existing policy would have to be changed to permit a Cummins sale, Schacht and Pugin signed a protocol which identified potential areas of cooperation.

Schacht had just come from a meeting with Soviet Ambassador Dubinin, who indicated that he would raise the issue with Secretary Verity during a scheduled meeting on Monday, November 23. Dubinin did not express any other views on the matter, or indicate that it would be on the Soviet agenda at the Summit.

Senator Baker told Schacht that he would ask the National Security Council to report to him on the details of the foreign policy and technical issues. Secondly, given his role in organizing the details of the Summit, he would be mindful of Cummins' interest.

Notetaker: Pamela L. Frazier

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BACKGROUND

Foreign Policy and Technical Data Export
Controls on the Kama River Truck Plant

EXISTING REGULATIONS

Exporters face two distinct regulatory prohibitions against doing business with KamAZ and ZIL. First, when it was learned that U.S. technology legally exported to KamAZ contributed heavily to Soviet capabilities to produce trucks used in the invasion of Afghanistan, the Commerce and State Departments promulgated regulations under the foreign policy controls section of the Export Administration Act (EAA Regulations - 385.2 and 385.4(f) to effectively ban any future exports to KamAZ or ZIL truck plants. The prohibition against the transfer of equipment is contained in regulations pursuant to the EAA, not the law itself, and therefore subject to change by unilateral action by the Executive Branch. This control covers all sales, regardless of whether the item would fall under COCOM export controls. Note that the U.S. prohibits the sale of equipment that is not under similar restrictions in other COCOM countries. Commerce conducts an annual review of this control, and reports to the Congress in this regard each January (Tab A). Comments from industry are welcome in the review process.

Second, the Cummins deal foresees the transfer of technical data. All COCOM countries require a license for transfer of tech data relating to the design, production, and utilization of an COCOM embargoed product (EAA Regulations 379.4(b)(2)). Since the engines in question are not controlled by our COCOM allies, the technical data associated with them would not be controlled. Current U.S. policy is to deny any requests for the transfer of technical data at the level being suggested by Cummins.

COMMERCIAL CONSIDERATIONS

Based on consultations with the Soviets last September, Cummins estimates that the sale is worth \$243 million dollars. Cummins believes that there are other Western European sources who are willing and able to supply KamAZ with comparable hardware, since they do not have the same restrictions. Specifically, Cummins mentions:

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BY RW NARA DATE 5/24/

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- Klocknew-Humboldt-Deutz (KHD), Motoren und Turbinen Union (MTU), Mashinenfabrik-Augsberg-Nuerenburg (MAN), of West Germany;
- Wartsilia-Marine of Finland;
- Alsthom-Atlantique of France;
- Fiat of Italy;
- Steyr-Daimler-Puch of Austria;
- Nohab Diesel of Sweden; and
- Mitsubishi of Japan.

STEPS WHICH WOULD PERMIT A SALE TO KAMAZ

Should we decide to permit the sale of technical data and equipment for the manufacture of diesel engine trucks at KamAZ, the following steps would have to be taken:

1. The Secretary of State would recommend to the Secretary of Commerce that existing foreign policy controls for KamAZ (and presumably ZIL) be dropped, finding that U.S. foreign policy objectives were no longer served by the controls. Consultations with the Congress would be conducted, and the Secretary of Commerce would formally notify the Congress in his January '88 report that foreign policy controls had been dropped. Commerce would publish an amending Executive Order to that effect simultaneously.

2. Once foreign policy controls had been eliminated, Cummins would have to file an export license application with the Department of Commerce for the export of technical data, and any related COCOM controlled equipment. After Commerce and DOD review and approval, the application would be submitted to COCOM for review. Such a U.S. request would be a departure from our existing policy of denial for the transfer of technical data of this nature to the Soviet Union. If COCOM approves the application, Cummins would be issued an individual validated export license.

POLITICAL CONSIDERATIONS

It is clear that a proposal to do business with KamAZ would be viewed by some in the Congress as an outrage, in view of the origin of the restrictions. Our COCOM allies would find it contradictory to our current push to tighten export control enforcement in the wake of the Toshiba-Kongsberg diversion. Given that the controls were imposed as a result of the invasion of Afghanistan, many would regard dropping them as a signal of a more relaxed U.S. view towards the Soviet presence in Afghanistan. In summary, we do not recommend lifting foreign policy controls on the Kama River Truck Plant or ZIL at this time.

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