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Collection Name EXECUTIVE SECRETARIAT, NSC: MEETING FILE

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SMF 8/13/2008

File Folder NSC 00017 09 JUL 81 (1)

FOIA

M2008-109

Box Number 1

PRESSLER

4

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
55440	PAPER	TAB B IMPACT OF PIPELINE ON WESTERN EUROPE <i>PAR 12/14/2004 M03-1278A #15 PAR UPHELD 2/7/2011 M109 #55440</i>	3	ND	B1

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
1. list	of participants for NSC meeting CAS 7/14/01 WH Guidelines	7/9/81	P-1
2. NSC profile	#8190121 CAS 2/18/01 WH Guidelines	7/8/81	P-1
3. memo	A. Lenz to R.V. Allen, re NSC meeting [8190121] (3 pp) R 12/14/04 MO3-1278A #1	7/9/81	P-1 P-5 CAS 2/18/01
4. questions	draft [8190121] R 12/14/04 MO3-1278A #2	n.d.	P-1
5. memo	R.V. Allen to President, re briefing paper for NSC meeting [8190121] (2 pp) R 12/14/04 MO3-1278A #3	7/8/81	P-1 P-5
6. paper	re discussion at NSC meeting [8190121] (3 pp) R 12/14/04 MO3-1278A #4	7/6/81	P-1 P-5
7. chart	re agency positions [8190121] R 12/14/04 MO3-1278A #5	n.d.	P-1 P-5
8. memo	R.V. Allen to A. Haig to C. Weinberger, re NSC meeting [8104057] (2 pp) R 12/14/04 MO3-1278A #6	7/6/81	P-1 P-5
9. memo	R.V. Allen to the Secretary of State, re NSC meeting [8104057] R 12/14/04 MO3-1278A #7	7/8/81	P-1
10. memo	similar to item #8 [8104057] (2 pp) R 12/14/04 MO3-1278A #8	7/6/81	P-1 P-5
11. memo	L.P. Bremer to R.V. Allen [8104057] R 12/14/04 MO3-1278A #9	7/8/81	P-1
12. paper	re options [8104057] (4 pp) R 12/14/04 MO3-1278A #10	n.d.	P-1
13. paper	re policy [8104057] (5 pp) R 12/14/04 MO3-1278A #11	n.d.	P-1 P-5
14. memo	to the President et al., re NSC meeting [8104057] P 12/14/04 MO3-1278A #12	7/9/81	P-1
15. paper	[8104057] R 12/14/04 MO3-1278A #13	7/8/81	P-1
16. paper	Tab A [8104057] (2 pp) R 12/14/04 MO3-1278A #14	n.d.	P-1
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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
17. paper	Tab B [8104057] (3 pp) <i>P 12/14/04 MO3-1278A #15</i>	n.d.	P-1 <i>PS</i>
18. memo	A. Haig to the President, re NSC meeting [8104057] (2 pp) <i>R 12/14/04 MO3-1278A #16</i>	7/8/81	P-1 <i>PS</i>
19. paper	re issues [8104057] <i>R 12/14/04 MO3-1278A #17</i>	n.d.	P-1 <i>PS</i>
20. memo	L.P. Bremer to R.V. Allen, re NSC meeting [8104057] <i>R 4/16/03 SGL M1278</i>	7/2/87	P-1
21. memo	R.V. Allen to the Secretary of State et al., re NSC meeting [8104057] <i>R 12/14/04 MO3-1278A #18</i>	7/8/81	P-1
22. memo	R.V. Allen to Al Haig and C. Weinberger, re NSC meeting [8104057] (2 pp) <i>R 12/14/04 MO3-1278A #19</i>	7/6/81	P-1 <i>PS</i>
23. memo	L.P. Bremer to R.V. Allen, re options [8104057] <i>R 12/14/04 MO3-1278A #20</i>	7/8/81	P-1
24. paper	re options [8104057] (4 pp) <i>R 12/14/04 MO3-1278A #21</i>	n.d.	P-1 <i>PS</i>
25. paper	re policy [8104057] (5 pp) <i>R 12/14/04 MO3-1278A #22</i>	n.d.	P-1 <i>PS</i>
26. NSC profile	#8190119 <i>CAS 2/14/01 w/ Guidelines</i>	7/9/81	P-1
27. memo	A. Lenz to R.V. Allen, re NSC meeting [8190119] (2 pp) <i>R 12/14/04 MO3-1278A #23</i>	7/9/81	P-1 <i>PS</i>
28. paper	re NSC meeting [8190119] (5 pp) <i>R 12/14/04 MO3-1278A #24</i>	7/9/81	P-1 <i>PS</i>
29. cable	AMEMBASSY Tokyo 12716 [8190119] (2 pp) <i>R 12/14/04 MO3-1278A #25</i>	7/9/81	P-1
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NATIONAL SECURITY COUNCIL MEETING:

DATE:

SUBJECT:

7/9/81

East-West Trade Control
Caribbean Basin

The President
The Vice President
State:
Sec Alexander M. Haig, Jr.
Mr. Robert D. Hormats
OSD:
Sec Caspar W. Weinberger
Dep Sec Frank C. Carlucci
Dr. Fred C. Ikle
Treasury:
Sec Donald T. Regan
Commerce:
Sec Malcolm H. Baldrige
Mr. Lawrence J. Brady
Energy:
Dep Sec W. Kenneth Davis
OMB:
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 W. Nance
Ms. Janet Colson
Mr. Frank Hodsoll
NSC:
Dr. Allen J. Lenz
Mr. Henry Nau
OPD:
Mr. Martin Anderson

W. C. S.

JUL 23 1981
2/4/01

RECEIVED 04 JAN 82 13

TO AGENCIES FROM ALLEN DOCDATE 08 JUL 81

BREMER 08 JUL 81

Cts *2/14/01* WEINBERGER, C 08 JUL 81

KEYWORDS: AGENDA USSR

EAST WEST TRADE EXPORT CONTROLS

OIL GAS

SUBJECT: BACKGROUND MATERIALS FOR 9 JUL NSC MTG

ACTION: ALLEN SGD MEMO DUE: STATUS C FILES IFM O

FOR ACTION FOR CONCURRENCE FOR INFO

COMMENTS

REF# 8120329 LOG 8190120 NSCIFID NSC00017 (B / B)

ACTION OFFICER (S) ASSIGNED ACTION REQUIRED DUE COPIES TO

DISPATCH _____ W/ATTCH FILE _____ (C)

MEMORANDUM

NATIONAL SECURITY COUNCIL

ACTION

July 9, 1981

MEMORANDUM FOR RICHARD V. ALLEN

FROM: ALLEN J. LENZ *ajl*

SUBJECT: Suggested Programming of NSC Meeting of 9 July, 1981

I suggest that today you continue the role of an impartial moderator in firm control of a well structured discussion established at the 6 July meeting.

The following format would appear suitable:

- RVA Statement of objective of the meeting
- RVA Indicate there appear to be substantial areas of agreement on the Allied Security Controls topic and that positions and major arguments seem quite well defined. Unless the President has some questions you will pass to discussion of the Scenarios submitted by Haig & Weinberger on the Oil/Gas and Siberian Pipeline issues.
- PRESIDENT Questions, if any
- RVA State the procedure for discussion of Oil/Gas & Pipeline scenarios, to be as follows:
 - you will pose two key stage setting questions for Haig
 - Haig will respond
 - you will pose two key questions to Weinberger
 - Weinberger will respond
 - you will then go around the table (excluding Haig & Weinberger) for comments/questions from other participants, who may support, critique, or question either scenario. Questions they pose, however, are to be cumulated for response by Haig/Weinberger at the completion of the round. Maximum time for each agency head's comments during the round is 3 minutes.
 - responses to cumulated questions and arguments by Haig; then by Weinberger

PRESIDENT Questions by President

HAIG/WEINBERGER Responses to President's questions

PRESIDENT/RVA Closing remarks

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NLS M03-127AA #1

BY *Amf* 12/14/04

Targetted time allocations should be as follows:

RVA statement of objectives and discussion guidelines	3 minutes
Discussion of Allied Security Controls	0 (hopefully)
RVA questions to Haig	2
Haig Response	4
RVA questions to Weinberger	2
Weinberger response	4
Comments/questions by each of 9 participants at three minutes each	27
President's questions & responses	10
President's closing remarks	3
RVA closing remarks	1
Total	56 minutes

The schedule is quite tight. Success will depend on:

- o not wasting any time on the Allied Security Controls topic
- o holding the President's questions until other participants have had their round
- o keeping individual participants within their time limits
- o no decision announcement at the meeting.

If you can hold Weinberger and Haig down on their times, I do not think the others will be a problem. Additionally, the compulsion to talk may be somewhat reduced and other aspects of the process enhanced by stating at the outset that no decision will be announced at the meeting and that final written arguments of not more than 3 pages will be welcome (but are not required) through close of business Friday.

You should know that we are developing a NSC Staff recommended scenario that could be completed, including ideas gleaned from this session, by close of business Friday.

I see as an important part of the cycle the questions you would pose for response by Haig & Weinberger before the agency head

participation cycle begins. (only your questions would get an immediate response-the questions of other participants would be cumulated for response at the end of the agency head cycle). Your questions would be tough and penetrating and therefore catalytic to the ensuing discussion. Most other questions are unlikely to be equally useful.

Your questions to Haig and Weinberger should be equally tough and penetrating, not only to preserve the image of an impartial moderator, but to get them on record on key factors and to stimulate ensuing discussion along the most important lines. Indeed, you would gain credibility, make it more difficult for them to give incomplete or evasive responses, and improve the discussion by giving Haig and Weinberger advance warnings of what you intend to ask, even if you provide written versions only immediately before the meeting. I would recommend, however, that you provide them as far in advance as is practical.

I suggest two questions each for Haig and Weinberger from you. First drafts are attached.

I will be developing a more detailed set of talking points to follow the format outlined above. Please redirect me if I am on the wrong track.

Recommendation:

That you approve the above format or provide me other instructions.

Approve _____

Disapprove _____

That you agree to advance distribution of the questions for Haig and Weinberger.

Approve _____

Disapprove _____

First Draft

QUESTIONS FOR HAIG

- Q. Your paper proposes a "very tough option III" under which we would "press" our Allies to take several specific measures to minimize their dependence on Soviet gas. If we do not ourselves deny licenses on exports related to the project and if we do not enlist the aid of the Japanese and British in restricting exports critical to the project, what is it that is "tough" about our policy and just what kind of pressure do we put on our Allies to get them to give anything more than lip service to the program of ~~dependency minimization~~ *MINIMIZING dependence* you have outlined?
- Q. Would it be inconsistent with your scenario to press strongly at Ottawa, especially on the Germans and the French, perhaps privately, for their agreement to delay further negotiations on the pipeline for, say six months, pending a thorough inter-Allied review of the project and alternatives to it?

QUESTIONS FOR WEINBERGER

- Q. Your objective, as stated in your paper, is to stop the pipeline or, if that is not possible, to scale it down. Why wouldn't this objective be best served by requesting, at least as a first step, that our Allies, especially the Germans, agree to delay further negotiations for at least six months, until a full examination of all aspects of the project can be completed, rather than approaching them now with a statement that the project must be stopped and with threats to block exports by the U.S. and other Allies of critical components?
- Q. As you indicated, compressors that must come from either the U.S. or the U.K. are critical to the pipeline. However, these compressors offer potential sales of as much as \$ _____ to Rolls Royce, a sick British firm in a sick British economy. Faced with high levels of unemployment and with a German and French desire to go ahead with the pipeline, what incentive would there be for the British Government to block the sale of these compressors? What pressures or incentives could we bring to bear to motivate the British to go along with our desire to block the pipeline? Wouldn't British cooperation be significantly easier to obtain if our stated objective was only to delay the pipeline, pending a review of alternatives and/or steps to minimize European dependency, as compared to a position where we propose to block the pipeline permanently?

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NLS MO 3-1278A-42

BY Amf, NARA, DATE 12/14/04

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THE WHITE HOUSE

WASHINGTON

NLS M03-1278A #3

BY smf, NARA, DATE 12/14/04

July 8, 1981

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NATIONAL SECURITY COUNCIL MEETING

Thursday, July 9, 1981

3:30 - 4:30 p.m.

The Cabinet Room

FROM: Richard V. Allen

I. PURPOSE

You will chair a meeting of the National Security Council at 3:30 p.m., Thursday, July 9, 1981. The agenda will continue discussions on Major Issues In East-West Trade begun at the Monday, July 6, meeting. 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 promptly to allow preparation for the Ottawa Summit, at which you will want to inform our Allies of these decisions and seek their support. Your 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 6 meeting revealed substantial unanimity in the recommendations of your advisors regarding the U.S. policy on Allied Security Controls. However, a wide divergence of opinions emerged in their recommendations concerning U.S. policies on Oil and Gas Equipment and Technology Exports and on the Siberian Pipeline.

The discussions at the July 6 meeting, the agency positions, and the principal factors in their recommendations are summarized at Tab A.

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Review July 8, 1987

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III. PROCEDURE FOR JULY 9 MEETING

The July 9 meeting will be your final opportunity to hear arguments in a Council meeting. In view of the relative unanimity on the Security Controls issue and the more controversial nature of the remaining topics, I would expect to devote the majority of the discussion time to the Oil-Gas Controls and Siberian Pipeline issues.

On both these issues, however, the options are necessarily broadly stated and there is ample opportunity for individual positions to be inadequately described or misunderstood. Accordingly, I have requested Secretaries Haig and Weinberger, as principal advocates for the divergent positions, to provide more specific information concerning the objectives and implementation of their recommendations (Tab B). I anticipate using their responses as focal points for a sharpened Council meeting discussion.

IV. IMPLEMENTING YOUR DECISION

While I do expect that the requirement to spell out implementing scenarios will somewhat narrow the apparent wide divergence of the views of your advisors, it is most unlikely that the differences will be eliminated. Any decision you make short of maximum restrictions on exports to the USSR will disappoint some of your advisors. Conversely, a decision to ~~export~~ ^{export} strong pressure on our Allies to restrict oil and gas equipment exports or cancel the pipeline will raise the concerns of others.

It is important to bear in mind, however, that a successful implementation of any of the options that requires applying pressure on our Allies will require difficult, protracted negotiations with our Allies. To succeed, these negotiations must have the wholehearted implementation support of the State Department.

Accordingly, I recommend that you do not announce any decisions at the July 9 meeting. Instead, in an effort to minimize the perception of "winners and losers" and to enlist their wholehearted cooperation, I suggest you subsequently individually advise Secretaries Haig, Weinberger and Baldrige of your decisions and the rationale for your choices in this difficult and complex matter.

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SUMMARY AND ANALYSIS OF DISCUSSION

at July 6, 1981, NSC Meeting

The objective of the meeting was to determine Agency positions and supporting rationales on two important facets of U.S. and Allied policy on trade with the Soviet Union: security controls and controls on the export of oil and gas equipment and technology. The options presented in four papers and the agency positions identified during the discussion are synopsized in the table at Tab I.

The "Security Controls" issue requires a decision as to the general policy guidelines we will propose to our Allies for adoption by the "Coordinating Committee" in its multilateral agreement to jointly restrict the export of certain equipment and technology to the Soviet Union (and other Communist countries).

The NSC meeting discussion revealed unanimity in recommendations to press our Allies for significant increases in existing COCOM security controls, with the majority favoring Option II, which would restrict technology and equipment critical to production in "defense priority industries," as well as that critical to military production and use which would be restricted under Option I. Some, however, recommend moving as close as is practical to Option III (restriction on all items for use in defense priority industries).

The major arguments advanced for settling for the increases in restrictions that would result from successfully negotiating with our COCOM Allies the policy guidelines set forth in Option II are:

- o Option II would accomplish a significant broadening.
- o Though Option II will be extremely difficult to sell to our Allies, it is doable. Option III is not achievable. (Functioning of the COCOM system depends on unanimous acceptance of the guidelines by the 15 members; the NATO countries plus Japan.)
- o Tightening controls at the top (on high technology items) while loosening them at the bottom (on lower technology items) will allow more effective controls on the more important items and faster action on all license applications.

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Review on July 8, 1987

NLS M03-1278A #4

BY amf 12/4/04

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The major arguments advanced for moving toward Option III are:

- o We must consider our Allies' position, but we must also consider whether we wish to help the Soviets.
- o Subscribing to the "if we don't sell to them, others will" argument weakens our leadership ability.
- o The negative effect of exports that help the Soviets outweighs the positive economic benefits to Western economies of these exports.
- o Refusal to provide the Soviets equipment and technology forces them to divert resources to developing their own.

There is a more pronounced diversion of your advisors' views on the "Oil and Gas Controls" and "Siberian Pipeline" policy choices (see table at Tab A). Defense, CIA, JCS and Mrs. Kirkpatrick recommend the license denials and pressures on our Allies reflected in Options I or II of the Oil-Gas and Siberian Pipeline papers. State and the other remaining agencies, on the other hand, favor denying technology, but licensing equipment (Option IV) in the oil-gas issue, and recommend we recognize an inability to cancel or significantly delay the pipeline, but work to minimize its strategic implications (Option IV).

While the Siberian Pipeline policy will be a subset of our policy on oil and gas controls, because of the size, visibility, and long-term economic and strategic implications of the pipeline project, it is probably the most important and also likely the most difficult and contentious of the two issues. The Caterpillar license decision will, of course, flow from your decision on the Siberian Pipeline.

The major arguments concerning U.S. and Western policy on Western exports that would aid Soviet oil and gas development are:

Assist:

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

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

Impede:

- o 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.
- o Western equipment and technology reduces the costs of energy development to the Soviet Union and frees resources for application in the military sector.
- o Western assistance contributes to an expansion of Soviet energy exports to the West and to Eastern Europe and increases their dependency on the USSR.
- o It is inconsistent to seek increases in defense expenditures while making it easier for the Soviets to devote resources to their military.

All of the above arguments also apply to the Siberian Pipeline. However, the key U.S. concern is that the pipeline will promote a Western dependency on Soviet gas that will increase our Allies' vulnerability to Soviet leverage.

At bottom line, however, the polarization of views of your advisors rests not so much on differing judgments of whether it is in U.S. interest to impede Soviet production (most would favor that, other things equal), but rather on differing individual evaluations of whether our Allies can be persuaded, at a reasonable cost, to follow a U.S. lead to do so.

This concern about West European attitudes is particularly crucial to the Siberian Pipeline analysis. The West Europeans cite the Pipeline as a means to diversify their energy sources. These arguments can be refuted, but what is more difficult to refute is a factor which the West Europeans choose not to emphasize. The fact is that the hard currency income generated by the pipeline for the Soviets will be the basis of a continuation of a West European trade with the USSR that might otherwise dwindle. Further, given Soviet import needs, the West Europeans recognize that payments for Soviet gas will be spent by the Soviets for West European products. This assures the West Europeans a means to pay for the gas imports, a very important consideration in today's world.

The development of such a trade interdependency, seen as advantageous by the West Europeans, is, of course, the very fact that concerns the U.S.

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ALLIED SECURITY AND ENERGY CONTROLS

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

AGENCY POSITIONS ON ALLIED SECURITY AND ENERGY CONTROLS

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

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NLS M03-1228A#5

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RV and

DATE 12/10/04

~~SECRET~~

4057

Allen Lenz

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THE WHITE HOUSE
WASHINGTON

NLS M03-1278A#6

BY *smf* ~~SECRET~~, DATE *12/14/04*

July 6, 1981

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

THE HONORABLE CASPAR W. WEINBERGER
The Secretary of Defense

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

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

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

For Secretary Haig

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

~~SECRET~~

For Secretary Wienberger

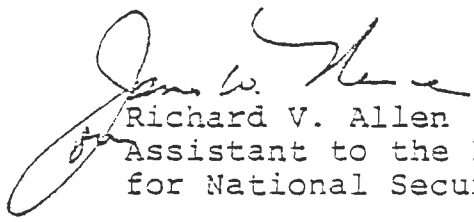
- o What is the objective of your pipeline recommendation? Stop? Delay? Scale down?
- o What incentives or pressures should be brought to bear on our Allies to motivate them to follow our leadership? How should this objective be implemented? Unilateral U.S. restrictions? Restrictions only after Allied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

For Secretaries Haig and Weinberger

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

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

FOR THE PRESIDENT:


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

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THE WHITE HOUSE

WASHINGTON

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SECRET ATTACHMENTS~~

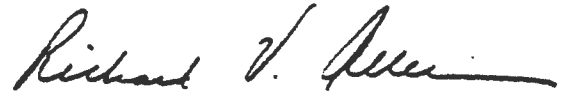
July 8, 1981

MEMORANDUM FOR 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
 CHAIRMAN, JOINT CHIEFS OF STAFF

SUBJECT: Background Materials for Thursday, July 9, 1981,
 National Security Council Meeting (c)

Attached are papers relevant to the Thursday, July 9, NSC
 meeting. (c)

FOR THE PRESIDENT:



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

Attachments

Tab A Assistant to the President for National Security
 Affairs Request for Oil/Gas and Siberian Pipeline
 Scenarios

Tab B State Department Oil/Gas and Pipeline Scenario

Tab C Defense Department Oil/Gas and Pipeline Scenario

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SECRET ATTACHMENTS~~

NLS M03-1278A #7

BY smf, NARA, DATE 12/14/04

~~SECRET~~

THE WHITE HOUSE

WASHINGTON

BY smf, NARA, DATE: 12/14/04~~SECRET~~

July 6, 1981

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

THE HONORABLE CASPAR W. WEINBERGER
The Secretary of Defense

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

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

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

For Secretary Haig

- o Specifically, what is implied by a "very tough Option III" on the pipeline? What would our objective be? What pressures would be applied?
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- o What would the content be of the "strong alternative program" you indicated we should take to Ottawa to support our "skeptical view" of the pipeline?

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Review July 6, 1987

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For Secretary Wienberger

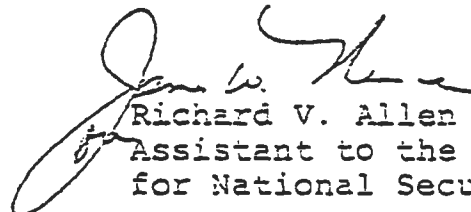
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For Secretaries Haig and Weinberger

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- o What should we propose for post-Ottawa actions? Follow-on meetings? When? At what level?

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

FOR THE PRESIDENT:


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



DEPARTMENT OF STATE

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Washington, D.C. 20520

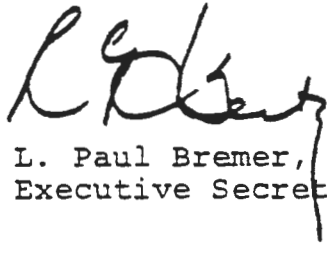
July 8, 1981

~~CONFIDENTIAL (with SECRET attachment)~~

MEMORANDUM FOR MR. RICHARD ALLEN
THE WHITE HOUSE

SUBJECT: Recommended Options on Oil/Gas and
Siberian Pipeline Issues

The attached paper on East-West energy issues responds to your memo of July 6, and describes our scenario for implementation of a pipeline strategy.

for 
L. Paul Bremer, III
Executive Secretary

Attachment:

As stated.

DECLASSIFIED / RELEASED

NLS MR3-1278A #9

BY smf

12/14/04

~~CONFIDENTIAL (with SECRET attachment)~~

GDS - 7/8/87

~~SECRET~~

DECLASSIFIED/Released

NLS M03-1278A #10

A Positive Approach: The Siberian Pipeline and West European Energy Security ^{BY smf} ^{DATE 12/14/04}

U.S. OBJECTIVES are four-fold. First, we want to minimize our European Allies' vulnerability to Soviet leverage whether in the energy, political or economic area. Second, we should preserve European willingness to join the U.S. in tightening the high-technology embargo against the Soviet Union, and in imposing broad political, economic and military sanctions, should East-West relations deteriorate further. Third, we should oppose the extension of economic subsidies for the pipeline project and Soviet energy development. Fourth, we must limit the strain that "pipeline politics" place on U.S. relations with our Allies and friends.

A "very tough Option III" would be the most effective policy to promote the full set of U.S. objectives. Under this option we would: (a) press our Allies to take specific measures to minimize their dependence on Soviet gas, and (b) take a leading role in developing an energy package which would improve their energy security and reduce their needs, as perceived by European leaders and publics, for Soviet gas. (Details are spelled out below.)

Under this option, we would not prohibit U.S. firms from supplying non-strategic equipment for the pipeline. A unilateral U.S. embargo would be ineffective. An effort to pressure other major suppliers of pipeline equipment and technology would significantly damage Allied unity.

The President will have to engage European leaders in order to gain their support for our policy. The President's personal involvement and a cooperative U.S.-European program to develop more secure energy sources for Europe should help to obtain Allied concurrence on an energy security approach to the pipeline. A unified Allied approach would substantially reduce the risk of Soviet leverage against our European Allies and constrain the potential for Soviet hard currency earnings.

WE WOULD ASK THE EUROPEANS TO:

a) SCALE DOWN THE PIPELINE. The pipeline was originally designed to deliver up to 6 bcf/d. In recent months, projections of future European gas demand has fallen and interest rates have increased, thus raising the costs and lowering the benefits of a large pipeline. A strong U.S. demarche and an incentive package could convince the Europeans to cut the pipeline's immediate capacity by half.

b) ESTABLISH A U.S.-EUROPEAN GROUP TO DEAL WITH PIPELINE ISSUES IN A UNIFIED WAY. There has to date been no adequate multilateral consideration of the Allied security implications nor of the full commercial details of the pipeline project. The U.S. should take the lead in proposing a multilateral group to deal with pipeline issues.

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(RDS - 3 7/8/01)

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The group would (1) enable prospective European participants to negotiate with the Soviets as a united group, foregoing any temptation to subsidize sales of equipment with non-market interest rates; (2) address overall European energy security, (3) develop a multilateral energy safety net, and (4) encourage European efforts to secure alternate energy supplies.

The Summit's High Level Monitoring Group on Energy, working closely with the IEA, is a logical body to focus on the pipeline issue, and offers us the opportunity for a collective Western approach to energy security and East-West energy trade.

(c) CONSTRUCT A SAFETY NET OF EMERGENCY MEASURES TO LIMIT SOVIET ENERGY LEVERAGE. The specific details of a safety net must be worked out with European Governments and industries. This safety net should include: (1) sufficient stored reserves and emergency surge and delivery capacity to replace one half year's gas supply from the Soviet Union; (2) a stock of oil fuels to allow allocation of strategic gas reserves to those sectors which cannot shift to other fuels; (3) more integration of European gas grids to allow distribution of total gas reserves during an emergency; (4) a viable program of emergency demand restraint; and (5) a European emergency gas sharing agreement which would tie into the IEA oil sharing systems in the event of a concurrent shortage of oil and gas.

d) DIVERSIFY EUROPEAN GAS IMPORTS AND TOTAL ENERGY BALANCES TO LIMIT THE IMPORTANCE OF SOVIET-SOURCE FUELS. We should seek agreement from our Allies that they will limit their dependence on Soviet oil and gas to less than 5 percent of their total energy consumption. In order to meet such a commitment, the Europeans would have to accelerate oil and gas imports from other sources and rapidly expand their use of nuclear and coal power.

THE U.S. WILL OFFER A STRONG ALTERNATIVE PROGRAM WHICH WOULD GENERALLY ENHANCE EUROPEAN ENERGY SECURITY AND REDUCE THEIR DEMAND FOR SOVIET GAS. The details of this offer should be formulated in coordination with European public and private officials. The strong alternative package must include initiatives in major energy areas and could include: (1) change in U.S. policy to permit exports of crude oil and to deregulate exports of refined products, (2) accelerated deregulation of domestic U.S. gas prices, which would stimulate U.S. domestic production and more efficient gas use, and thereby reduce American and European competition for foreign gas supplies; (3) strong U.S. Federal efforts to stimulate expanded coal shipments to Europe and to assure the security of supply; (4) closer U.S. nuclear cooperation with Europe to assure the reliability of U.S. nuclear

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- 3 -

supplies and to provide solutions to the problems of nuclear waste disposal; (5) a U.S. initiative to the EC and possibly in NATO and the IEA to establish emergency sharing in event of a simultaneous shortage of oil and gas.

IMPLEMENTATION

We should begin our efforts to press our Allies to shift their policies on the pipeline at the Ottawa Summit. The President should raise the general issue of the pipeline and European vulnerability to Soviet energy leverage in each of his bilateral meetings, and as appropriate in the plenary sessions on East-West economic relations and on political issues.

The President should seek a more detailed conversation on the pipeline with Chancellor Schmidt and present the overall US view at the plenary on energy issues. The points the President should raise in the more detailed discussion are:

(1) I am very concerned about the strategic implications of the proposed pipeline.

(2) The pipeline is a potentially divisive issue for the West. Serious conflicts could arise both from Soviet leverage or from our countries' divergent views regarding the value and the dangers of East-West trade. The Soviets will not miss opportunities to exploit any divisions among us.

(3) I recognize the energy and commercial motives for the pipeline, but we must fully protect security interests when trade with the Soviet Union and energy security are involved.

(4) I would like to work with you and your governments to mitigate the strategic dangers attendant to the pipeline. It will require major efforts by us all.

(5) I believe it would be in all our interest to scale down your expected gas imports from the USSR. We will do our part to assist you in obtaining energy from other sources.

(6) There are no easy answers, and a great deal of work must be done to determine how best to pursue our long term energy security interests. I propose that we ask the High Level Monitoring Group on Energy to meet as soon as possible and to consider (a) to what extent the pipeline can be scaled back; (b) how the separate negotiations with the Soviet Union can be coordinated; (c) what energy security measures

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- 4 -

should be undertaken to offset the dangers attendant to even a scaled-down pipeline project; and (d) what US measures could best promote European energy security.

(7) I suggest that the Monitoring Group meet within the next few weeks, and that we invite representatives from Netherlands and Belgium to participate. The US will be prepared to put forward its ideas on energy security at that time.

Other U.S. representatives attending the Summit would use the opportunity to share with the Europeans specific details of our approach to the pipeline and European energy security. In the days between the Summit and the High Level Group meeting, U.S. and European officials would exchange their initial views on the subjects outlined by the President. Based on those exchanges, the U.S. will develop a detailed proposal to present to the High Level Monitoring Group on Energy.

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THE SECRETARY OF DEFENSE
WASHINGTON, THE DISTRICT OF COLUMBIA

July 8, 1981

MEMORANDUM FOR THE ASSISTANT TO THE PRESIDENT FOR NATIONAL
SECURITY AFFAIRS

SUBJECT: West Siberian Pipeline

Attached are our responses to the questions you posed to me in your memorandum of July 6. While the responses are more lengthy than perhaps you desired, and do not completely track your questions, I believe that the information you required and our positions are here. If you need further information, please call me.

Attachment
a/s

UPON REMOVAL OF ATTACHMENTS THIS
DOCUMENT BECOMES UNCLASSIFIED

~~SECRET~~ 11/21/88

BY AMF, NARA, DATE 12/14/04 US Policy on the West Siberian Pipeline(S) OBJECTIVES

The US should oppose the West Siberian pipeline project, consistent with our goals in overall East-West relations, as an essential part of the effort to impede the growth of Soviet political and military power and economic leverage. We must recognize that the earnings flowing from the development of Soviet oil and gas for export to the West will add significantly to the U.S. defense burden.

Our strategy is aimed at limiting Soviet economic leverage over the West, including the manipulation of Western markets, the acquisition of Western technology, and the acquisition of large amounts of hard currency. We wish to sharpen the dilemma confronting the Soviets in choosing between military and civilian investment, as a means of diminishing Soviet ability to increase further their military capabilities.

Secondarily, we believe it important to block a pipeline which can help the Soviets increase their ability to resupply their units internally.

Our tactics in stopping development of the pipeline (or scaling it down to insignificance if we cannot stop it completely) should be a mix of leadership, incentives, pressures, and argument.

The US position is, and must be seen to be, intellectually clear, coherent and persuasive enough to evoke (however grudgingly) sufficient Allied agreement on the security and economic problems stemming from this and similar projects that is the essence of leadership. If we fail to try, because we fear we cannot get allied support, we will simply guarantee that the Soviets will achieve their objectives of dividing and weakening the alliance.

Of course the US position should avoid the appearance of policy dictation to our allies, so that they do not appear to be less than full partners with the US internationally and before their domestic constituencies. President Reagan's full endorsement of our policy will of course be needed to accomplish these goals. In this regard, the already marginal economics of the pipeline, as evidenced by the reluctance of the European financial community to commit to it, should ease the way toward its failure.

(S) TACTICS: Leadership, Incentives, Pressures, and Argument

A fourfold approach should be adopted:

(A) Leadership: The US should adopt an export control posture that gives credibility and authority to our policy in the eyes of our allies. Thus, we must invoke national security controls on the export of US equipment and technology for the development of Soviet oil and natural gas in order to demonstrate our seriousness and convince the Europeans and Japanese that our policy grows out of strategic considerations and not from unilateral economic motivations.

(B) Incentives: We should identify commercially attractive alternatives to the Siberian gas pipeline in cooperation with the Europeans and the Japanese (see "Alternatives" below). This incentive package could be

developed by a standing group of the consuming countries led by a US interagency group presided over by the NSC. Among the measures the group may wish to consider are guaranteed Western access on favorable terms to US coal and uranium resources and the appropriate accompanying US energy technology. We may also wish to develop, perhaps with the aid of private industry, means of speeding the development of European and Japanese energy infrastructure in order to wean them from Eastern sources.

We will need to examine the possibilities inherent in alternative energy sources such as North Sea petroleum, more effective coal utilization, and the expansion of nuclear power in the OECD. The US private sector might be particularly useful here, once the economic impact of the pipeline project on their business interests is better understood.

C) The prudent use of leverage should be employed to discourage Western participation in the pipeline project. The export control laws should be pushed as far as possible to capture the overseas transfer of US technology and equipment by licensees and subsidiaries. Technological cooperation in non-energy fields should be used as incentives and disincentives, as appropriate. We should focus our efforts on those Western energy technologies that are most critical to the pipeline's development, such as compressors, pipelayers and large diameter pipe. (Specific suggestions with regard to these items are found below.) There are a number of areas where US technology is highly desired by other Western countries for both commercial reasons and for their military industries. These points of leverage could be skillfully exploited.

D) A well-coordinated diplomatic offensive should be launched to persuade our allies of the dangerous long-term consequences of the pipeline project. Initially, rather general approaches could be made at Ottawa. On the margins of the Ottawa Summit, the President could request a six-month moratorium on Allied decisions concerning the pipeline and increased purchases of Soviet energy. Since the heads of state will not be prepared to respond directly, the President could suggest that responses be made through diplomatic channels within a defined time--perhaps a month.

yes
However, I think it best for us to state clearly now that our policy will be to recognize that one of the best ways of meeting the Soviet threat is to deny them access to Western technology.

(S) SEQUENCING

The cooperation of Japan and the UK is probably the key to derailing the pipeline in terms of technology controls. The Germans, French, and Italians are already slowing down negotiations on the pipeline themselves because of concern over the financing, delivered gas price, and their own strategic concerns (especially France). Diplomatic resistance will probably be greatest in West Germany (because of the Ospotitik policy and left wing pressure on Schmidt) and France (sensitivity to responding to US pressure). In dealing with the allies, characterizing the pipeline as security threat to the West may help to reduce resistance to the US point of view, but economic and political arguments will also be important. In any event our entire foreign policy cannot be determined by the fear of offending Chancellor Schmidt.

** [*
TIME
Our initial approaches to the Allies in Ottawa should be to buy time to explore the implications of the security threat and the possible alternatives to the project. We should strongly urge the creation of the working group of Summit countries mentioned under Tactic B to work out the details of alternate energy sources.

After Ottawa we should approach the allies individually and in private. Japan and the UK, having the lowest stake in the project, may be the easiest to line up, and they may be able to control equipment that is critical to the pipeline's success. DIA believes that denial of US equipment plus Japanese pipelayers and UK compressors could set the pipeline project back 3-4 years.

The Japanese firm of Komatsu is the only non-US firm capable of manufacturing large pipelayers such as those needed for the pipeline. Recent information from the US embassy in Toyko indicates that if the US opposes the pipeline project and does not sell similar equipment itself, the Japanese government might deny the official export credits on which such a sale would depend. Other leverage exists with Japan. The US has approved the sale to Japan of oil and gas exploration equipment for a joint Soviet-Japanese energy project on Sakhalin. Among other Japanese firms, Komatsu has a lot to gain in the future if this project goes forward. This project hinges on certain specialized US-origin exploration gear, which the US could control. Also, Komatsu would like to compete in selling equipment for the construction of the Alaska natural gas pipeline. Should Komatsu be criticized for participating in projects the US regards as harmful to its security, Komatsu's competitive opportunities in the Alaskan pipeline may be limited.

In the case of the UK, ideological compatibility and the relatively low cost of cooperation will help. The only major item the UK will be selling will be Rolls Royce compressors--the size, dependability, reliability, and simplicity of these compressors, however, make them critical for the pipeline. Three Soviet turbines are needed to replace one such Western compressor. Getting the UK to oppose the deal would have enormous technical and political impact on the project as a whole.

The West Germans will be reluctant to proceed with the pipeline deal in the face of a mounting consensus opposing it. Despite the importance of the deal to the West German energy plan and to the West German steel industry, the Germans cannot go it alone. Indeed, the dependence of Germany's steel industry on exports to the USSR is a major security concern of ours.

France, which was growing increasingly cool to the pipeline deal under the previous government, may be even more concerned about its strategic aspects under Mitterand. Financial problems in France may further diminish Paris' enthusiasm for investment in Soviet oil and gas development. Any help we can get from the French will be very effective in turning the Germans around.

One point we will want to make with all our interlocutors is the magnitude of the economic transfers the Yamal pipeline deal will presage for the Soviet Union. The Soviets have 3 to 6 56-inch pipelines scheduled in their 1985-90 plan and 8 to 10 in their 1990 to 2000 plan.

Some of these may be dedicated to exports that may increase the size of Soviet exports by a multiple of the Yamal deal. Soviet hard currency earnings, assuming only the Yamal deal goes through, are estimated by DIA to be at the minimal level indicated below.

Soviet Hard Currency
Earnings in \$ billions
(estimated in 1985 dollars)

Year	Gas	Oil	Yearly Total
1985	10	11	21
1990	13	13	26
2000	18.6	13	31

(8) ALTERNATIVES

To our knowledge, no serious European studies of alternatives to the West Siberian pipeline exist. We believe that economically viable alternatives are worth exploring with the Europeans. These alternatives need not be on the massive scale of the West Siberian pipeline, nor do they have to be confined to natural gas.

Alternatives available in a time-period similar to realistic projections of Siberian pipeline completion could be more attractive than Soviet gas, especially if an expensive "safety net" is factored into the cost of Siberian gas. Gas itself has problems. It is a relatively inflexible fuel and implies long-term commitments and large infrastructure investments.

Therefore, the pursuit of alternatives should focus on helping find supplies for those most in need, eliminating the stimulation by governments of an enlarged role for strategically-sensitive gas, and refusing to concede the supplies of a West Siberian pipeline as a necessary standard for planners.

Specific alternatives include:

1. Eliminate U.S. government regulatory support for long-haul, high-cost LNG from Europe's natural suppliers (e.g., Algeria, Nigeria, Cameroon, Qatar, and potentially, the Canadian Arctic) caused by regulatory policy. Senior Domestic Council staff are sensitive to the Alliance energy security dimension of this problem.
2. Consider allowing export of Alaskan crude oil to nearby Japan, at least in one-to-one swaps; and, if the Alaskan natural gas project's technical risks and economic costs are too great for the U.S. market, consider export to Japan. The result of both actions would reduce Japanese demand in the Persian Gulf, weakening the exporters' position vis-a-vis European buyers.

3. Encourage additional investment in U.S. port facilities for long-haul collers, and the readiness of the U.S. coal industry for a significantly boosted export role. Move quickly to cut red tape.
4. Confer with the Europeans over the recent criticism of the IEA coal advisory board of European fulfillment of commitments to use coal. Take up German protectionist restrictions on coal imports.
5. Encourage Norway to increase production of gas, at the expense of oil if necessary, in the context of their long-term hydrocarbon development plan for the 1990s. Europe has advocated U.S. help in persuading Norway to consider these options and would be grateful for U.S. help. While some believe that Norwegian conservation interests are a very difficult barrier to increased production, Norway has approved several major projects recently, including an 843 km pipeline to Germany to be completed by 1986 and which may feed 7 billion cubic meters/year into existing lines. Norway's interest in long-term gas contracts may be stimulated by the current softness in the world oil market.
6. Encourage the Netherlands to meet the needs of European suppliers during the late 1980s or early 1990s by offering short-term contracts above currently projected export levels. The Dutch may need the export earnings in any case, so this option may well be viable.
7. Press the Dutch to accelerate offshore exploration and commit further onshore reserves to the export market as soon as discoveries are made. The Dutch may have lagged in exploration efforts because they were fairly confident that significant additional reserves would be discovered and so that they could hold out for higher prices for both onshore and undiscovered offshore gas. Whether or not this is the case, the offshore areas involved are considered quite promising, and by justifying the accelerated exploitation of onshore reserves, the lead time for benefiting from new discoveries may be reduced to almost nothing.
8. Help restore the domestic credibility and viability of the nuclear power option in Germany.
9. If Europe is willing to invest \$13-15 billion in Siberia, it might consider investing equivalent funds in other gas or energy development projects. Nigeria represents an obvious opportunity for such a policy because the government there may delay the Bonny LNG project due to funding problems, and Bonny would probably come onstream before the Siberian project if work now proceeded at full pace.

The Director of Central Intelligence

Washington, D. C. 20505


9 July 1981

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

FROM: William J. Casey

SUBJECT: Siberian Pipeline

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


William J. Casey

E. O. 12958
As Amended
Sec. 1.4 (c)

By amf, PARA D-10 12/14/04
NLS MOS-1278A #13

~~SECRET NOFORN~~

101

8 July 1981

CIA MEMORANDUM ON SIBERIAN PIPELINE

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

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

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NLS MoB- 1278A #13

BY smf 12/14/04~~SECRET NOFORN~~

Tab A

Impact of the Pipeline Project on NLS M03-1278A #14
The Soviet Military Effort

BY smf, NAR., v E 12/14/04

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

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

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

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

Tab B

The Impact of the Pipeline on Western Europe

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

Specifically, purchases of Soviet gas through the pipeline:

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

1. Will the Soviet gas be needed?

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

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

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

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

E. O. 12958
As Amended
Sec. 1.4(e)

(c) Alternative energy sources are available;

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

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

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

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

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

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

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

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

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

3. Is Soviet gas a source of cheap energy?

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

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

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THE SECRETARY OF STATE

BY Amf

12/14/04

WASHINGTON

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July 8, 1981

MEMORANDUM FOR: THE PRESIDENT
From: Alexander M. Haig, Jr. *CH*
Subject: Controls on Exports to the Soviet Union

As you consider the issues discussed at Monday's NSC meeting on East/West trade, I wanted you to be aware of my deep concerns on the subject. Your decisions will have a profound effect on our Alliances and our relations with the Soviets for years to come. For that reason I want to convey an approach which in my judgment meets your desire for a consistent policy which weakens the Soviets' military capability without weakening our Alliance.

Like you I believe Western assistance to the Soviet energy sector in many respects runs contrary to our security interests. It relieves the Soviets of an important resource burden; it can provide them with equipment and technology with potential military applications; it may increase their leverage over our Allies; and the pipeline particularly would provide them with large sums of hard currency. If I had my preference, I would take an extremely restrictive approach to trade with the Soviets.

However, for any controls to work we need the cooperation of our Allies. For us to attempt to get straight across-the-board restrictions, which some of the more restrictive alternatives before you imply, or to press the Europeans with an approach which they will find completely unacceptable, and threaten to withhold licenses unless they comply, would make it virtually impossible to get their support for a reasonable set of controls. By pursuing our maximum objectives, we run the risk of coming away with very little, severely weakening the Alliance and isolating us from our Allies.

Our European Allies have legitimate and urgent interests in seeking additional and diversified sources of energy, and the decision, in the end, is theirs. Therefore, we must consider what we can realistically expect to achieve in limiting their involvement with the Soviet energy sector and at what cost. The cost that concerns me most is not lost business opportunities but rather the prospects of divisions within the Alliance. An overly rigid position could produce a confrontation with our Allies that would not only fail to produce any restraint on Soviet energy sales but would itself be an enormous positive gain for the Russians. We do not want to repeat, on a larger scale, the Carter Administration's disastrous confrontation with the Germans over the sale of German nuclear technology to Brazil.

2
How is that stance relevant?
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- 2 -

Therefore, my own position is shaped by weighing what I would like to achieve against what I believe we can actually accomplish. I think that one of our most important objectives is tightening up on technology transfers, including COCOM controls. The past record suggests that this task alone will be very difficult to accomplish. I therefore do not believe that we should be taking categorical negative positions on the sale of end-use equipment or striking a categorical opposition to the pipeline.

Whatever position you ultimately decide on, Mr. President, it is equally important to stipulate appropriate tactics and style with which to approach our Allies. We must, above all, not adopt a confrontational posture or an inflexible position. We must recognize that they have much more serious energy problems than we do, and that the sacrifices we are proposing would be borne much more heavily by them than by us.

If we are to have any chance of persuading them to modify their current positions (or at the very least to scale down the size of their proposed dependence on Soviet energy) we must take a stronger lead in evolving a better Energy Cooperation Package. This will require that the United States play a much more practical role than we have in the past in boosting Alaskan oil exports, increasing the pace of U.S. natural gas deregulation, increasing U.S. coal exports, providing a coal gasification program, addressing the major problem of nuclear wastes, pressing Holland and Norway to develop natural gas surge capacity and developing new initiatives. This may even involve increased resource commitments on our part. But if we expect our Allies to bear a burden we must be prepared to do so ourselves in the general interest of Western security. There is no free lunch.

The development of alternative energy sources is something which we should pursue urgently, whatever we do on the subject of Soviet energy development.

Attachment:

Tab A - The Issues

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- 1 -

ISSUE 1: Security related export controls - I continue to believe that restricting technology and equipment critical to defense priority industries which would significantly advance Soviet military capability would be a major step forward in weakening the Soviet industrial sector in those areas which provide important support to the Soviet military. To ensure that this option (#2) is pursued in a way which meets Cap Weinberger and Mac Baldrige's concerns, I propose to get together with them to flesh out the details of implementation and to prepare a strong presentation for you to take to Ottawa in support of this approach. The past record suggests that securing allied support for this approach will be very difficult--but in my judgment it should be our major objective.

ISSUE 2: Oil and gas equipment and technology - The central issue is whether to direct our ammunition at restricting technology or to attempt to restrict technology plus all end-use equipment (e.g. pipes and pipelayers). Allied support for restricted end-use equipment will be visibly impossible to obtain. If we press for it we will jeopardize our chances of their agreeing to restrict technology exports. A unified set of allied restrictions on technology which would give the Soviets an independent capability to improve oil and gas useage and infrastructure would be a major step forward. End-use products could be denied on a case by case basis as foreign policy concerns warrant. I genuinely believe that this flexibility in your hands can be extremely important in the pursuit of your foreign policy objective vis-a-vis the Soviet Union and our allies. And, adoption of this course of action--as Don Regan and Dave Stockman noted--will contribute to keeping the Soviets off the world energy market and reduce any incentive which future domestic energy shortages might provide for adventurism in the Middle East or other energy rich regions of the world.

ISSUE 3: The Siberian Gas Pipeline - I would like to find a way of convincing the Europeans not to build the pipeline. But strong arm-twisting and withholding export licenses is likely to be counterproductive. An approach which would lead Europe not to build the pipeline or perhaps encourage them to scale down its size, would be for the US, Europe and Japan to work out a strong Energy Cooperation Package.

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- 2 -

This would involve US Alaskan oil exports, faster US natural gas deregulation, increased US coal exports, and increased nuclear cooperation, a strong commitment to deal with oil shortfalls in the context of the International Energy Agency, plus additional efforts by Holland and Norway to develop surge capacity. Even if this approach failed to deter the Europeans from going ahead with, or scale down, the pipeline, it would substantially reduce their vulnerability to Soviet cut-offs if the pipeline were built and reduce levels of gas through the pipeline.

ISSUE 4: Caterpillar Licenses - I continue to believe the only real beneficiary of denying these licenses would be the Japanese. The Soviets already have roughly 1,400 pipelayers. The machines do not incorporate sophisticated technology and are not controlled by COCOM.

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DEPARTMENT OF STATE

Washington, D.C. 20520

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July 2, 1981

MEMORANDUM FOR MR. RICHARD ALLEN
THE WHITE HOUSESUBJECT: Discussion of Caribbean Basin Initiative
at July 9 NSC Meeting

We would be grateful if you would include a discussion of the next steps in the Caribbean Basin Initiative on the agenda of the National Security Council meeting July 9. The discussion would focus on economic rather than security aspects of the initiative. Secretary Haig and Senator Brock would make a report on preparations for the meeting of foreign ministers in Nassau July 11. The objective of the Nassau meeting - which Secretary Haig and the Foreign Ministers of Canada, Mexico and Venezuela will attend - is agreement on a call for a Caribbean Basin conference among potential donors and recipients in early 1982.

We suggest that because of the subject matter the following persons be included among others at the meeting: Secretary Regan, Secretary Baldrige, Mr. Stockman, and Mr. McPherson.

L. Paul Bremer
Executive Secretary

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Department of State

July 21, 1997

By smf NARA

4/16/03

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THE WHITE HOUSE

WASHINGTON

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SECRET ATTACHMENTS~~

July 8, 1981

MEMORANDUM FOR 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
 CHAIRMAN, JOINT CHIEFS OF STAFF

SUBJECT: Background Materials for Thursday, July 9, 1981,
 National Security Council Meeting (C)

Attached are papers relevant to the Thursday, July 9, NSC
 meeting. (C)

FOR THE PRESIDENT:



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

Attachments

- Tab A Assistant to the President for National Security
 Affairs Request for Oil/Gas and Siberian Pipeline
 Scenarios
- Tab B State Department Oil/Gas and Pipeline Scenario
- Tab C Defense Department Oil/Gas and Pipeline Scenario

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THE WHITE HOUSE

WASHINGTON

BY Amf 12/14/04

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July 6, 1981

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

THE HONORABLE CASPAR W. WEINBERGER
The Secretary of Defense

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

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

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

For Secretary Haig

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

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Review July 6, 1987

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FOR SECRETARY WEINBERGER

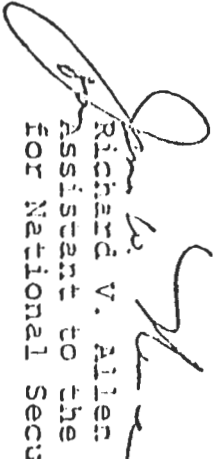
- o What is the objective of your pipeline recommendation? Stop? Delay? Scale down?
- o What incentives or pressures should be brought to bear on our Allies to motivate them to follow our leadership? How should this objective be implemented? Unilateral U.S. restrictions? Restrictions only after Allied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

FOR SECRETARIES HALG AND WEINBERGER

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

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

FOR THE PRESIDENT:


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



DEPARTMENT OF STATE

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Washington, D.C. 20520

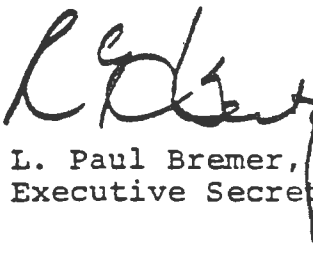
July 8, 1981

~~CONFIDENTIAL (with SECRET attachment)~~

MEMORANDUM FOR MR. RICHARD ALLEN
THE WHITE HOUSE

SUBJECT: Recommended Options on Oil/Gas and
Siberian Pipeline Issues

The attached paper on East-West energy issues responds to your memo of July 6, and describes our scenario for implementation of a pipeline strategy.

for 

L. Paul Bremer, III
Executive Secretary

Attachment:

As stated.

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BY smf, NA..A, DATE 12/14/04

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NLS M03-1278A #21

A Positive Approach: The Siberian Pipeline and ^{and} West European Energy Security NARA DATE 12/14/04

U.S. OBJECTIVES are four-fold. First, we want to minimize our European Allies' vulnerability to Soviet leverage whether in the energy, political or economic area. Second, we should preserve European willingness to join the U.S. in tightening the high-technology embargo against the Soviet Union, and in imposing broad political, economic and military sanctions, should East-West relations deteriorate further. Third, we should oppose the extension of economic subsidies for the pipeline project and Soviet energy development. Fourth, we must limit the strain that "pipeline politics" place on U.S. relations with our Allies and friends.

A "very tough Option III" would be the most effective policy to promote the full set of U.S. objectives. Under this option we would: (a) press our Allies to take specific measures to minimize their dependence on Soviet gas, and (b) take a leading role in developing an energy package which would improve their energy security and reduce their needs, as perceived by European leaders and publics, for Soviet gas. (Details are spelled out below.)

Under this option, we would not prohibit U.S. firms from supplying non-strategic equipment for the pipeline. A unilateral U.S. embargo would be ineffective. An effort to pressure other major suppliers of pipeline equipment and technology would significantly damage Allied unity.

The President will have to engage European leaders in order to gain their support for our policy. The President's personal involvement and a cooperative U.S.-European program to develop more secure energy sources for Europe should help to obtain Allied concurrence on an energy security approach to the pipeline. A unified Allied approach would substantially reduce the risk of Soviet leverage against our European Allies and constrain the potential for Soviet hard currency earnings.

WE WOULD ASK THE EUROPEANS TO:

a) SCALE DOWN THE PIPELINE. The pipeline was originally designed to deliver up to 6 bcf/d. In recent months, projections of future European gas demand has fallen and interest rates have increased, thus raising the costs and lowering the benefits of a large pipeline. A strong U.S. demarche and an incentive package could convince the Europeans to cut the pipeline's immediate capacity by half.

b) ESTABLISH A U.S.-EUROPEAN GROUP TO DEAL WITH PIPELINE ISSUES IN A UNIFIED WAY. There has to date been no adequate multilateral consideration of the Allied security implications nor of the full commercial details of the pipeline project. The U.S. should take the lead in proposing a multilateral group to deal with pipeline issues.

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The group would (1) enable prospective European participants to negotiate with the Soviets as a united group, foregoing any temptation to subsidize sales of equipment with non-market interest rates; (2) address overall European energy security, (3) develop a multilateral energy safety net, and (4) encourage European efforts to secure alternate energy supplies.

The Summit's High Level Monitoring Group on Energy, working closely with the IEA, is a logical body to focus on the pipeline issue, and offers us the opportunity for a collective Western approach to energy security and East-West energy trade.

(c) CONSTRUCT A SAFETY NET OF EMERGENCY MEASURES TO LIMIT SOVIET ENERGY LEVERAGE. The specific details of a safety net must be worked out with European Governments and industries. This safety net should include: (1) sufficient stored reserves and emergency surge and delivery capacity to replace one half year's gas supply from the Soviet Union; (2) a stock of oil fuels to allow allocation of strategic gas reserves to those sectors which cannot shift to other fuels; (3) more integration of European gas grids to allow distribution of total gas reserves during an emergency; (4) a viable program of emergency demand restraint; and (5) a European emergency gas sharing agreement which would tie into the IEA oil sharing systems in the event of a concurrent shortage of oil and gas.

d) DIVERSIFY EUROPEAN GAS IMPORTS AND TOTAL ENERGY BALANCES TO LIMIT THE IMPORTANCE OF SOVIET-SOURCE FUELS. We should seek agreement from our Allies that they will limit their dependence on Soviet oil and gas to less than 5 percent of their total energy consumption. In order to meet such a commitment, the Europeans would have to accelerate oil and gas imports from other sources and rapidly expand their use of nuclear and coal power.

THE U.S. WILL OFFER A STRONG ALTERNATIVE PROGRAM WHICH WOULD GENERALLY ENHANCE EUROPEAN ENERGY SECURITY AND REDUCE THEIR DEMAND FOR SOVIET GAS. The details of this offer should be formulated in coordination with European public and private officials. The strong alternative package must include initiatives in major energy areas and could include: (1) change in U.S. policy to permit exports of crude oil and to deregulate exports of refined products, (2) accelerated deregulation of domestic U.S. gas prices, which would stimulate U.S. domestic production and more efficient gas use, and thereby reduce American and European competition for foreign gas supplies; (3) strong U.S. Federal efforts to stimulate expanded coal shipments to Europe and to assure the security of supply; (4) closer U.S. nuclear cooperation with Europe to assure the reliability of U.S. nuclear

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- 3 -

supplies and to provide solutions to the problems of nuclear waste disposal; (5) a U.S. initiative to the EC and possibly in NATO and the IEA to establish emergency sharing in event of a simultaneous shortage of oil and gas.

IMPLEMENTATION

We should begin our efforts to press our Allies to shift their policies on the pipeline at the Ottawa Summit. The President should raise the general issue of the pipeline and European vulnerability to Soviet energy leverage in each of his bilateral meetings, and as appropriate in the plenary sessions on East-West economic relations and on political issues.

The President should seek a more detailed conversation on the pipeline with Chancellor Schmidt and present the overall US view at the plenary on energy issues. The points the President should raise in the more detailed discussion are:

(1) I am very concerned about the strategic implications of the proposed pipeline.

(2) The pipeline is a potentially divisive issue for the West. Serious conflicts could arise both from Soviet leverage or from our countries' divergent views regarding the value and the dangers of East-West trade. The Soviets will not miss opportunities to exploit any divisions among us.

(3) I recognize the energy and commercial motives for the pipeline, but we must fully protect security interests when trade with the Soviet Union and energy security are involved.

(4) I would like to work with you and your governments to mitigate the strategic dangers attendant to the pipeline. It will require major efforts by us all.

(5) I believe it would be in all our interest to scale down your expected gas imports from the USSR. We will do our part to assist you in obtaining energy from other sources.

(6) There are no easy answers, and a great deal of work must be done to determine how best to pursue our long term energy security interests. I propose that we ask the High Level Monitoring Group on Energy to meet as soon as possible and to consider (a) to what extent the pipeline can be scaled back; (b) how the separate negotiations with the Soviet Union can be coordinated; (c) what energy security measures

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- 4 -

should be undertaken to offset the dangers attendant to even a scaled-down pipeline project; and (d) what US measures could best promote European energy security.

(7) I suggest that the Monitoring Group meet within the next few weeks, and that we invite representatives from Netherlands and Belgium to participate. The US will be prepared to put forward its ideas on energy security at that time.

Other U.S. representatives attending the Summit would use the opportunity to share with the Europeans specific details of our approach to the pipeline and European energy security. In the days between the Summit and the High Level Group meeting, U.S. and European officials would exchange their initial views on the subjects outlined by the President. Based on those exchanges, the U.S. will develop a detailed proposal to present to the High Level Monitoring Group on Energy.

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THE SECRETARY OF DEFENSE

WASHINGTON, THE DISTRICT OF COLUMBIA



July 8, 1981

MEMORANDUM FOR THE ASSISTANT TO THE PRESIDENT FOR NATIONAL
SECURITY AFFAIRS

SUBJECT: West Siberian Pipeline

Attached are our responses to the questions you posed to me in your memorandum of July 6. While the responses are more lengthy than perhaps you desired, and do not completely track your questions, I believe that the information you required and our positions are here. If you need further information, please call me.

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

Attachment
a/s

UPON REMOVAL OF ATTACHMENTS THIS
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NLS 103-1278A-22

BY smf NARA, DATE 12/14/04
US Policy on the West Siberian Pipeline

~~(S)~~ OBJECTIVES

The US should oppose the West Siberian pipeline project, consistent with our goals in overall East-West relations, as an essential part of the effort to impede the growth of Soviet political and military power and economic leverage. We must recognize that the earnings flowing from the development of Soviet oil and gas for export to the West will add significantly to the U.S. defense burden.

Our strategy is aimed at limiting Soviet economic leverage over the West, including the manipulation of Western markets, the acquisition of Western technology, and the acquisition of large amounts of hard currency. We wish to sharpen the dilemma confronting the Soviets in choosing between military and civilian investment, as a means of diminishing Soviet ability to increase further their military capabilities.

Secondarily, we believe it important to block a pipeline which can help the Soviets increase their ability to resupply their units internally.

Our tactics in stopping development of the pipeline (or scaling it down to insignificance if we cannot stop it completely) should be a mix of leadership, incentives, pressures, and argument.

The US position is, and must be seen to be, intellectually clear, coherent and persuasive enough to evoke (however grudgingly) sufficient Allied agreement on the security and economic problems stemming from this and similar projects that is the essence of leadership. If we fail to try, because we fear we cannot get allied support, we will simply guarantee that the Soviets will achieve their objectives of dividing and weakening the alliance.

Of course the US position should avoid the appearance of policy dictation to our allies, so that they do not appear to be less than full partners with the US internationally and before their domestic constituencies. President Reagan's full endorsement of our policy will of course be needed to accomplish these goals. In this regard, the already marginal economics of the pipeline, as evidenced by the reluctance of the European financial community to commit to it, should ease the way toward its failure.

~~(S)~~ TACTICS: Leadership, Incentives, Pressures, and Argument

A fourfold approach should be adopted:

(A) Leadership: The US should adopt an export control posture that gives credibility and authority to our policy in the eyes of our allies. Thus, we must invoke national security controls on the export of US equipment and technology for the development of Soviet oil and natural gas in order to demonstrate our seriousness and convince the Europeans and Japanese that our policy grows out of strategic considerations and not from unilateral economic motivations.

(B) Incentives: We should identify commercially attractive alternatives to the Siberian gas pipeline in cooperation with the Europeans and the Japanese (see "Alternatives" below). This incentive package could be

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developed by a standing group of the consuming countries led by a US interagency group presided over by the NSC. Among the measures the group may wish to consider are guaranteed Western access on favorable terms to US coal and uranium resources and the appropriate accompanying US energy technology. We may also wish to develop, perhaps with the aid of private industry, means of speeding the development of European and Japanese energy infrastructure in order to wean them from Eastern sources.

We will need to examine the possibilities inherent in alternative energy sources such as North Sea petroleum, more effective coal utilization, and the expansion of nuclear power in the OECD. The US private sector might be particularly useful here, once the economic impact of the pipeline project on their business interests is better understood.

C) The prudent use of leverage should be employed to discourage Western participation in the pipeline project. The export control laws should be pushed as far as possible to capture the overseas transfer of US technology and equipment by licensees and subsidiaries. Technological cooperation in non-energy fields should be used as incentives and disincentives, as appropriate. We should focus our efforts on those Western energy technologies that are most critical to the pipeline's development, such as compressors, pipelayers and large diameter pipe. (Specific suggestions with regard to these items are found below.) There are a number of areas where US technology is highly desired by other Western countries for both commercial reasons and for their military industries. These points of leverage could be skillfully exploited.

D) A well-coordinated diplomatic offensive should be launched to persuade our allies of the dangerous long-term consequences of the pipeline project. Initially, rather general approaches could be made at Ottawa. On the margins of the Ottawa Summit, the President could request a six-month moratorium on Allied decisions concerning the pipeline and increased purchases of Soviet energy. Since the heads of state will not be prepared to respond directly, the President could suggest that responses be made through diplomatic channels within a defined time--perhaps a month.

However, I think it best for us to state clearly now that our policy will be to recognize that one of the best ways of meeting the Soviet threat is to deny them access to Western technology.

~~(S)~~ SEQUENCING

The cooperation of Japan and the UK is probably the key to derailing the pipeline in terms of technology controls. The Germans, French, and Italians are already slowing down negotiations on the pipeline themselves because of concern over the financing, delivered gas price, and their own strategic concerns (especially France). Diplomatic resistance will probably be greatest in West Germany (because of the Ospolitik policy and left wing pressure on Schmidt) and France (sensitivity to responding to US pressure). In dealing with the allies, characterizing the pipeline as security threat to the West may help to reduce resistance to the US point of view, but economic and political arguments will also be important. In any event our entire foreign policy cannot be determined by the fear of offending Chancellor Schmidt.

Our initial approaches to the Allies in Ottawa should be to buy time to explore the implications of the security threat and the possible alternatives to the project. We should strongly urge the creation of the working group of Summit countries mentioned under Tactic B to work out the details of alternate energy sources.

After Ottawa we should approach the allies individually and in private. Japan and the UK, having the lowest stake in the project, may be the easiest to line up, and they may be able to control equipment that is critical to the pipeline's success. DIA believes that denial of US equipment plus Japanese pipelayers and UK compressors could set the pipeline project back 3-4 years.

The Japanese firm of Komatsu is the only non-US firm capable of manufacturing large pipelayers such as those needed for the pipeline. Recent information from the US embassy in Tokyo indicates that if the US opposes the pipeline project and does not sell similar equipment itself, the Japanese government might deny the official export credits on which such a sale would depend. Other leverage exists with Japan. The US has approved the sale to Japan of oil and gas exploration equipment for a joint Soviet-Japanese energy project on Sakhalin. Among other Japanese firms, Komatsu has a lot to gain in the future if this project goes forward. This project hinges on certain specialized US-origin exploration gear, which the US could control. Also, Komatsu would like to compete in selling equipment for the construction of the Alaska natural gas pipeline. Should Komatsu be criticized for participating in projects the US regards as harmful to its security, Komatsu's competitive opportunities in the Alaskan pipeline may be limited.

In the case of the UK, ideological compatibility and the relatively low cost of cooperation will help. The only major item the UK will be selling will be Rolls Royce compressors--the size, dependability, reliability, and simplicity of these compressors, however, make them critical for the pipeline. Three Soviet turbines are needed to replace one such Western compressor. Getting the UK to oppose the deal would have enormous technical and political impact on the project as a whole.

The West Germans will be reluctant to proceed with the pipeline deal in the face of a mounting consensus opposing it. Despite the importance of the deal to the West German energy plan and to the West German steel industry, the Germans cannot go it alone. Indeed, the dependence of Germany's steel industry on exports to the USSR is a major security concern of ours.

France, which was growing increasingly cool to the pipeline deal under the previous government, may be even more concerned about its strategic aspects under Mitterand. Financial problems in France may further diminish Paris' enthusiasm for investment in Soviet oil and gas development. Any help we can get from the French will be very effective in turning the Germans around.

One point we will want to make with all our interlocutors is the magnitude of the economic transfers the Yamal pipeline deal will presage for the Soviet Union. The Soviets have 3 to 6 56-inch pipelines scheduled in their 1985-90 plan and 8 to 10 in their 1990 to 2000 plan.

Some of these may be dedicated to exports that may increase the size of Soviet exports by a multiple of the Yamal deal. Soviet hard currency earnings, assuming only the Yamal deal goes through, are estimated by DIA to be at the minimal level indicated below.

Soviet Hard Currency

Earnings in \$ billions
(estimated in 1985 dollars)

Year	Gas	Oil	Yearly Total
1985	10	11	21
1990	13	13	26
2000	18.6	13	31

(S) ALTERNATIVES

To our knowledge, no serious European studies of alternatives to the West Siberian pipeline exist. We believe that economically viable alternatives are worth exploring with the Europeans. These alternatives need not be on the massive scale of the West Siberian pipeline, nor do they have to be confined to natural gas.

Alternatives available in a time-period similar to realistic projections of Siberian pipeline completion could be more attractive than Soviet gas, especially if an expensive "safety net" is factored into the cost of Siberian gas. Gas itself has problems. It is a relatively inflexible fuel and implies long-term commitments and large infrastructure investments.

Therefore, the pursuit of alternatives should focus on helping find supplies for those most in need, eliminating the stimulation by governments of an enlarged role for strategically-sensitive gas, and refusing to concede the supplies of a West Siberian pipeline as a necessary standard for planners.

Specific alternatives include:

1. Eliminate U.S. government regulatory support for long-haul, high-cost LNG from Europe's natural suppliers (e.g., Algeria, Nigeria, Cameroon, Qatar, and potentially, the Canadian Arctic) caused by regulatory policy. Senior Domestic Council staff are sensitive to the Alliance energy security dimension of this problem.
2. Consider allowing export of Alaskan crude oil to nearby Japan, at least in one-to-one swaps; and, if the Alaskan natural gas project's technical risks and economic costs are too great for the U.S. market, consider export to Japan. The result of both actions would reduce Japanese demand in the Persian Gulf, weakening the exporters' position vis-a-vis European buyers.

3. Encourage additional investment in U.S. port facilities for long-haul colliers, and the readiness of the U.S. coal industry for a significantly boosted export role. Move quickly to cut red tape.
4. Confer with the Europeans over the recent criticism of the IEA coal advisory board of European fulfillment of commitments to use coal. Take up German protectionist restrictions on coal imports.
5. Encourage Norway to increase production of gas, at the expense of oil if necessary, in the context of their long-term hydrocarbon development plans for the 1990s. Europe has advocated U.S. help in persuading Norway to consider these options and would be grateful for U.S. help. While some believe that Norwegian conservation interests are a very difficult barrier to increased production, Norway has approved several major projects recently, including an 843 km pipeline to Germany to be completed by 1986 and which may feed 7 billion cubic meters/year into existing lines. Norway's interest in long-term gas contracts may be stimulated by the current softness in the world oil market..
6. Encourage the Netherlands to meet the needs of European suppliers during the late 1980s or early 1990s by offering short-term contracts above currently projected export levels. The Dutch may need the export earnings in any case, so this option may well be viable.
7. Press the Dutch to accelerate offshore exploration and commit further onshore reserves to the export market as soon as discoveries are made. The Dutch may have lagged in exploration efforts because they were fairly confident that significant additional reserves would be discovered and so that they could hold out for higher prices for both onshore and undiscovered offshore gas. Whether or not this is the case, the offshore areas involved are considered quite promising, and by justifying the accelerated exploitation of onshore reserves, the lead time for benefiting from new discoveries may be reduced to almost nothing.
8. Help restore the domestic credibility and viability of the nuclear power option in Germany.
9. If Europe is willing to invest \$13-15 billion in Siberia, it might consider investing equivalent funds in other gas or energy development projects. Nigeria represents an obvious opportunity for such a policy because the government there may delay the Bonny LNG project due to funding problems, and Bonny would probably come onstream before the Siberian project if work now proceeded at full pace.

RECEIVED 04 JAN 82 13

TO ALLEN

FROM LENZ

DOCDATE 09 JUL 81

CAS

2/14/01

KEYWORDS: AGENDA EAST WEST TRADE
EXPORT CONTROLS USSR
NSC

SUBJECT: FORWARDING PROGRAM FOR 9 JUL NSC MTG

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

FOR ACTION

FOR CONCURRENCE

FOR INFO

COMMENTS

REF# LOG 8190115 8190120 NSC IFID NSC00017 (B / B)

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MEMORANDUM

NATIONAL SECURITY COUNCIL

DECLASSIFIED/Released
NLS M03-1278A#23

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BY Amf, NARA, DATE 12/14/04

INFORMATION

July 9, 1981

MEMORANDUM FOR RICHARD V. ALLEN

FROM: ALLEN J. LENZ *ajl*

SUBJECT: Forwarding of Program for 9 July NSC Meeting

Attached (Tab A) is the suggested detailed programming of today's NSC meeting, based on the broad guidelines provided you in my memo of this morning.

I have altered the allotted times to conform to the need to squeeze the Caribbean Basin topic onto the Agenda.

The revised times are as follows:

RVA Statement of Objectives and Discussion Guidelines	3 minutes
Discussion of Allied Security Controls	0 (Still Hoping)
RVA Questions to Secretary Haig	2 minutes
Haig Response	4 minutes
RVA Questions to Secretary Weinberger	2 minutes
Weinberger Response	4 minutes
Comments/Questions by each of the Nine Other Participants at Two Minutes Each (Reduced from Three Minutes)	18 minutes
Haig Response/Comments	4 minutes
Weinberger Response/Comments	4 minutes
Sub Total	41 minutes
President's Questions and Comments	?
RVA Closing Remarks	1 minute
<u>Total</u>	<u>42 minutes</u> (Plus the President)

~~SECRET~~

Review July 9, 1987

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I do not know whether you intend the extra participants (Commerce, Treasury, STR, and Energy) to stay for the Caribbean Basin portion of the meeting. However, on the presumption you plan to ask them to leave, notes to this effect have been inserted at appropriate points in the program.

Also attached at Tab B is a cable, relevant to today's discussion, reporting a Japanese sale of 500 pipelayers to the USSR.

Attachments

Tab A Program for Today's NSC Meeting
Tab B Moscow 5896

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SUGGESTED PROGRAMMING FOR **DECLASSIFIED / RELEASED**

THURSDAY, July 9, 1981

NLS M23-1278A#24

NSC MEETING

BY Amf, NARA, DATE 12/14/04

I. INTRODUCTORY REMARKS

We have two important topics to cover today:

- Continue the discussion of last Monday on East-West Trade Controls (___ minutes);
- Discussion of our Caribbean Basin Policy/Program (___ minutes). (Will you ask non-regular members to depart before beginning that discussion? If yes, should so indicate now.)

II. OBJECTIVE OF EAST-WEST TRADE PORTION OF MEETING

- o Decisions are required in the next few days on several complex East-West trade export control issues, so that the President can inform our Allies of our attitudes and intentions at the Ottawa Summit. We need, at that meeting, to seek their support in important initiatives that will have a profound effect on both near- and longer-term military, political and economic facets of East-West relations.
- o Our objective today is to complete the NSC discussion of the East-West trade topics, though the President may choose not to make his final decisions for a few more days.

POSS. FINAL
CONSIDERATION
MON/NSC

III. PROPOSED STRUCTURE OF EAST-WEST TRADE PORTION OF MEETING

- o There is a great deal of complex material to be covered and we want each agency representative to have an opportunity to advance his key arguments. I therefore propose that we proceed as follows:
 - There appear to be substantial agreement on the Allied Security Controls topic; while there is not unanimity on the precise course to be followed, I believe the positions of individual departments are quite well defined, that the key arguments have been advanced and that the benefits of returning to this topic for further agency statements would be small. On the other hand, there is a wide disparity of opinions on the Oil/Gas Controls and Siberian

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Review July 9, 1987

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Pipeline issues and we have new submissions from three of the agencies on these issues. ~~Unless the President wishes to pose questions on this topic, I therefore propose to move promptly to a discussion of the Oil/Gas and Siberian Pipeline issues.~~

o For the discussions on the Oil/Gas and Siberian Pipeline issues, I propose the following procedure:

Game Show

-- ~~I have two~~ setting questions for Secretary Haig and two for Secretary Weinberger. These questions relate to the scenarios they submitted yesterday which were provided to all of you this morning and which I expect will be the focal point of discussions today. I will pose the two questions to Secretary Haig. He will then have an opportunity to respond. I will then pose two additional questions to Secretary Weinberger and he will then have an opportunity to respond. To stay within our time limits, the responses should not exceed ~~four minutes~~.

-- Next we will go around the table and each of the remaining participants will have an opportunity to comment on, support, critique, or ask questions about either or both of the scenarios submitted by Secretaries Haig and Weinberger. To stay within our time schedule, each participant in this round should confine his remarks to ~~one minute~~.

-- *Refer* Secretaries Haig and Weinberger ~~will~~ not respond to any of the participants' questions and comments until we have gone around the table. Each will then have ~~four minutes~~ to provide their responses and rebuttals.

o After completion of this cycle, the ~~President will then~~

IV. ALLIED SECURITY CONTROLS

o Mr. President, do you have any questions on the Allied Security Controls issue you would like to raise at this time?

o If not, I propose to move on to the Oil/Gas and Siberian Pipeline issues.

V. OIL/GAS AND SIBERIAN PIPELINE ISSUES

- o Secretary Haig, I would like to pose to you the following two questions, which I have also provided you in written form. These two questions relate to the scenario proposed in your July 8 submission.
 - Your July 8 paper proposes a "very tough option III" under which we would "press" our Allies to take several specific measures to minimize their dependency on Soviet gas. If we do not ourselves deny licenses on exports related to the project, and if we cannot enlist the aid of the Japanese and British in restricting exports critical to the project, what is it that is "tough" about our policy? Also, what kind of pressure would we put on our Allies to get them to give anything more than lip service to the program of minimizing dependence you have outlined?
 - Would it be inconsistent with your scenario to press very strongly at Ottawa, especially on the Germans and French, perhaps privately, for their agreement to delay further negotiations on the pipeline for, say a six month, pending a thorough inter-Allied review of the project and alternatives to it? Our schedule allows not more than four minutes for your response.
- o [redacted] by Secretary Haig.
- o Secretary Weinberger, I have [redacted] questions which I also furnished you in written form. These questions relate to your scenario submission of July 8:
 - Your objective, as stated in your paper, is to [redacted] the pipeline or, if that is not possible, to scale it down. Why wouldn't this objective be best served by requesting, at least as a first step, that our Allies, especially the Germans, agree to delay further negotiations for at least six months, until a full examination of all aspects of the project can be completed, rather than approaching them now with a statement that the project must be stopped, and with threats to block exports by the U.S. and other Allies of critical components?
 - As you indicated, compressors that must come from either the U.S. or the UK are critical to the pipeline. However, these compressors offer potential sales of as much as \$300-\$600 million. [redacted] Royce?

a sick British firm in a British economy with a current unemployment rate of about 10 percent. Faced with high levels of unemployment and with a German and French desire to go ahead with the pipeline, what incentive would there be for the British Government to block the sale of these compressors? What ~~pressures or incentives~~ could we bring to bear to motivate the British to go along with our desire to block the pipeline? Wouldn't British cooperation be significantly ~~easier to obtain if our stated objective was only to delay the pipeline, pending a review of alternatives and/or steps to minimize European dependency,~~ as compared to a position where we propose to the Allies that the pipeline be permanently blocked? Our schedule allows four minutes for your response.

- o Response by Secretary Weinberger.
- o We are now ready to take comments and questions from our remaining participants. Again, you may ^{wish to} ~~submit~~, or ask questions about either or both of the submitted scenarios. You should, however, confine your comments to ~~the subject~~. Secretaries Haig and Weinberger will not respond to your questions until we have been around the table.

If it will aid your brevity, I would also like to indicate that we are prepared to take for the President your final arguments, ~~of no more than three pages~~ up until close of business tomorrow. We do not require such submissions. Indeed, we do not even encourage them, but we will take them and use them, under the length and time guidelines I have noted.

- o Execute the cycle.
- o Secretary Haig, our schedule allows you four minutes for response.
- o Secretary Haig's response.
- o Secretary Weinberger, under our equal time rules, you also have four minutes for response.
- o Secretary Weinberger's response.
- o Mr. President, do you have any questions or comments at this time?
- o President's questions/comments.

VI. CLOSING REMARKS ON OIL/GAS AND SIBERIAN PIPELINE

- o Richard Allen: I want to thank all of you for ~~my~~ not being able to read about Monday's meeting in the New York Times or the Washington Post. ^{*The Pres. dead*} ~~my~~ ^{*in sorry he*} hopes also to be unable to learn about this meeting from the media.

We will be in touch with you for any further information the President needs to make his decisions.

Ask those not essential to remainder of meeting to leave?

VII. CARIBBEAN BASIN PORTION OF MEETING

... WASHDC ...
... MOSCOW 6808 ...
... TOKYO 19710 ...

Semy

... (ANGELINE, CHARLES) CH- ...
... CONTRACT TO SELL PIPELAYERS TO ...

[REDACTED SECTION]

... ACCORDING TO THE MIIT OFFICIAL IN THE ... ASIA ...
... DIVISION, KOMATSU CONCLUDED THE ...
... ABOUT 100 MILLION DOLLARS NOT THE ...
... MILLION DOLLARS REPORTED IN THE NIKON KEIZAI ...
... DURING THE LAST FISCAL YEAR ENDING MARCH 31, ...
... MIIT OFFICIAL STATED THAT UNDER THE ...

... FIFTY WILL BE SHIPPED BY THE END OF ...
... DID NOT KNOW WHERE IN THE SOVIET UNION THE ...
... WILL BE USED. THE OFFICIAL ALSO CLAIMED THAT ...
... OF THE SALE UNTIL THE NIKON KEIZAI ...

BY *afj*, NARA, DATE *12/14/64*

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24

A SOURCE WAS UNABLE TO CONFIRM OR DENY
THE NICHON SPECIAL ARTICLE. HE DID SAY,
HOWEVER, THAT HE HAD HEARD SOME TIME AGO THAT KOMATSE HAD
BEEN NEGOTIATING WITH THE SOVIETS WHO HAD TOLD THE
COMPANY THAT THE PIPELAYERS WOULD BE USED ON EITHER THE
URUMQI PIPELINE OR ON THE URENGOI-USHIGOROD PIPELINE.
HE SAID HE WOULD TRY TO FIND OUT MORE ABOUT THE SALE AND
LET US KNOW.

COMMENTS: WE WILL CONTINUE TO TRY TO LEARN MORE ABOUT
THE SALE OF THE KOMATSE PIPELAYERS. WE CREDIT MITI'S
CONFIRMATION OF THE SALE BUT ARE NOT SURE SOME OF THE
DETAILS, PARTICULARLY ON THE NUMBER SHIPPED, ARE
CORRECT. WE ALSO FIND IMPLAUSIBLE MITI'S ASSERTION
THAT HE KNEW NOTHING OF THE SALE UNTIL THE NICHON SPECIAL
ARTICLE APPEARED.

WINSFIELD