Collection: Executive Secretariat, NSC: Meeting File
Folder Title: NSC 00016 07/07/1981 [East-West Trade Controls, Siberian Pipeline]

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
~~1. list~~	~~of participants for NSC meeting~~ CAS 2/14/01 WH Guidelines	7/6/81	~~P-1~~
~~2. memo~~	~~A. Lenz to J. Colson, re attendance for NSC meeting (2 pp)~~	7/6/81	~~P-1~~
~~3. NSC profile~~	~~#8190113~~	7/6/81	~~P-1~~
3a. list	of participants for NSC meeting 1p. " R 3/17/03 WHGL M1277	7/6/81	
~~4. minutes~~	~~of NSC meeting [8190113] (12 pp, duplicate first page)~~ R 9/24/04 M1277 #1	~~7/6/81~~	~~P-1 P-5~~ P5 CAS 2/14/01
~~5. NSC profile~~	~~#8190112~~	7/2/81	~~P-1~~
~~6. briefing paper~~	~~R.V. Allen for the President, re NSC meeting [8190112] (3 pp)~~ R 9/24/04 M1277 #2	~~7/6/81~~	~~P-1~~
~~7. discussion paper~~	~~NSC [8190112] (4 pp)~~ R 9/24/04 M1277 #3	~~n.d.~~	~~P-1~~
~~8. options~~ paper	~~executive summary [8190112] (2 pp)~~ R 9/24/04 M1277 #4	~~6/26/81~~	~~P-1~~
~~9. options paper~~	~~re policy [8190112] (4 pp)~~ R 9/24/04 M1277 #5	~~6/26/81~~	~~P-1~~
~~10. attachment~~	~~#1 to policy options paper [8190112]~~ R 9/24/04 M1277 #6	~~n.d.~~	~~P-1~~
~~11. attachment~~	~~#2 to policy options paper [8190112] (4 pp)~~ R 9/24/04 M1277 #7	~~n.d.~~	~~P-1~~
~~12. attachment~~	~~#3 to polic options paper [8190112] (2 pp)~~ R 9/24/04 M1277 #8	~~n.d.~~	~~P-1~~
~~13. table~~	~~#1 [8190112]~~ R 9/24/04 M1277 #9	~~n.d.~~	~~P-1~~
~~14. table~~	~~#2 [8190112]~~ R 9/24/04 M1277 #10	~~n.d.~~	~~P-1~~
~~15. summary~~	~~NSC staff prepared on policy options paper [8190112] (3 pp)~~ R 9/24/04 M1277 #11	n.d.	~~P-1 P-5~~ P5

COLLECTION:

EXEC. SECRETARIAT, NSC (NSC Mtg. Files) — DSD

FILE LOCATION:

NSC00016 6 Jul 81 Box 91282 — 4/7/94

RESTRICTION CODES

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

- P-1 National security classified information [(a)(1) of the PRA].
- P-2 Relating to appointment to Federal office [(a)(2) of the PRA].
- P-3 Release would violate a Federal statute [(a)(3) of the PRA].
- P-4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA].
- P-5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA.
- P-6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA].

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

- F-2 Release could disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA].
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- F-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA].
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NATIONAL SECURITY COUNCIL MEETING

DATE	SUBJECT	PARTICIPANTS
7/6/81 11:00 a.m.	East-West Trade Controls	The President The Vice President Admiral Daniel J. Murphy State: Sec Alexander M. Haig, Jr. Dep Sec William P. Clark Mr. Robert D. Hormats OSD: Sec Caspar W. Weinberger Dep Sec Frank C. Carlucci Treasury: Sec Donald T. Regan Commerce: Sec Malcolm H. Baldrige Mr. Lawrence J. Brady Energy: Dep Sec W. Kenneth Davis OMB: Mr. David A. Stockman Mr. Ed Harper CIA: Mr. William J. Casey USTR: Amb William E. Brock USUN: Amb Jeane J. Kirkpatrick JCS: General David C. Jones Lt General John S. Pustay White House: Mr. Edwin Meese III Mr. James A. Baker III Mr. Michael K. Deaver Mr. Richard V. Allen Adm James Nance Ms. Janet Colson Mr. Frank Hodsoll NSC: Dr. Allen J. Lenz

00015

MEMORANDUM

NATIONAL SECURITY COUNCIL

CONFIDENTIAL

July 6, 1981

ACTION

MEMORANDUM FOR: JANET COLSON

FROM: ALLEN J. LENZ

SUBJECT: Attendance List for National Security Council Meeting, July 6, 1o81 ~~(C)~~ (U)

The following officials plan to attend the National Security Council Meeting which is schedule for July 6, 1981, at 11:00 a.m. in the Cabinet Room. (C)

The Vice President
Admiral Daniel J. Murphy

State:
Secretary Alexander M. Haig, Jr.
Dep Sec William P. Clark

OSD:
Secretary Caspar W. Weinberger
Dep Sec Frank C. Carlucci

Treasury:
Secretary Donald T. Regan

Commerce:
Secretary Malcolm H. Baldrige
Mr. Lawrence J. Brady (Assistant Secretary for Trade Administration)

Energy:
Dep Sec Kenneth Davis (Sec Edwards on emergency leave - mother ill)

OMB:
Mr. David A. Stockman

CIA:
Mr. William J. Casey

USTR:
Amb William E. Brock

USUN:
Amb Jeane J. Kirkpatrick

~~CONFIDENTIAL~~
Review on ~~July~~ 6, 1982

JCS:
General David C. Jones
Lt General John S. Pustay

White House
Mr. Edwin Meese III
Mr. James A. Baker III
Mr. Michael K. Deaver
Mr. Richard V. Allen
Ms. Janet Colson

LENZ NOTIFIED 7/6/81 9:35 AM

NSC:
Dr. Allen J. Lenz

Approve ____ As Amended ____

Attached is a proposed seating plan for this meeting. ~~(U)~~

THE CABINET ROOM

Kirkpatrick Clark Haig President Weinberger Carlucci Baldrige Davis

Jones Casey Allen VP Regan Meese Baker Deaver Stockman Brock

Pustay Colson Lenz

DOOR

MEMORANDUM

NATIONAL SECURITY COUNCIL

July 2, 1981

MEMORANDUM FOR BUD NANCE

FROM: ALLEN J. LENZ

SUBJECT: Participation in NSC Meetings on East-West Trade Controls

In a Monday, June 29, telephone conversation, RVA suggested that Department of Commerce participation should be the Secretary plus Assistant Secretary for Trade Administration, Lawrence J. Brady, and that I and, perhaps, Bob Schweitzer, should be included in NSC Staff participation.

Unless otherwise directed, we will add these names to the admission list when it is prepared.

cc: Janet Colson

NSC/S PROFILE SECRET ID 8190113

RECEIVED 31 DEC 81 12

TO MEMO FOR RECORD FROM ALLEN DOCDATE 06 JUL 81

DECLASSIFIED
White House Guidelines, August 28, 1997
By CAS NARA, Date 2/14/01

KEYWORDS: MINUTES NSC EAST WEST TRADE

EXPORT CONTROLS TECHNOLOGY TRANSFERS

SUBJECT: MINUTES OF 6 JUL NSC MTG

ACTION: FOR RECORD PURPOSES DUE: STATUS C FILES IFM O

FOR ACTION FOR CONCURRENCE FOR INFO

COMMENTS

REF# LOG 8190112 NSCIFID NSC00016 (B / B)

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NATIONAL SECURITY COUNCIL MEETING

Date, Time and Place:	Monday, July 6, 1981; 11:09 a.m. - 12:22 p.m.; The Cabinet Room
Subject:	East-West Trade Controls

Participants:

The President
The Vice President

State:
Secretary Alexander M. Haig, Jr.
Deputy Secretary William P. Clark
Mr. Robert D. Hormats

OSD:
Secretary Caspar W. Weinberger
Deputy Secretary Frank C. Carlucci

Treasury:
Secretary Donald T. Regan

Commerce:
Secretary Malcolm H. Baldrige
Mr. Lawrence J. Brady

Energy:
Deputy Secretary W. Kenneth Davis

OMB:
Mr. David A. Stockman
Mr. Ed Harper

CIA:
Mr. William J. Casey

USUN:
Amb Jeane J. Kirkpatrick

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Lt General John S. Pustay

White House:
Mr. Edwin Meese III
Mr. James A. Baker III
Mr. Michael K. Deaver
Mr. Richard V. Allen
Admiral James W. Nance
Ms. Janet Colson
Mr. Frank Hodsoll

The Vice President's Office:
Admiral Daniel J. Murphy

NSC:
Dr. Allen J. Lenz, Notetaker

DECLASSIFIED
White House Guidelines, August 28, 1997
By amf NARA, Date 3/17/03

~~SECRET~~
Review July 6, 1987

~~SECRET~~

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NATIONAL SECURITY COUNCIL MEETING

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Ms. Janet Colson
Mr. Frank Hodsoll

The Vice President's Office:
Admiral Daniel J. Murphy

NSC:
Dr. Allen J. Lenz

DECLASSIFIED / RELEASED

NLS M1277 #1

BY AmL, NARA, DATE 9/24/04

~~SECRET~~
Review July 6, 1987

~~SECRET~~

MINUTES

The President: Opened the meeting with a brief account of a letter he had recently received from a Navy man.

Mr. Allen: The items we will discuss today are of great importance. Mr. President, the decisions you make based on today's meeting or perhaps on two NSC meetings this week will set the course of our East-West Trade Policy and will be important in setting the course of our relations with the Soviet Union. Our Allies and the Soviets will both see these decisions as setting the course of our economic and strategic trade policy.

We need decisions before the Ottawa Summit, so that we can inform our Allies of our policies. The Summit countries together do more than 70 percent of the West's trade with the Soviet Union.

The issues to be discussed are complex and interrelated, ranging from our Allied (COCOM) national security export controls, through U.S. and Allied controls on Oil and Gas Equipment and Technology and U.S. policy on the Siberian Pipeline, to the U.S. decision on a specific export control case -- the export of 100 Caterpillar pipelayers to the Soviet Union.

The complexity and breadth of the issues -- heavy in both economic and security context -- required enlarging the Council for this topic.

Because of the complexity and enlarged attendance, this meeting will be introductory, with a second meeting Thursday to deal with the detailed issues in more detail.

The objectives of this meeting are to determine the basic positions of each agency and the key factors in reaching those positions, and to identify differing views for examination in the second meeting.

The papers to be discussed can be divided into two groups. The first deals with Allied Security Controls. The remaining three papers deal with various aspects of controls on Soviet energy development.

I would like to proceed as follows: In the first round each participant will have two minutes to state his position on the options concerning National Security Controls and to identify the major considerations in his decision. Following that round, the President may wish to ask some questions. Again, we will have to limit the comments to two minutes. Then, we can follow a similar procedure for the second group of papers.

The first paper presents three options for strengthening security controls on exports to the USSR. These options would tighten COCOM security controls by varying degrees. Each would require negotiations with our COCOM allies to implement. The difficulty and length of the negotiations would, of course, probably vary with the degree of tightening of controls.

I suggest we begin with the statements of positions. Secretary Haig, would you like to begin?

Secretary Haig: Yes. It is important to know that we are dealing with a group of interrelated -- and sometimes contradictory issues; to recognize that the decisions will affect both our relations with our Allies and with the Soviets. It is also important in making our decision to balance what we want against what we can do.

Option I maintains controls on equipment and technology and would be much as the policy in recent years. Our Allies are comfortable with this policy and it will be difficult to change it.

Option II would add to the controlled items equipment and technology critical to military related industries; for example, shipbuilding and heavy equipment.

Option III would control all military relevant technology.

I believe we should elect Option II, which would significantly broaden restraints. It will be difficult to do this. For two years we have been negotiating in COCOM to make a narrow increase in militarily relevant metallurgical technology with little result. Selling Option II to our Allies will be very difficult. We should seek at the Summit meeting a subsequent high-level COCOM meeting. At the same time as we increase these controls, we should loosen up on lower level controls.

Secretary Weinberger: We must consider our Allies' position, but we must consider whether we wish to aid the Soviets or not, and we must not adopt the attitude that if we don't sell to them someone else will. This is sometimes true, but our policy should be very restrictive. Almost everything aids their military and helps their economy. We know that they will only be satisfied by world domination, and we cannot satisfy them by appeasing them.

We should not give in to the argument that "if we don't, others will." To go along with this weakens our ability to lead and to not supply them.

While Option III is not considered feasible, following Option I should be discontinued. Option II is an improvement, but will still continue to help the Soviets. There will be slippages. We should strengthen Option II by an ad hoc examination of things under Option III. They turn against us what we provide them.

Secretary Baldrige: Mr. President, we have to have a program that works. The present program does not work. We have 5,000 applications in process. Some 2,000 are legally overdue. Our business people -- and our Allies -- do not understand our current policy.

I think we should go for Option II -- tighten controls at the top (the higher technology) -- loosening at the bottom on routine items. With fewer items to process, we can process them faster and give more attention to the more important items at the top.

For example, robots are not on the list now. We would deny some under Option II, but the simple "pick and place" robots would go.

Super alloys -- there are some 2,000 of them. We can't control all of them. We would deny the vacuum induction furnaces and technology used to make them, but not the items themselves.

We have the same kind of problem with computers. We would differentiate between the important and the not important -- allow shipments of items that can be had from electronic stores.

We believe we could update the COCOM regulations by October.

Deputy Secretary Davis: I note that restrictions on atomic energy items would be continued under any of these options. We lean to Option II. However, denial may stimulate their own research to develop capabilities in the long term they otherwise would not have if dependent on imports.

Ambassador Brock: I follow Mac (Baldrige) in his recommendations. I feel we should ship almost anything in hardware -- deny the technology. That way we can freeze them into a position five to ten years behind us.

Mr. Casey: It is a mistake to help the Soviets by exporting to them items they need. There is a greater negative impact from the exports than positive economic value to us as an export. We should be concerned not only about technology, but also about products.

We should go as close to Option III as our Allies will allow.

General Jones: We should impose the tightest possible controls. The policy should be somewhere between Options II and III.

Mr. Stockman: I prefer Option II, but would urge the tightest possible analytical framework as to the effects of the option. We need an estimate of the cost to the Soviets in terms of the impact on military investment and the linkage of our policy to their economic expansion.

Ambassador Kirkpatrick: We need to be concerned about the impact of our policies on our Allies. But we also need to be concerned about their impact on the rest of the world. Strengthening Soviet capabilities increases their power around the world and their ability to interfere. I don't believe that denying exports to them will increase their ability to innovate on their own. We should force them to divert productive capacity to developing their own technology. We should follow Option II, plus an item-by-item analysis.

Mr. Allen: Mr. President, after your questions, I would propose following the same procedures on the remaining papers.

The President: I do have a question. The Caterpillar tractors for the pipeline. Where would they fall in the options discussed?

Mr. Allen: Under Option I, the pipelayers could go.

Under Option II, they could go -- unless restricted by an ad hoc analysis.

Under Option III, they would not go.

The President: Is all this predicated on dealing with our Allies? It is not much to us economically, but, for example, the whole pipeline thing if the Soviet Union can meet its own needs, there is less need to go to the Gulf. But does Western Europe become more dependent?

Secretary Haig: The pipelayers are not related to COCOM controls. I suggest we cover that item, Mr. President, under the next discussion.

Secretary Weinberger: The question was what would happen under these rules? Under Option II, they would get it. This is the reason that Option II must be strengthened to avoid pre-automatic approval that would strengthen Soviet export capabilities.

Mr. Baker: In other words, energy would not be considered a Defense priority item?

Secretary Weinberger: It could be.

Mr. Allen: Let's go through the arguments on the remaining papers.

Mr. Meese: This topic controls the others.

Secretary Weinberger: I continue to have concerns about Option II.

The President: One more thing. Is this unilateral, or what is the effect on the Allies?

Mr. Allen: Your decision would be a fit topic for the Summit. We all agree on the need to strengthen controls. The vehicle used (to approach the Allies) will be critical. As Al said, your decisions will have tremendous undercurrents.

Secretary Haig: We might look at the history on this. Carter decided post-Afghanistan on a tightening of the controls. We have been attempting to tighten the controls for the last year, but there are two problems. One was the lack of a coherent U.S. policy. The second is the reluctance of our Allies. It will be a strong, uphill battle to strengthen controls (even going for Option II), but is can be accomplished by strong leadership. We would all like Option III, but we can't do it.

Secretary Baldrige: But they still want to buy them from the U.S. Allowing them to have the pipelayers helps them (to solve their problems).

Mr. Allen: I suggest we go through the same routine on the remaining papers. The remaining three papers examine the U.S. and Allied positions on the export of equipment and technology that would assist the Soviets in the exploration and production of oil and gas.

However, they do not pose the question of whether it is in the interest of the U.S. and the Western Allies to assist development of Soviet energy? The major arguments on this question are:

For:

-- Developing Soviet energy helps them overcome potential energy and hard currency shortages and reduces their motivation to aggression in the Persian Gulf Oil area.

-- Increases the world oil supply and keeps the Soviets from purchasing on Western oil markets, reducing pressure on world oil prices.

-- Maintains a cooperative relationship with the Soviet Union in an important economic area to offset the competitive relationship in the military sectors.

-- Results in substantial export and employment benefits for U.S. and Allied countries.

Against:

-- It is unlikely that ne Soviet Union will ever become dependent on the wor l market for oil imports; if it decides to intervene in the Persian Gulf, it will do so for reasons other than to obtain oil; e.g., to deprive the West of il.

-- Western equipment an technology reduces the costs of energy development t the Soviet Union and frees resources for applic tion in the military sector.

-- Western assistance c ntributes to an expansion of Soviet energy export to the West and to Eastern Europe and increases their dependence on the USSR.

-- It is inconsistent t seek increases in defense expenditures while m king it easier for the Soviets to devote resources o their military.

These are some of the very com lex issues. Al, would you like to begin the discussion?

Secretary Haig: There are fiv options to consider (referring to Oil/Gas Controls). The fir t three are so restrictive we cannot get Allied cooperation on them The Allies would argue that these options would result in greate Soviet demand on the world oil market and lead to more aggres ive Soviet behavior. This is a complex issue. The toughest t be decided today. It involves -- is it in our interest to hinder S viet energy development? What are the implications of decreased oviet production? What can be nego- tiated with our Allies? The A lies will perceive us as rigid. The Soviets will appear to be fort coming. We give them no incentive to negotiate with us. The que tion is do we wish to concentrate on limiting exports of technol gy, or on end use equipment that is available elsewhere?

We should focus on preventing ccess to technology -- Option IV -- but with a case-by-case analysis o end items. But as an overall policy, we should go for controls on e port of technology.

Mr. Allen: That covers the se ond paper, but are you prepared to state your position on the pip line?

Secretary Haig: Yes, if you w nt me to. The first two options are overly harsh and not sustainab e. Our Allies see Soviet energy as more secure than OPEC. They w nt to diversify by taking in Soviet energy.

I am concerned about the depen ency question. I would recommend a modified Option III, where we ould look at end items before licensing. We can put major p essure on our Allies at the Summit, but I have talked to Schmidt twice and to Genscher three times on the pipeline and they refuse to give up on it and, Mr. President, you received a call from Schmidt over the weekend. They say they can go for six months in the event of a Soviet cut-off. I favor Option III, very much toughened on any item.

On the pipelayers, the Japanese are going to sell them anyway. The Soviets have approximately 1,500 of them in inventory. These are replacements for existing equipment. They are not for the Siberian Pipeline. They involve no sophisticated technology. They are not COCOM controlled. They can be used only for pipe-laying. They have no other applications. They do not involve a technology transfer. The Japanese would provide them.

Secretary Weinberger: I feel differently on all three issues. I haven't heard all the Schmidt arguments, but I am weary of defining our policy on what Schmidt wants. Our policy should be leadership -- not anticipating what our Allies will say and setting our policy on that. The Schmidt government is weak and may not be around long, anyway.

It should be clear to our Allies that it is definitely against our (mutual) interests to increase Soviet capabilities by $20 billion per year.

We sent scrap iron to Japan before World War II and we are doing a great deal to increase Soviet capabilities. We need a harder line position.

We should come closer to Option I on Oil/Gas Export Controls. We need to demonstrate to our Allies that it is not in our interest to increase Soviet capabilities. It will take hard work to develop energy substitutes (alternative supplies for them).

The easy way to go is to give up. The Soviet ability to build the pipeline without Western assistance is questionable. Compressors are necessary to the pipeline. We can work with our competitors to develop internal arrangements to make the Japanese less willing to sell.

Komatsu gets a subsidy from the Japanese government. The Japanese can subsidize because they don't have to pay for their own defense. We need to persuade the Allies with alternative solutions (to their energy needs) that the pipeline is not in their interest. For example, Komatsu wants into the U.S. market.

I would take a position much closer to our security interests. It seems wrong to authorize equipment they want from us. On the Caterpillar pipelayers, I would elect Option I (deny). On the Siberian Pipeline, somewhere between Options I and II. It is not in our interest to increase Allied dependence.

The Vice President: Suppose Caterpillar has a French facility, would U.S. restrictions apply?

Secretary Weinberger: Yes, we can enforce U.S. law on a U.S. company. We can persuade them under U.S. law.

The Vice President: Suppose the company is 51 percent foreign owned?

Secretary Weinberger: There are means by which we can control the exports.

Secretary Baldrige: We want to be as tough as we can, operating in the real world. If we go too far and can't get our Allies to go with us, it won't work. I have with me Assistant Secretary Larry Brady, who is known as "the toughest gun in the West" on export controls and he supports this position. The products -- pipelayers, compressors, drill bits -- are generally available from other sources.

As Al said, there are 1,400 pipelayers in the USSR. Komatsu is 1/3 the size of Caterpillar and has the market targeted. We cannot stop all these countries from shipping to the USSR.

My position is Option IV on Oil/Gas Controls, Option III on the pipeline project.

The pipelayers get to be an emotional argument. The Japanese will sell them to the Soviets. The existing licensing requirements were imposed for human rights reasons.

Deputy Secretary Davis: The theme of the discussion seems to be what our Allies will support. We want to restrict export of technology, but this requires Allied support. The international oil companies are the transferors of technology. To control them would require strong Allied support.

My main concern is the Siberian Pipeline. It will have an important effect on Soviet exports. I would like to delay or restrict it.

On the Oil/Gas Controls, I would prefer Option III, if strongly supported by our Allies; Option IV if we do not get that support. On the pipeline, I prefer Option II, but Option III is more likely practical. The pipelayers should not be supplied, but our decision should depend on the Japanese position.

Ambassador Brock: I would recommend Option IV on Oil/Gas; Option III on the pipeline, and Option III on the pipelayers.

There are strong feelings in this room on what should be done. However, I believe there are two threats to oursecurity. There is the Soviet threat and the economic threat.

Increased oil prices have put heavy economic burdens on the Free World. The fact that Schmidt is in trouble and that there are four communists in the French government illustrates the economic weakness. Our Allies are all in political jeopardy, including Mrs. Thatcher. We give far more than $20 billion annually to the OPEC countries. A way to break OPEC would be desirable. But we are not working on it. To break a potential dependency on the Soviets, we need to increase exports of coal, nuclear, etc.

Secretary Regan: We want the Soviets to keep producing oil and gas. We could not supply Europe. We are probably going to have a shortage of gas in the mid-80s. Now Western Europe is hostage to Algeria. Their economies are weakened by energy events. It is advisable to keep the gas flowing.

My recommendations are: Oil/Gas -- Option IV; Siberian Pipeline -- Option III; Pipelayers -- Option III.

Mr. Casey: We need to talk turkey to our Allies. The OPEC problem is a separate one. We are talking about getting two percent of the energy we need from the Soviets at the expense of increasing their hard currency by 25 percent. The Soviets are a small factor in the Allies' trade accounts. We are a larger factor.

The Soviets cannot do without gas. They will have to divert resources to building pipe and compressors if the West doesn't supply them.

I understand there is a Senator Garn letter signed by 40 to 50 Senators opposing the pipeline. We have the right to tell our Allies they should not put in the pipeline if they expect us to defend them.

Senator Garn proposes increased exports of coal and nuclear power.

General Jones: Oil/Gas has a definite security concern. We recommend on Oil/Gas Controls, Option II; on the pipeline, Option I or II; and on the pipelayers, Option I.

But we cannot restrict everything if the Allies let it flow. We should not take unilateral action. Should have some flexibility in getting our Alliess cooperation.

Mr. Stockman: I have grave doubts about frustrating Soviet production of energy for three reasons:

1. There is an asymmetry in oil resources versus world populations, with reserves concentrated in the Middle East and in the USSR. Restrictions on Soviet production would impose a burden on the West, which needs energy.

2. The Soviet Bloc is now a large net exporter. If we impede them, we will reduce their exportable surplus. This would cost them foreign exchange, but would increase Western energy prices.

3. There is a good case for exceptionalism (to other restrictive policies) in Oil/Gas. Exports of Oil/Gas equipment come back to the West in the form of Oil and Gas, improving the energy balance and decreasing world prices.

I favor the same options as Treasury.

Ambassador Kirkpatrick: We consistently find that, in our negotiattions, the Allies are already significantly dependent. France for 15 percent of its gas; the FRG for 30 percent. Our negotiations and discussions with our Allies already mention dependency as an inhibiting factor on their actions.

Increases in energy supplies won't necessarily hold down Soviet prices. They don't necessarily price on a supply-demand basis. We have to think about Option I on each of the three issues.

Mr. Allen: Mr. President, we will prepare an overview paper for you. We note the urgent requirement for decisions. Because of the size of the Pipeline project and its strategic implications, it is the most urgent and important decision.

Secretary Haig: Much of what has been said about the pipeline is theology. It always is. But we have to go to Ottawa with a strong alternative program. We have to have a strong, skeptical view. We should not support the pipeline. We should stay skeptical and work with our Allies.

The President: We are held by our Allies to be most rigid (in our approach) to maintain a stricter position. Our Allies note they have the Soviets next to them. Trade is more essential to them. But, how do we say to our own people that we must continue to sacrifice -- and to our Allies -- if we are not prepared to use all our weapons? Don't we seem guilty of hyprocrisy -- weak -- if we are not prepared to take a strong position?

I for one don't think we are being harsh or rigid. The Soviets have spoken as plainly as Hitler did in "Mein Kampf." They have spoken world domination -- at what point do we dig in our heels?

Mr. Allen: I request that all of you display total reticence in discussion about this meeting and that you do not characterize the positions of other participants. The President makes the decisions -- not the NSC.

Secretary Weinberger: You do have the Garn letter, do you not?

Mr. Allen: Yes.

The meeting terminated at 12:22 p.m.

~~SECRET~~

SYSTEM II
90112

THE WHITE HOUSE

WASHINGTON

~~SECRET~~

July 2, 1981

NATIONAL SECURITY COUNCIL MEETING
Monday, July 6, 1981
11:00 a.m. - 12:00 noon
The Cabinet Room

FROM: Richard V. Allen Jack

I. PURPOSE

You will chair a meeting of the National Security Council at 11:00 a.m., Monday, July 6, 1981. The agenda item can be broadly defined as Major Issues in East-West Trade. Participants will include The Secretary of State; The Secretary of the Treasury; The Secretary of Defense; The Secretary of Commerce; The Secretary of Energy; Counsellor to the President; The Director, Office of Management and Budget; The Director of Central Intelligence; U.S. Representative to the United Nations; U.S. Trade Representative; Chief of Staff to the President; Deputy Chief of Staff to the President; Deputy Secretary of State; Deputy Secretary of Defense; and the Chairman, Joint Chiefs of Staff.

II. BACKGROUND

Decisions of great importance on the export of manufactured goods and technology to the Soviet Union must be made next week. At the Ottawa Summit you will want to inform our Allies of these decisions and seek their support. The decisions will correctly be seen by both the Soviets and our Allies as keystones in and the first specific evidence of our economic and strategic trade policy towards the USSR.

The July 2 meeting will be used to introduce the subjects and to allow discussion. The matters will be taken up again on Thursday, July 9th. The background papers are:

1. Security Controls on Exports to the USSR;

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

3. The Siberian Pipeline;

4. License for Caterpillar Company to Export ~~100~~ Pipelayers to the Soviet Union.

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A four-page summary of the options provided by the four papers is at [redacted].

The "Security Controls" paper (Tab B) presents options under which the U.S. would seek cooperation from its COCOM partners in strengthening existing multilateral national security controls. (COCOM -- the "coordinating committee" -- is a voluntary organization of the NATO countries plus Japan that has restricted the export of certain categories of manufactured goods and technology to the Communist countries for more than thirty years.)

While each of these three options presented in this paper would strengthen current controls and although each can be expected to encounter Allied opposition, the degree of resistance is likely to match the significant differences in the severity of the changes proposed.

The remaining three papers deal with U.S. and Allied policies on the export of equipment and technology that would assist the Soviet Union in the exploration and production of oil and gas. Energy is a particularly important pressure point in the Soviet economy, given CIA predictions of declining Soviet oil production in the years ahead and the importance of oil and gas not only for domestic Soviet use, but for East European economies and as a hard currency earning export to the West.

The first paper outlines general policy options re "Controls on the Export of Oil and Gas Equipment and Technology" (Tab C). State provided no descriptive background paper because after weeks of negotiation the agencies were unable to draft language. Divergent views on the policy to be followed should be expected on this issue. An NSC Staff prepared background paper is included in your materials.

The "Siberian Pipeline" paper (Tab D) is also only a list of options, with the agencies again unable to agree on common language for a descriptive paper. An NSC Staff prepared synopsis has been included in your materials.

Because of the tremendous effects it can have on the Soviet economy, the potential threat it poses to Western economic security, and the divisive effects on the Western Alliance that many feel would result from U.S. pressure to cancel or delay the project, a U.S. policy on the pipeline is probably the most difficult and crucial decision to be made in this set of issues.

It is also an urgently required decision. Absent strong U.S. opposition and barring a Soviet intervention in Poland, the pipeline negotiations are likely to be completed late this year. Thus the Ottawa Summit may present a last opportunity for you to personally advise the Allied heads of state of U.S. concerns and to enlist their support in stopping or scaling down a transaction that otherwise may soon be consumated.

The Caterpillar Pipelayer License Decision, covered by the fourth paper (Tab E) will flow from the choices made on the Siberian Pipeline project. U.S. laws require a decision by early August that will be widely seen as an indicator of broader U.S. export control and East-West trade policies.

Tabular and graphical material summarizing OECD trade with the Soviets and Eastern Europeans is at Tab F, with the Republican Party Platform statements concerning exports of high technology at Tab G.

Attachments

Tab A	Summary of Options . . . Read this four-page summary
Tab B	Security Controls Paper . . . Skim only
Tab C	Controls on the Export of Oil and Gas Equipment and Technology Paper . . . Read three-page NSC summary
Tab D	Siberian Pipeline Paper . . . Read three-page NSC summary
Tab E	Caterpillar Pipelayer Paper . . . Skim only
Tab F	Tabular and Graphical Material on OECD Trade with the Soviets and Eastern Europeans . . . Examine only
Tab G	Republican Party Platform Statements on Exports of High Technology . . . Skim only

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NSC DISCUSSION PAPER

NLS M/277 #3

BY [illegible], NARA, DATE 9/24/04

There are four separate papers which address the major issues in East-West trade.

1. Security Controls on Exports to the USSR. This paper presents three options for strengthening Allied security controls on exports to the USSR. Current U.S. law distinguishes long-term security controls (on "goods and technology which would make a significant contribution to the military potential") from more variable foreign policy controls (which are used for punishment, signalling, and leverage). This paper does not address foreign policy controls. Oil and gas equipment and technology, which is now subject to foreign policy controls but might be considered for coverage under security controls, is the subject of a separate paper. Security controls on exports to Eastern Europe and to China will also be the subject of separate papers.

The three options for Allied (COCOM) security controls on exports to the USSR are:

I) Restrict technology and equipment critical to military production and use;

II) In addition to I, restrict technology and equipment critical to production in "defense priority industries" which, through development, would significantly enhance Soviet military capability; ("Defense priority industries" would include primarily metallurgy, chemicals, heavy vehicular transport, and shipbuilding, for which there is little present COCOM coverage, and would exclude primarily consumer industries); and

III) In addition to II, restrict all items for use in these industries.

Option I would not differ greatly from the status quo. COCOM controls on technical data might be strengthened. The objective of options II and III, especially III, would be to slow Soviet economic growth, thereby reducing resources available for consumption, investment, and defense. The difference between options II and III is profound. For example, option II would restrict advanced technology not already in Soviet hands for specialty steels used by the military whereas option III would hold back entire steel mills that produce general purpose steel.

Economic costs to the West would be considerably higher for option II than for option I and considerably higher for option III than for options I and II. Options II or III would

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cause some consternation among our Allies. Option III would be seen as particularly threatening to Western basic industries, especially steel, where unemployment is already high.

Our Allies will resist additional controls unless they are technically precise and we present evidence of military significance. Selling options II or III would require personal efforts by the President and key members of the cabinet.

U.S. industry supports the control of militarily critical technologies but opposes controls which would not apply equally to foreign competitors.

The Export Administration Act encourages exports except for necessary restrictions which would clearly further fundamental national interests.

2. Controls on Export to the USSR of Oil and Gas Equipment and Technology. The issue is what policy the United States should adopt on controlling oil and gas equipment and technology exports to the Soviet Union. Should the United States treat Soviet oil and gas development and exports to Western Europe as a national security concern?

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

-- the extent to which we wish to impede Soviet energy development and exports;

-- the political costs vis-a-vis our Allies we are willing to pay in pursuit of this policy; and,

-- the extent to which we wish to control export of technology.

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

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

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

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

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

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

3. U.S. Position on the Siberian Pipeline. The issue is what position the U.S. should adopt towards the proposed pipeline designed to supply Siberian natural gas to Western Europe?

Option I: The U.S. will signal its disapproval of the project by denying all exports to the USSR for the pipeline, and press our Allies to cancel further project negotiations.

Option II: The U.S. will communicate to our Allies and friends that we oppose the project, will withhold relevant export licensing, and encourage them to do the same, until our Allies have committed to constructing an adequate safety net of emergency supply.

Option III: The U.S. recognizes its inability to cancel or significantly delay the pipeline project. The U.S. will, however, work with its Allies and friends to minimize the strategic implications of the project.

Option IV: Adopt a laissez faire approach on the pipeline, allowing market considerations to determine European energy import and energy security policies.

4. <u>License for Caterpillar Company to export 100 pipelayers to the Soviet Union</u>. The issue is, should the United States Government grant a license to the Caterpillar Tractor Company for the export of 100 pipelayers to the Soviet Union? The Caterpillar application states that the 100 pipelayers would be used as replacement units on the following projects:

-- 30 units for use in West Siberia on construction of main and feeder lines of the Urenjorj project to carry gas from West Siberia to Moscow;

-- 25 units for use in Central Asia on construction of a local oil pipeline;

-- 45 units for use in European USSR on the western end of the Urenjorj project from Yaroslavl to Polotsk.

Under the time limits for licensing decision set forth in the Export Administration Act of 1979, the Government has until early August to decide this case. However, Caterpillar has already missed contract delivery deadlines and feels that it must have an early decision in order to prevent Soviet cancellation of the contract, and consequent Japanese replacement sales to the USSR. Komatsu, a Japanese firm, is currently the only non-U.S. producer of pipelaying equipment and has sold over 500 pipelayers to the USSR in the past ten years.

<u>Option I</u>: Deny the Caterpillar export license application.

<u>Option II</u>: Deny export license application if Japanese agree to stop similar sales by Komatsu.

<u>Option III</u>: Approve the Caterpillar Export license application.

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POLICY OPTIONS PAPER

Security Controls on Exports to the USSR
Executive Summary

This paper presents three options for strengthening Allied security controls on exports to the USSR. Current U.S. law distinguishes long-term security controls (on "goods and technology which would make a significant contribution to the military potential") from more variable foreign policy controls (which are used for punishment, signalling, and leverage). This paper does not address foreign policy controls. Oil and gas equipment and technology, which is now subject to foreign policy controls but might be considered for coverage under security controls, is the subject of a separate paper. Security controls on exports to Eastern Europe and to China will also be the subjects of separate papers.

The three options for Allied (COCOM) security controls on exports to the USSR are:

I) Restrict technology and equipment critical to military production and use;

II) In addition to I, restrict technology and equipment critical to production in "defense priority industries" which, through development, would significantly enhance Soviet military capability; and

III) In addition to II, restrict all items for use in these industries.

"Defense priority industries" would include primarily metallurgy, chemicals, heavy vehicular transport, and shipbuilding, for which there is little present COCOM coverage, and would exclude primarily consumer industries.

Option I would not differ greatly from the status quo. COCOM controls on technical data might be strengthened. The objective of options II and III, especially III, would be to slow Soviet economic growth, thereby reducing resources available for consumption, investment, and defense. The difference between options II and III is profound. For example, option II would restrict advanced technology not already in Soviet hands for specialty steels used by the military whereas option III would hold back entire steel mills that produce general purpose steel.

Economic costs to the West would be considerably higher for option II than for option I and considerably higher for option III than for options I and II. Options II ~~or III~~ would cause some consternation among our Allies. Option III would be seen as particularly threatening to Western basic industries, especially steel, where unemployment is already high.

Our Allies will resist additional controls unless they are technically precise and we present evidence of military significance. Selling options II or III would require personal efforts by the President and key members of the cabinet.

U.S. industry supports the control of militarily critical technologies but opposes controls which would not apply equally to foreign competitors.

The Export Administration Act encourages exports except for necessary restrictions which would clearly further fundamental national interests.

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POLICY OPTIONS PAPER

Security Controls on Exports to USSR

Introduction

Economic relations in general, and trade relations in particular, with the Soviet Union and the East should be conducted within the broad political-security objectives of the Western alliance. The Soviet Union remains the principal threat to Western security and will remain in the posture for the foreseeable future. A large share of the Soviet Union's GNP goes to support the military. The enhancement of Soviet military strength coincides with aggressive Soviet foreign policy -- Afghanistan invasion, visible threats to Poland, theater weapon deployment in Europe (SS-20s) and support for leftist revolutions and terrorism. The Soviets have also recently intensified efforts to gain access to sophisticated Western technology.

In light of Soviet actions and intent, the United States must review its security control policies for exports of goods and technology to the USSR and develop a reasonable approach to controls that can be presented to the Allies.

An important purpose of the current policy review is to structure controls on exports to the USSR in a manner that is clear and predictable to American business and our Allies and which at the same time will safeguard our national security. Clearly, the present system is unwieldy and needs extensive improvement. A streamlined system will more likely gain support domestically from U.S. firms and internationally from Allies.

Objectives and Approach

United States objectives vis-a-vis the Soviet Union in trade and export control policies should be reviewed within such broader U.S. objectives for East-West economics relations as:

- nurture cooperation among the Western Allies and enhance the commonality of Alliance purposes and approaches toward the Soviet Union;
- strengthen Western defenses in order to deal with the reality of a rapid Soviet buildup in military power;
- counter both direct and indirect projection of Soviet power;
- encourage Soviet behavior that contributes positively to a pluralistic, free and peaceful world.

There are contrasting policy approaches ranging from the concept that security is enhanced by slowing the Soviet rate of growth to the concept that there are Western security benefits from trade in products not contributing directly and significantly to Soviet military capabilities. Having said this, however, there remain

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fundamental and important questions about the process of how to implement these policies. These range from fewer controls on exports to stricter controls. In any event we should seek less ambiguity about what constitutes permissible exports than at present.

During this decade the Soviet Union faces increasing economic problems: manpower shortages, energy squeeze, declining capital investment and labor productivity. In framing trade policies the Allies should consider the extent to which Western exports might ease Soviet resource constraints and facilitate the support of defense and other militarily relevant sectors, such as metallurgy and chemicals.

There is some evidence (Kama River) that Western exports of technical data and products not associated with weapons systems have a significant impact on Soviet military strength. Soviet imports of machinery and equipment from the West are rising and now contribute around 10% of total Soviet investment in this category. U.S. efforts to expand security controls substantially beyond those directly and significantly related to Soviet military potential would probably not be accepted by our Allies, without the highest levels of our government involved.

Once attention has been focused on the national security importance of a coherent export control policy vis-a-vis the USSR, the prospect for allied cooperation can be improved by carefully justified and precise proposals. Then support must be aggressively sought for these proposals with senior allied defense and national security officials. Foreign exonomic and trade ministries must also be consulted since economic and commercial considerations are sometimes given equal or more weight among the Allies than security factors. Additionally, any disunity among the Allies can be exploited by the Soviets for political advantage. As we implement one of the policy options below, we will consider the extent to which we can shift our emphasis from controls on equipment to controls on critical technologies, as advocated by J. Fred Bucy. End products often satisfy short-term goals, while leaving the consuming country dependent on continued imports, whereas the sale of technology confers a new capability. In the final analysis, we may be able to decontrol some end products while strengthening controls on technologies.

Policy Options

Three separate policy options are presented.

Aside from the policy pursued, a fundamental tenet of any option chosen must be to achieve consistency and predictability as well as clarity and specificity of U.S. controls, both for American business and our Allies.

The three options presented below: each successive option envisages additional controls. Selection of any of the options presupposes discussions and negotiations to sell the U.S. position in COCOM and to use other appropriate fora, such as NATO, to gain support.

I **Restrict technology and equipment deemed critical to military production and use**

This option would cover commodities with substantial potential for military utilization, critical technology and keystone production equipment beyond Soviet capabilities directly related to the performance of Soviet weapons systems. The list of such militarily critical technologies being prepared in Defense may provide a basis for Commerce in cooperation with Defense to develop technically precise proposals to revise the COCOM list. This option would strengthen current COCOM controls on technology (technical data section). It would permit deletion of controls on some end-use products, which do not have significant military applications and for which production technology is not easily extractable. A case in point would be the export of some semi-conductors (e.g., transistors, diodes and microcircuits) the liberalization of which could be coupled with further strengthening of controls on critical technology (keystone equipment, materials, and process know how) which are necessary for their production. We would aim to make permanent the no-exceptions policy to the COCOM list originally intended as a temporary response to the invasion of Afghanistan.

II **In addition to I, restrict technology and equipment critical to production in defense priority industries which, through development, would significantly enhance Soviet military capability**

This contrasts with option I by also including items and know-how not primarily related to production for direct military consumption but also production which can be used in military sectors. Industries to be covered would include metallurgy, chemicals, heavy vehicular transport, and shipbuilding, for which there is little present COCOM coverage. This option would exclude primarily consumer industries.

III **In addition to I and II, restrict all items for use in defense priority industries**

This approach goes beyond advanced technology and targets these same industries in their entirety. The difference is profound. Under option II a steel mill could be sold providing there is no transfer of know-how of militarily useful steel alloys not already in Soviet hands; under option III we would hold back on the steel mills that produce general purpose steel.

Background

Security controls are long-term, relatively constant measures which, under current U.S. law, are applied to "goods and technology which would make a significant contribution to the military potential" of U.S. adversaries. This law distinguishes security controls from foreign policy controls, which are more variable measures imposed to further political objectives.

U.S. security controls closely parallel allied controls, as agreed in COCOM, the "Coordinating Committee" of NATO countries and Japan. The shared recognition of the Soviet military threat and the desire to prevent competition in the sale of war-production goods to the Communists have kept COCOM intact for over thirty years, although it is based on no treaty and has no power to sanction any member that violates its rules.

The COCOM list now covers munitions, atomic energy equipment and materials, dual-use (civilian/military) equipment and materials primarily in the computer, electronics, and machine tools areas, and technical data related to the foregoing. Exceptions to the controls may be approved at national discretion for the low performance end of the spectrum; but exports of higher performance listed goods and technology require unanimous agreement within COCOM. In the past, most exception requests were approved; but, following the invasion of Afghanistan, the U.S. won de facto allied acceptance of a policy of approving no exceptions for exports to the USSR.

COCOM did not accept the U.S. post-Afghanistan proposal for informal consultation concerning plant and technology exports which would advance the growth of sectors of the Soviet industrial base that contribute indirectly to military strength. Our Allies criticized the proposal's lack of specificity. The United States recently submitted a proposal to add to the COCOM list three specific items in the metallurgy sector.

Securing a strengthened security control policy among our Allies, which is implied with the selection of any of the three options, will require an understanding at the highest levels as to the direction in which the alliance will move in strategic trade with the USSR. Effective restraint of high technology transfers to the USSR by COCOM members will require consultations with economic and trade ministers as well as defense leaders and NATO.

Attachments

1. Impact on Soviet military potential
2. Allies' attitude toward controls
3. Impact on U.S. and Western economy

IMPACT ON SOVIET MILITARY POTENTIAL

The Soviet Union has had a high degree of success in developing its military capabilities. This has been achieved through a combination of indigenous efforts and Western technology; much Western production equipment and technology having military relevance either is not controlled or leaks through illegal trade and clandestine channels. The impact of these items on Soviet military potential is difficult to measure, but withholding them would certainly help to restrain industrial growth and productivity supporting the military sector.

Option (I) Restrict technology and equipment deemed critical to military production and use

A more refined assessment of the military impact could be made when a definitive list of critical technologies becomes available. This option would continue approximately the current level of impact on Soviet weapons manufacturing industries.

Option (II) Option I plus restriction of technology and equipment deemed critical to production in defense priority industries which, through development, would significantly enhance Soviet military capability

This option would sharpen the COCOM controls in advanced technology for industrial sectors that support military production, and would more clearly define controls on technical data.

It would also create a technology gap in industrial sectors largely unaffected by current controls, thus forcing the Soviets to expand and diversify R&D efforts to stay abreast of the West, delaying and impeding progress (as well as reducing reliability) in at least some military development and production programs. The military impact of this option would be cumulative and longer-term. Examples of additional COCOM coverage which might be negotiated under this option would be advanced technology for steel mills and for large floating drydocks (useful for the repair of not only merchant marine vessels but also large combat vessels such as the Soviet Kiev class helicopter carriers or the new nuclear-powered cruiser Kirov).

Option (III) Options I and II plus control all items for use in defense priority industries (e.g. metallurgy, chemicals, heavy vehicular transport, shipbuilding, etc.)

This option would have significant additional effect (beyond the first two options) in these militarily related industries. In the short-run this would contribute to the slowing of Soviet economic growth, thereby reducing the total resources available for consumption, investment and defense. Under these conditions a constant (or increasing) rate of military expenditures could be maintained only at the expense of the Soviet consumer. Examples of additional coverage would be entire turn-key projects, such as all items for the Kama River Truck Plant and for ferrous and non-ferrous production facilities even if the Soviet Union possessed the technologies involved.

Attachment 2

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ALLIES' ATTITUDE TOWARD CONTROLS ON EXPORTS TO THE USSR

Western Europe and Japan have encouraged trade with the USSR for both economic and political reasons since the early 1950's. Western European governments have often promoted it as a long-range means to better East-West relations. They view the Soviet Union as a natural market for their industrial products, especially capital equipment and as an important source of energy and other raw materials. They accept controls over specific strategic items, but they typically expect to decontrol items which become technologically less critical. Proposals for new export controls must bear the burden of proof. Historically COCOM governments have accepted new controls when the military importance is clearly demonstrated or when the controls will have little effect on European and Japanese firms.

Since the invasion of Afghanistan, several COCOM governments have expressed their willingness to consider additional precisely defined controls on technology transfers to the Soviet Union provided the U.S. could demonstrate their strategic relevance in an area of Soviet technological deficiency.

Option I, which is little more than a reaffirmation of current COCOM controls plus making permanent the "no-exceptions" policy on exports to the USSR, would probably be accepted by our allies, since basically it's the status quo. It would permit some strengthening of controls on technology transfers as well as permitting deletion of some controls on end-use products which do not have significant military applications. The trade effect of Option I is probably neutral in the sense that there would be no significant additional impact on allied exports (compared to post Afghanistan levels).

Options II or III would cause some consternation among our allies since they would affect a larger part of Western industrial exports to the USSR. Option III would be seen in Western Europe as particularly threatening to their basic industries (especially steel) and their capital good sectors, where unemployment is already high. If the items or projects proposed for control are available to the USSR from non-COCOM sources, even at higher cost, Western Europeans will probably resist any new controls. Since industrial exports to the USSR are less important to the U.S., both absolutely and relatively, than to the FRG, France, and Italy, it will be politically difficult to gain European acceptance to a substantially tightened controls policy.

Industrial trade with the USSR is less important to Japan than to the major industrial countries of Western Europe, but more important to Japan than to the U.S. The Japanese were more cooperative than most Europeans in observing sanctions imposed after the Soviet invasion of Afghanistan. Japan, nevertheless, probably will not accept sharper controls for strategic purposes unless the major

European Allies clearly support them. Japan believes there is considerable scope for expanding exports to the Soviet market, especially for the economic development of Siberia, and will scrutinize closely the actions of its competitors before agreeing to tighter controls.

New controls are thus much more likely to be accepted if they would (1) affect a small proportion of our Allies' current exports, (2) clearly demonstrate, through well justified and technically precise proposals, a direct or significant indirect effect on Soviet military potential, (3) cover items not available from non-COCOM sources, and (4) avoid appearing to shift commercial advantages among COCOM members. An approach to strategic controls, targeted to military applications and those industrial sectors clearly supporting military applications, is the most likely to be accepted.

Coordination with Our Allies

Given the present economic crisis in Western Europe, with the highest unemployment since World War II, even modest changes in controls will require thorough technical justification and a major effort at high political levels. If we wish to move toward more sweeping controls, we should expect to undertake an intense process of education to persuade our Allies at Presidential and Ministerial levels of the overriding need to strengthen the controls and the relevance of the proposed measures to increased security. Since decisions on export control policies are made in Western Europe by political parties and economic ministries, rather than defense ministries, it will not be sufficient for the U.S. to convince the latter (which are, in many cases, more sympathetic to U.S. views on security controls).

The U.S. has little effective economic leverage to speed up the education process. U.S. trade concessions to Western European countries are balanced by concessions they give us; a withdrawal of U.S. GATT commitments would inevitably lead to retaliation. The $20 billion trade surplus we enjoyed with the European Community in 1980 is based in part on concessions which European governments find inconvenient (e.g., existing tariff levels on soybeans, feed supplements, petrochemicals, synthetic fibers, textiles).

Withholding o. existing technical or military cooperation could reduce allian(: capability although withholding certain advanced military tech:)logies (Data Exchange Agreements, etc.) may provide the U.S. some .everage. The allies could well react strongly to any attempt to co(:ce their cooperation; the result would then be less cooperation o: other issues, including force enhancement. It might be more effec' .ve to make offers of new technology conditional upon expanded cont:)ls, if we are confident that the benefits of the new controls woul(be greater than the costs to our security of delaying our allies' m: .itary modernization, and if we are confident that this would no' be portrayed publicly as undercutting our allies. U.S. industry ,ould react favorably to this approach since they perceive trans :erring technology without selling military equipment as losing marl :t share.

There are some signs that the climate for more restrictive proposals within the al: .ance may be improving. Mrs. Thatcher seems receptive to our overall security objectives. The French use their relations with the Sovie :s as an opportunity to demonstrate their independence from American)olicy, but they share with us many strategic concerns and may well t : moving toward a more compatible course. The Italian attitude is co ıditioned in part by the strength of the Italian Communist Part . The Japanese view access to Soviet raw materials as important t , their future development, but they are wary of the risks of overi ıvolvement. Even the Germans, who have been wedded so closely to Ost)olitik, appear to be a little more on the defensive. All this is nc : to say that the allies would leap to embrace our proposals, but simply that we should not set our sights too low in advance.

What all of th allies have in common is a keen sense of commercial competition. hey resist being talked into partial measures whose sole effect, t ey suspect, is to hand over a sale to another country's expc ters. The nightmare shared by virtually all of their trade official is restraining one of their own companies from making a sale o the Soviets, only to read in the newspaper that the sale has gone o the French or the Germans. This, alas, ha happened. The Soviets and their Warsaw Pact partners have xploited these fears very skillfully, creating upward-ratchet ng political and economic pressures.

U.S. proposals for new controls will require a major effort to persuade the a lies, no matter which of the three options is selected. Eve new technology controls under Option I will probably not be agreed nless they are technically precise and we present evidence of mi itary significance. A permanent "no exceptions" policy under O; :ion I may be difficult to achieve without a reduction of c(,erage from the present COCOM list. Selling Options

Attachment 3

ECONOMIC IMPACT ON U.S. AND WESTERN COUNTRIES

Summary

The economic impact on COCOM countries of the various options for refined security controls on exports to the USSR would vary substantially among options as well as among countries.

According to the methods used to estimate trade impact associated with the three options, it is estimated that the direct trade effect (1979 pre-Afghanistan base) on all COCOM countries would be as follows (on a yearly basis):

Loss of trade: (I) $423 million; (II) $845 million, and (III) $1.7 billion. The corresponding number of jobs (1979 base) associated with this trade loss for COCOM countries collectively is: (I) 19,838 jobs; (II) 39,646 jobs; and (III) 79,322 jobs.

Countries hardest hit among COCOM would be Germany, France, Italy and Japan, both in terms of trade and job loss.

Methodology

The following describes the methodology used in estimating the economic effect of the three options for tightening security controls on exports to the USSR.

For an approximation of the order of magnitude of "high technology exports" to the USSR, the commodity categories (SITC basis) listed in Table I were selected. There is general agreement that this list encompasses virtually all U.S. and allied high technology exports. COCOM exports in these goods to the USSR in 1979 totaled $1.7 billion. This figure understates the importance of such technology transfer trade to the USSR since it does not include the value of technical data transfers, except to the extent that it is included in the price of the product export. Conversely, it overstates the amount of high-technology trade since the categories are broad and include some low-technology items in the baskets.

The principal economic effects on the west from tightened controls would be reductions in (1) income from exports related to stricter COCOM controls and (2) employment associated with the reduced exports of technology (either as technical data or equipment). In order to estimate the possible economic impact of the policy options, the following assumptions were made:

(1) COCOM exports of high technology products to the USSR would fall by 25% from 1979 levels (pre Afghanistan) under Option I;

(2) COCOM exports of high technology products to the USSR would fall by at least 50% from 1979 levels under Option II;

(3) COCOM exports to the USSR of high technology products would be eliminated under Option III.

The trade and employment effects for the COCOM countries (except Greece, Portugal and Turkey) are summarized in Table 2.

The bulk of the reduced trade falls on the key industrial nations, e.g., Germany, Japan, France, and Italy. German exports of high technology products to the USSR would be affected within a range from about $150 million to slightly more than $600 million depending upon the option. The effect on Japanese exports falls within a $80 to $325 million range for the three options, while French and Italian exports affected range from $60-250 million and $50-200 million, respectively. The corresponding employment effects range from a high of from 5,000-20,000 in Germany to 3,000-11,000 in France. Both the United Kingdom and the United States are affected less than the other four countries (see Table 2). Impact on the remaining COCOM members is slight, both in trade and employment terms.

The trade and employment effects are estimates from a 1979 base and are believed to be reasonably indicative of the impact of the three options. Even if the figures were off by a factor of two or more, due to a particularly large project in any given year, employment and trade effects for COCOM as a portion of total trade and employment would remain small. This seems particularly unlikely since the Soviets tend to import to make up shortfalls in productin or for reverse engineering purposes.

It is not surprising that the European nations and Japan are most affected by tighter controls. What is surprising is the relatively modest impact of either Option I or II on total trade or employment which seems to suggest that the economic trade off for tighter national security controls vis-a-vis USSR might not be as difficult, once it is defined, as sometimes suggested. Indeed to the extent that high technology products are capital vs labor intensive the employment impact may be overstated.

TABLE I

HIGH TECHNOLOGY PRODUCTS

GROUP/SITC#	DEFINITION
Aerospace	
71142	Jet and Gas Turbines for Aircraft
7341	Aircraft, Heavier-than-air
73492	Parts of Aircraft, Airships, etc.
Computers	
7142	Calculating and Accounting Machines, etc.
7143	Statistical Machines - Cards or Tapes
71492	Parts of Office Machinery, N.E.S.
Machinery	
7116	Gas Turbines, Other than for Aircraft
7151	Machine - Tools for Working Metals
71523	Gas-operated Welding, Cutting etc., Appliances
7185	Mineral Crushing etc, and Glass-working Machinery
71852	Machinery and Appliances-non Electrical - parts
71911	Gas Generators
7192	Pumps and Centrifuges
71952	Machine - Tools for Working Wood, Plastics, etc.
71954	Parts and Accessories of Machine - tools
7197	Ball, Roller or Needle-roller Bearings
7199	Parts and Accessories of Machinery, N.E.S.
7296	Electro-mechanical Hand Tools
Electrical	
7249	Telecommunications Equipment, N.E.S.
72911	Primary Batteries and Cells
7293	Thermionic Valves and Tubes, Transisters, etc.
72952	Other Electrical Measuring and Controlling Instruments

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TABLE 2

SUMMARY OF TRADE AND EMPLOYMENT EFFECTS
(Strengthened Security Controls on High Technology Exports to USSR)

1979

Country	Total Trade ($ Mil)	Labor Force (Mil)	Unemploy-ment (%)	High-Tech Trade (Loss) I	II	III	Employment (Loss) High-Tech I	II	III	GPN ($Mil)
				------ $ Mil		----------	------ (Persons)		------	
Europe										
Belgium	56,250	4.5*	6.5	2.2	4.5	8.9	100*	200*	375*	112,316
Denmark	14,613	2.7*	5.5*	3.0	6.0	12.0	155*	275*	600*	58,927
France	100,700	22.5	5.9	62.2	124.4	248.7	2,812	5,625	11,250	502,376
Germany	171,890	25.9	3.0	153.2	306.4	612.8	5,202	10,425	20,850	761,088
Italy	72,230	22.0	7.5	52.3	104.7	209.3	3,552	7,105	14,211	324,050
Netherlands	63,670	4.8	4.5	1.2	2.4	4.8	38	76	153	149,917
Norway	13,470	1.9	2.0	1.5	2.9	5.9	62	125	251	44,477
United Kingdom	91,016	26.0	5.1	22.7	45.3	90.7	1,496	2,992	5,985	393,930
Total Europe	583,039	110.0	--	293.3	596.6	1,193.1	13,427	26,823	53,675	2,347,089
North America										
Canada	58,190	11.3	6.7	5.8	11.6	23.1	294	588	1,176	222,212
United States	181,802	102.9	5.7	36.9	73.8	147.7	1,603	3,207	6,414	2,368,800
Total North America	239,992	114.2	--	42.7	85.4	170.8	1,897	3,795	7,590	2,591,012
Japan	102,300	56.0	2.1	81.5	163.0	326.0	4,514	9,028	18,057	1,010,986
COCOM**	926,131	280.2	--	422.5	845.0	1,689.9	19,838	39,646	79,322	5,949,087

* Estimated

** Excluding Greece, Portugal and Turkey

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NSC STAFF PREPARED SUMMARY

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

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

The U.S. Policy on Soviet Energy Development

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

Yes

-- Developing Soviet energy helps them overcome potential energy and hard currency shortages and reduces their motivation to aggression in the Persian Gulf Oil area.

-- Increases the world oil supply and keeps the Soviets from purchasing on Western oil markets, reducing pressure on world oil prices.

-- Maintains a cooperative relationship with the Soviet Union in an important economic area to offset the competitive relationship in military sectors.

-- Results in substantial export and employment benefits for U.S. and Allied countries.

No

-- It is unlikely that the Soviet Union will ever become dependent on the world market for oil imports; if it decides to intervene in the Persian Gulf, it will do so for reasons other than to obtain oil; e.g., to deprive the West of oil.

-- Western equipment and technology reduces the costs of energy development to the Soviet Union and frees resources for application in the Military Sector.

-- Western assistance contributes to an expansion of Soviet energy exports to the West and to Eastern Europe and increases their dependency on the USSR.

-- It is inconsistent to seek increases in defense expenditures while making it easier for the Soviets to devote resources to their military.

Current U.S. Policy

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

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

Soviet Energy

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

U.S. Technological Leverage

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

Western European Perspective

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

Soviet Hard Currency Earnings

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

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POLICY OPTIONS PAPER

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

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

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

-- the extent to which we wish to impede Soviet energy development and exports;

-- the political costs vis-a-vis our allies we are willing to pay in pursuit of this policy; and,

-- the extent to which we wish to control export of technology.

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

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Option I:

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

Pro:

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

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

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

Con:

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

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

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

Option II:

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

Pro:

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

Con:

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

Option III:

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

Pro:

(a) Would focus US leverage on major projects.

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

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

Con:

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

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

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

Option IV

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

Pro:

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

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

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

Con:

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

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

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

Option V:

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

Pro:

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

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

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

Con:

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

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

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

NSC STAFF PREPARED SUMMARY

U.S. POSITION ON THE SIBERIAN PIPELINE

Issue: What position should the U.S. adopt towards the proposed pipeline designed to supply Siberian natural gas to Western Europe?

Background:

Western European and Soviet officials are negotiating terms for the construction, finance, and operation of a 6000 km gas pipeline designed to link the major gas fields of Western Siberia with Western Europe. If the Western Europeans and Soviets agree on the current plans, the pipeline -- which would cost up to $13 billion and would be financed by subsidized European and Japanese export credits -- would represent the largest single East-West trade venture ever consummated. It would supply six Western European countries (West Germany, France, Italy, the Netherlands, Belgium and Austria) with from 10 to 30 percent of their national natural gas consumption -- approximately 6 percent of their total energy requirements.

The Soviets may seek highly advanced U.S. equipment and technology for construction of the pipeline. They could, however, obtain all the equipment and technology required for the pipeline from other potential Allied suppliers. Exports of these items from countries other than the U.S. are not currently subject to export controls.

Construction and operation of the Siberian Pipeline would increase European dependence on Soviet energy supplies. Increased dependence on Soviet gas and enhanced commercial ties from this major project could create political vulnerabilities, making our Western Allies more susceptible to Soviet threats on major issues and generally less willing to oppose Soviet positions and threats, with potentially significant effects on the Western Alliance.

U.S. officials have raised with the six prospective Western participants and the UK and Japan our concerns regarding the strategic implications of increased Western European dependence on Soviet gas supplies. We have not, however, signalled firm disapproval of the project, noting that a final U.S. policy on the pipeline and what equipment and technology exports could be licensed would await Presidential consideration of overall East-West energy issues.

In response to our concerns, the Europeans, while still committed to the project because of its perceived economic and political benefits, have recently voiced some reservations concerning the project's strategic and financial implications. They have pledged to encourage development of dual-fire capabilities, to develop a safety net of strategic reserves and emergency procedures to cushion the effects of a possible cut-off of Soviet gas supplies, and to consider limiting their use of Soviet gas to the industrial sector.

Soviet-Western European pipeline negotiations are currently stalled on a number of issues, including gas pricing and terms for Western financing. The most optimistic European proponents of the pipeline now predict that negotiations will not be completed before late 1981.

Western European Perspective

While the Western Europeans acknowledge and sometimes share our concerns, most continue to favor construction of the pipeline both for political and economic reasons. Energy poor, they see imports from the USSR as reducing their OPEC dependence and the Soviet Union as a more secure source than some other potential suppliers, such as Algeria and Libya. They also emphasize that imports from the USSR would be a relatively minor energy source, no more than 8 percent of total by 1990.

The Western Europeans also believe Western interests would be advanced by preventing the USSR from becoming an active buyer in the international oil and gas market and see development of gas resources as a factor in diminishing Soviet motivations to adventurism in the Middle East.

A very important, though generally unspoken reason for favoring the pipeline, however, is that the Western Europeans are correctly confident that money spent for Soviet gas will flow back to them from Soviet purchases into their economies. Buying gas from the USSR will provide the Soviets hard currency that they will spend for Western exports. This will provide the Western Europeans a means to pay for the gas and will sustain a high level of East-West trade. The project is thus commercially attractive to some of our Allies for the very reasons that cause us political concern.

Potential Benefits for the USSR

The USSR is counting on expanded gas exports to offset anticipated declines in hard currency earnings from oil exports, which currently provide 50 percent of Soviet foreign exchange earnings. Soviet ability to maintain current levels of imports from the

Siberian pipeline would enable gas exports of about $15-19 billion annually, at current oil prices.

Without the construction of the Siberian Pipeline and other contributions to the development of Soviet gas infrastructure, domestic energy shortages might also force cut-backs in energy exports to Eastern Europe.

<u>Availability of Equipment for the Pipeline</u>

Although U.S. based firms have indisputable worldwide leads in the quality and technology of their gas recovery and transport equipment, recent CIA analyses indicate that unilateral U.S. restrictions on exports for the Pipeline would not significantly delay or force termination of the project. The Soviets will require certain Western exports to build the pipeline and would prefer U.S. equipment in some instances, but could settle for second best technology available from other countries. Key alernative equipments (compressors and pipelayers) are available from the British and the Japanese. However, both the Japanese and British governments may be reluctant to limit exports for the pipeline as long as the Germans, French, and other Western European governments continue to favor the project.

In order to block or significantly delay the Siberian Pipeline, the U.S. would require Allied cooperation (at a minimum from the UK and Japan) to deny equipment and technology exports. Such cooperation might be difficult to obtain among Western equipment exporters in light of their perceptions of the commercial and political advantages of the project.

II or III will require personal efforts by the President and key members of the Cabinet. In addition, we would have to make our case for such controls with key economic policy officials and defense ministers in allied capitals, while at the same time presenting precise proposals and careful technical arguments in COCOM.

There is one other aspect to the problem which concerns the legal ability of the allies to control technology transfers absent equipment controls. U.S. interests in strengthening technology controls must recognize this possible allied constraint.

In the end it seems possible to reach an allied concensus if we successfully build upon genuine and common concerns for security while assigning due weight to the economic interests at stake.

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POLICY OPTIONS PAPER
US Position on the Siberian Pipeline

ISSUE: What position should the U.S. adopt towards the proposed pipeline designed to supply Siberian natural gas to Western Europe?

OPTION I

The U.S. will signal its disapproval of the project by denying all exports to the USSR for the pipeline, and press our allies to cancel further project negotiations.

PRO

(a) Heads off potential Western European dependence on Soviet energy supplies, reducing the likelihood for Soviet leverage and European vulnerability.

(b) Indicates unambiguously that the U.S. is determined to hamper development of a strategically significant Soviet industry by denying the equipment and expertise to accelerate development of Soviet gas reserves, the most readily available means to replace hard currency earnings from declining oil exports.

(c) Contributes to Soviet economic difficulties by promoting resource allocation debate between Soviet military and civilian sectors.

CON

(a) Creates tension between the U.S. and its Allies and could contribute to the long-term Soviet objective of separating the U.S. from Western Europe. Severely limits U.S. ability to influence the details of the project and the safety net should the Europeans proceed despite our objections.

(b) The Western Europeans are committed to the project and would likely proceed despite U.S. opposition, unless the U.S. were prepared to apply leverage at the highest levels and to offer an "incentive package" to offset the Western European loss of potential energy supplies and related export contracts from the USSR.

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

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OPTION II

The U.S. will communicate to our Allies and friends that we oppose the project, will withhold relevant export licensing, and encourage them to do the same, until our Allies have committed to constructing an adequate safety net of emergency supply.

PRO

(a) Indicates U.S. concern about major Soviet projects which contribute to Soviet energy production capabilities and our Allies' vulnerability to Soviet energy leverage.

(b) Offers U.S. more time to encourage Europeans to derail, delay or scale-down the project, and to work with them to explore alternate energy sources and an emergency safety net.

(c) Heads off increased Western European dependence on Soviet energy supplies and reduces the likelihood of Soviet leverage.

CON

(a) U.S. might appear to be waffling. Does not clearly indicate to our Allies the degree of U.S. concerns regarding the strategic implications of expanded European dependence on Soviet energy.

(b) Contributes to the development of a vital sector of the Soviet economy, thereby enhancing Soviet economic strength, political influences, and military potential.

(c) Even with a safety net, the pipeline would expand East-West trade links and could reduce Western European willingness to actively oppose the Soviets.

OPTION III

The U.S. recognizes its inability to cancel or significantly delay the pipeline project. The U.S. will, however, work with its allies and friends to minimize the strategic implications of the project.

PRO

(a) U.S. would appear sensitive to Western European economic and energy needs and their desire to diversify energy supplies. Avoids possibility of straining relations with these Allies, who are committed to the project but are cognizant of the need to develop a safety net. U.S. leverage could be used to influence further the details of the project and safety net.

(b) If Europeans scale back the pipeline sufficiently and develop adequate safety provisions, the West's leverage as a unified buyer could exceed that of the USSR as a seller.

(c) Promotes expansion of world energy supplies and alleviates European dependence on OPEC resources Also reduces possibility of economically-motivated Soviet adventurism in the Middle East.

CON

(a) Sends an improper signal to our Allies and to the Soviet Union regarding U.S. views toward the USSR, and implicit U.S. acceptance of Western exports for the development of Soviet energy resources

(b) If an adequate safety net is not developed, allows possibility of Soviet political leverage over six Western European countries, and reduces likelihood of European opposition to the USSR on key international issues.

(c) Provides for continued high level of Soviet hard currency earnings which could range from $5-15 billion annually, thereby making it easier for Soviet leaders to allocate resources to the military sector.

OPTION IV

Adopt a laissez faire approach on the pipeline, allowing market considerations to determine European energy import and energy security policies.

PRO

(a) Avoids friction with key Allies on East-West energy relations.

(b) Reduces Soviet energy incentives for adopting an adventuristic policy towards the Persian Gulf and other producing areas.

(c) Enables U.S. firms to compete for commercial opportunities generated by the project.

Con

(a) Signals to our Allies and the Soviets that we are less concerned than before about Soviet policies and enhances Soviet ability to manipulate commercial relations to their political advantage over the longer term.

(b) Increases European dependence on Soviet energy and weakens Allies' ability to resist Soviet pressure.

(c) Supports inefficient Soviet energy sector by giving USSR access to equipment and technology it chooses not to develop, thereby easing resource allocation to the civilian sector.

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POLICY OPTIONS PAPER

License for Caterpillar Company

To Export 100 Pipelayers to the Soviet Union

ISSUE: Should the United States Government grant a license to the Caterpillar Tractor Company for the export of 100 pipelayers to the Soviet Union?

BACKGROUND: The Carter Administration in 1978 imposed license requirements on the export of oil and gas technology and equipment to the USSR, and tightened controls following the Soviet invasion of Afghanistan. These controls are based on foreign policy considerations, and have not been adopted by our Allies and other equipment and technology exporters. Prior to the imposition of controls Caterpillar sold over 900 pipelayers to the USSR.

On November 15, 1980, the President directed that a license be approved for Caterpillar to export 200 large-diameter pipelayers, valued at $79 million, to the Soviet Union for use on the construction of a gas pipeline linking West Siberia and six Western European countries. On January 26, 1981, Caterpillar requested an amendment to that license. The amended application seeks approval of a license to export 100 pipelayers, valued at $40 million, for use on Soviet petroleum projects other than the Siberian pipeline. The amended application states that the 100 pipelayers would be used as replacement units on the following projects:

-- 30 units for use in West Siberia on construction of main and feeder lines of the Urenjorj project to carry gas from West Siberia to Moscow;

-- 25 units for use in Central Asia on construction of a local oil pipeline;

-- 45 units for use in European USSR on the western end of the Urenjorj project from Yaroslavl to Polotsk.

The amendment request was circulated for interagency review on March 4, 1981. Commerce, in circulating the case for review, recommended that the license, if approved, contain the condition that no military or military-support use of the pipelayers be permitted, and that an end-use statement to that effect be required. The case was subsequently discussed without agreement at the Assistant Secretary level in the Commerce-chaired Advisory Committee on Export Policy.

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Under the time limits for licensing decision set forth in the Export Administration Act of 1979, the Government has until early August to decide this case. However, Caterpillar has already missed contract delivery deadlines and feels that it must have an early decision in order to prevent Soviet cancellation of the contract, and consequent Japanese replacement sales to the USSR. Komatsu, a Japanese firm, is currently the only non-U.S. producer of pipelaying equipment and has sold over 500 pipelayers to the USSR in the past ten years.

OPTION I

Deny the Caterpillar export license application.

PRO

(A) Reduces Soviet capability to carry out oil and gas projects with long range strategic implications. Impedes Soviet economic strength, political influence, and military potential.

(B) Despite end-use assurances, inherent fungibility of pipelayers means that they could be used in developing Soviet military infrastructure.

(C) Signals that US desires to inhibit Soviet energy production.

(D) Denies USSR access to equipment it chooses not to develop, facilitating resource allocation to military sector.

CON

(A) Without cooperation from Japan, US license refusal would have no appreciable effect because Japanese could supply pipelayers.

(B) Pipelayers have no clear cut military application and their relation to enhancing Soviet military capability is tenuous.

(C) Possibility that Caterpillar and other US firms will be denied opportunity for future sales to the USSR. Key Congressional leaders Percy and Michel support sales.

(D) Given US lifting of grain embargo, US refusal of export license could appear inconsistent.

OPTION II

Deny export license application if Japanese agree to stop similar sales by Komatsu.

PRO

Retains basic benefits of Option I plus indicates that US can work with Allies to hinder Soviet economic and energy growth.

CON

Contains same drawbacks as Option I plus Japanese cooperation could entail major political effort by US. Japanese are currently angry at US lifting of grain embargo without prior consultation.

OPTION III

Approve the Caterpillar Export license application.

PRO

(A) Assures a substantial commercial contract for a major US manufacturer for equipment which is readily available from Japan.

(B) Fosters Soviet dependence on US imports and contributes positively to US balance of payments. Only marginally contributes to Soviet energy production capability.

(C) By aiding in Soviet development of domestic energy resources, provides fewer incentives for adventuristic policy in Persian Gulf and other energy-producing areas.

CON

(A) Supports inefficient Soviet energy sector and gives USSR access to equipment it chooses not to develop, facilitating resource allocation to military sector and development of military infrastructure.

(B) Implies US acceptance of Western exports for development of Soviet energy resources.

(C) Grave risks of misinterpretation by Soviets and Allies at time when US is adopting a tougher line towards the USSR.

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TO PRES FROM ALLEN DOCDATE 02 JUL 81

DECLASSIFIED
White House Guidelines, August 28, 1997
By CJS NARA, Date 2/14/01

KEYWORDS: EAST WEST TRADE TECHNOLOGY TRANSFERS

EXPORT CONTROLS NSC

SUBJECT: PRES BRIEFING MEMO FOR 6 JUL NSC MTG

ACTION: FOR RECORD PURPOSES DUE: STATUS C FILES IFM O

FOR ACTION FOR CONCURRENCE FOR INFO

COMMENTS

REF# LOG 8190113 NSCIFID NSC00016 (B / B)

ACTION OFFICER (S) ASSIGNED ACTION REQUIRED DUE COPIES TO

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OECD TRADE WITH THE USSR
(Billion US $)

Exports to the USSR

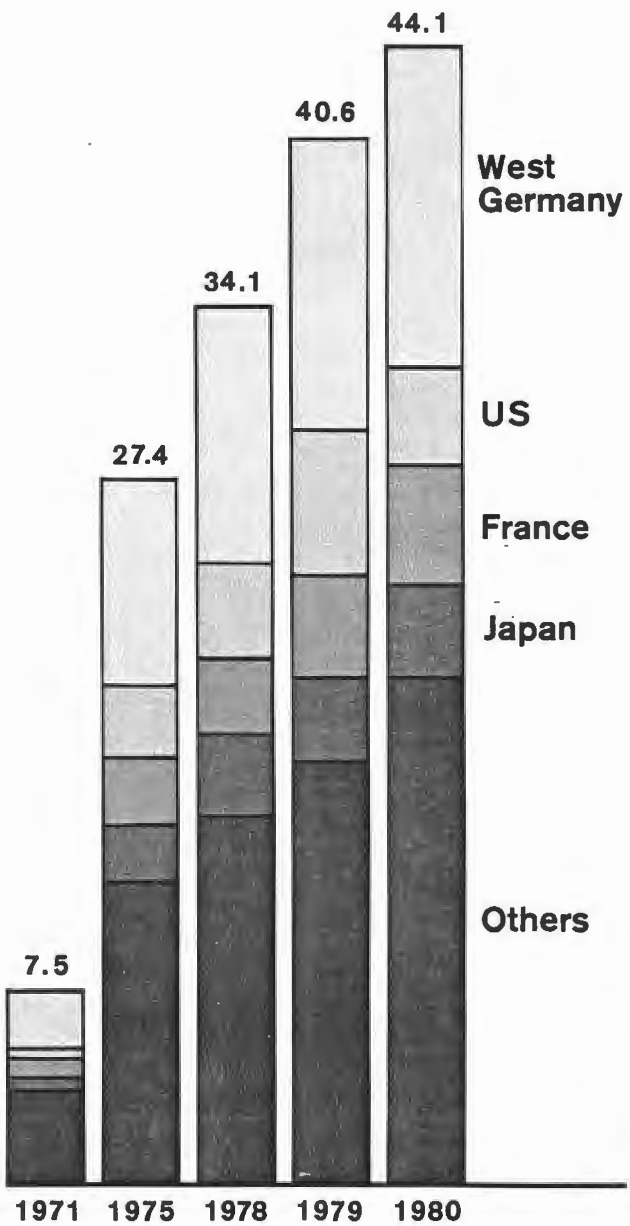
	1971	1975	1978	1979	1980
Total	2.5	11.9	14.5	18.1	20.9
West Germany	0.5	2.8	3.1	5.9	4.4
US	0.2	1.8	2.2	3.6	1.5
Finland	0.4	1.6	2.5	2.4	2.5
France	0.3	1.1	1.5	2.0	2.5
Other	1.1	4.6	5.2	4.2	10.0

Imports from the USSR

	1971	1975	1978	1979	1980
Total	3.0	8.7	14.0	20.0	24.4
West Germany	0.4	1.3	2.7	4.1	4.1
Finland	0.4	1.3	1.5	2.2	3.3
Italy	0.3	0.9	1.7	2.1	3.1
Japan	0.5	1.2	1.5	1.9	1.9
Other	1.4	4.0	6.6	9.7	12.0

OECD: Exports to the USSR and Eastern Europe[a]

Billion US $



[a]Excluding Yugoslavia

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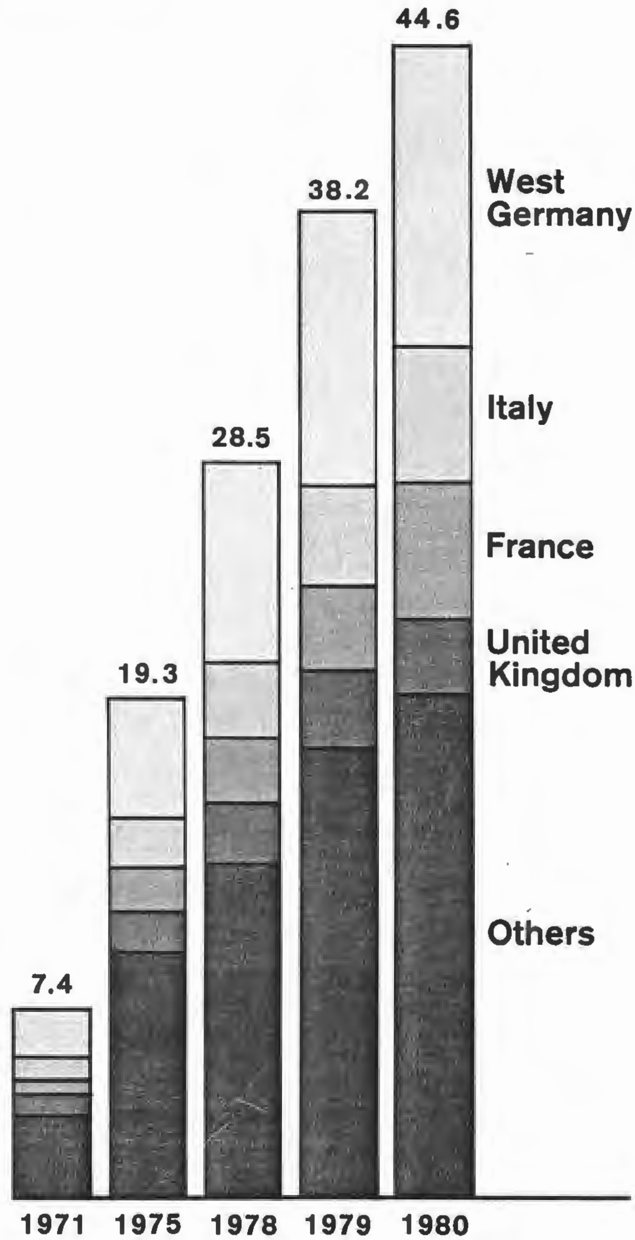
OECD: Imports From the USSR and Eastern Europe[a]

Billion US $



[a]Excluding Yugoslavia

OECD TRADE WITH THE USSR AND EASTERN EUROPE[1]
(Billion US $)

Exports to the USSR and Eastern Europe

	1971	1975	1978	1979	1980
Total	7.5	27.4	34.1	40.6	44.1
West Germany	2.2	8.1	10.0	11.3	12.4
US	0.4	2.8	3.7	5.7	3.9
France	0.7	2.6	2.9	4.0	4.6
Japan	0.5	2.2	3.2	3.2	3.6
Other	3.7	11.7	14.3	16.4	19.6

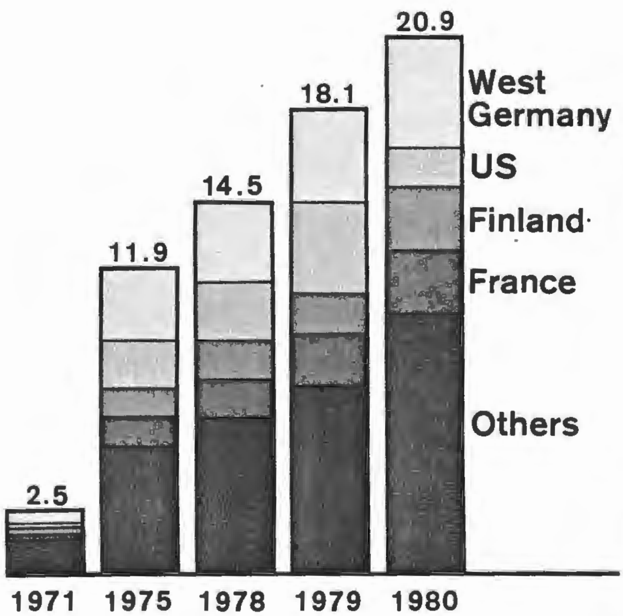
Imports from the USSR and Eastern Europe

	1971	1975	1978	1979	1980
Total	7.4	19.3	28.5	38.2	44.6
West Germany	1.9	4.6	7.8	10.7	11.6
Italy	0.9	1.9	2.9	3.9	5.3
France	0.6	1.7	2.5	3.3	5.2
UK	0.9	1.5	2.3	3.0	3.0
Others	3.1	9.6	12.9	17.3	19.5

1 Excluding Yugoslavia

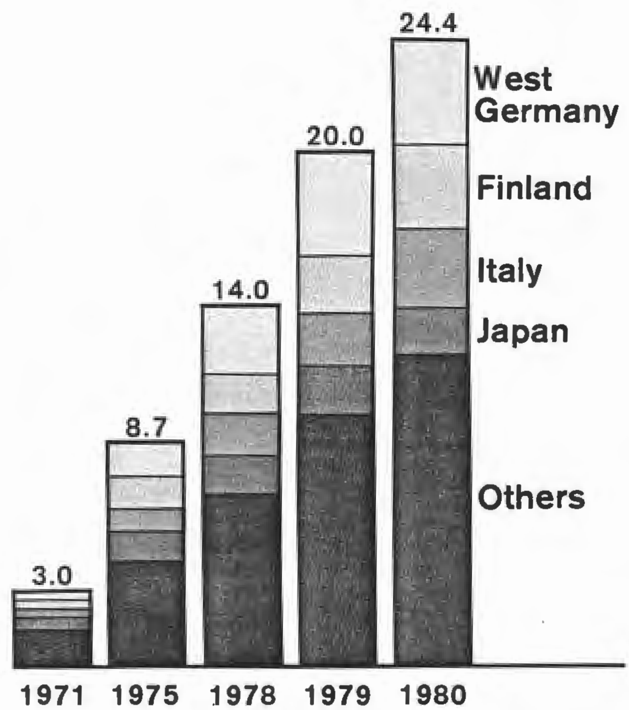
OECD: Exports to the USSR

Billion US $



OECD: Imports From the USSR

Billion US $



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Soviet Union: Major Gas Export Pipelines

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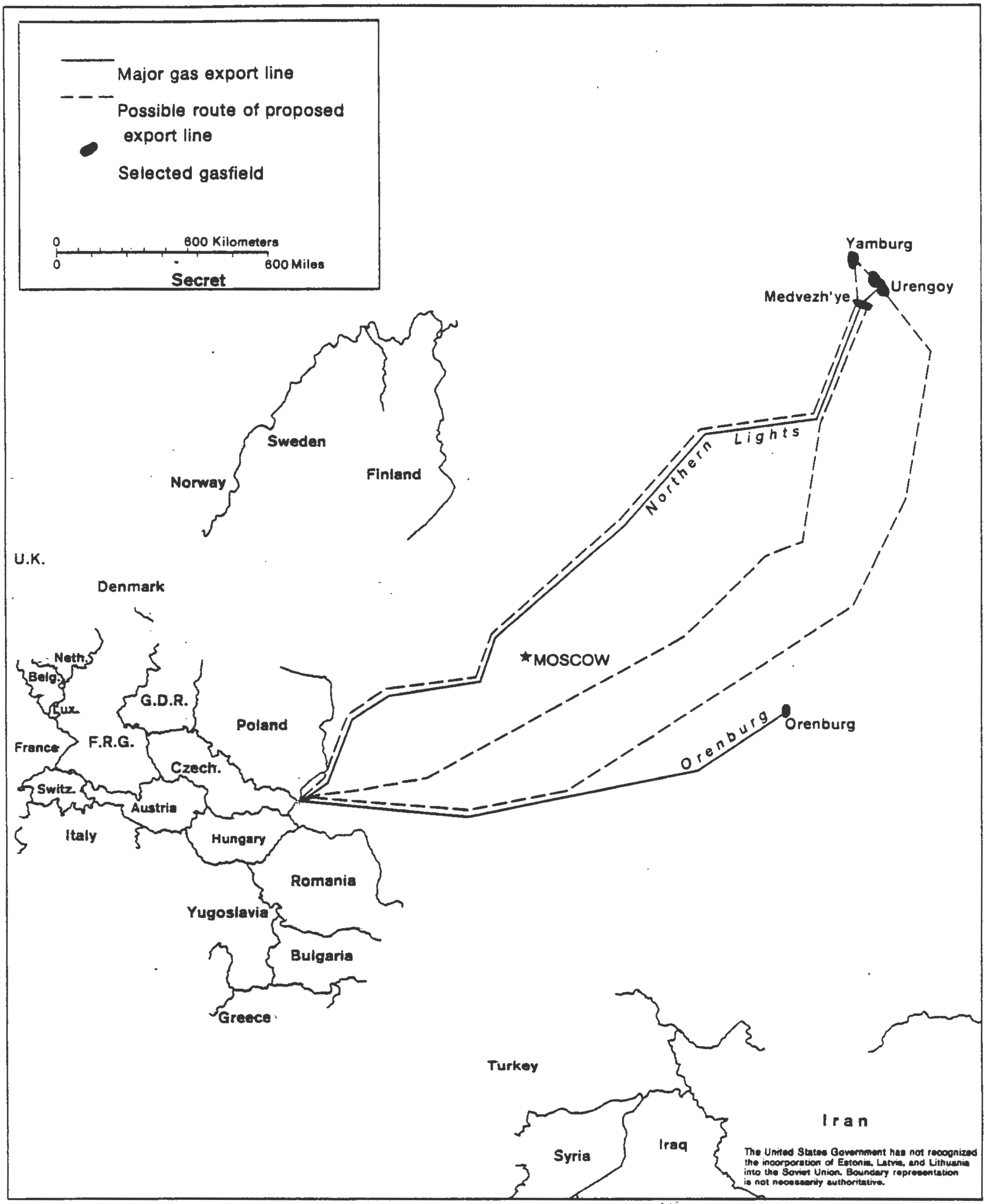
Soviet Union: Major Gas Export Pipelines



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B. [signature] 9/24/04

Haig
Clark
Hormats
Baldrige
Brady
Long
Colson
Nance
Anstey
Jones
Kirkpatrick
Weinberger
Carlucci
McPherson (?)
Stockman
Casey
Hagler
Allen
Murphy
Regan
VP
Baker
Meese
Hodsoll
Brock

[illegible]

(1)

State prefers II
DOD prefers III – or strengthened or expanded II or III on ad hoc basis – not automatic approval
Commerce: II tightens at top but loosens at bottom
upgrade COCOM list

Energy – leans toward II
highly restrictive on atomic energy
USTR – deny technology to produce themselves
III unachievable
modified II
Treas – option II
CIA – w/hold goods as well as tech; favor as close to II as poss
JCS – but II & III
OMB – prefer II; need clear analytical framework of costs
UN – II plus ad hoc

would airlines be covered by Option I - affects energy
to energy? totally separate issue? and statistic? working / workable w/Allies

energy
oil

Haig: technology no end use equipment
State
Option: prevent them getting tech
Option IV; case by case analysis of
end items as well

Dod. Airline Option II - toughened w/o new end item
mod; look at end item

Airlayers Japanese will sell anyway
Option III reluctantly

---

be independent leaders

DOD. Oil + Gas: Option I — not basic
Airline: Option I/II
Airlayers: Option I

Commerce Oil + Gas Option IV — b 3 of 3 in opt in a real world.
Airline Option III
Airlayers Option III

STR
Energy Oil + Gas III / IV
Airline II of cour. / III more practical
Airlayers II / " "

STR

Oil & Gas — IV — have to consider economic/pol. tenders of embargo

Pipeline — III

Pipelayers — III

Treasury

Oil & Gas — IV — Think alternate

Pipeline — III — west eqts. oil & gas

Pipelayers — II — can control in other ways

CIA — Oil & Gas — I

Pipeline — ↓

Pipelayers

JCS — Oil & Gas — I or — | his views also

Pipeline — I or II

Pipelayers — I

OMB — Oil & Gas — IV — doubt about impeding Soviet

Pipeline — III — development of

Pipeline — III — oil & gas

UN   oil + gas   I   Why increase European dependency [illegible]
pipeline   I
pipelayers   I

synthesize arguments + prepare memo

Haig: need for alternate energy program