Collection: Executive Secretariat, NSC: Meeting File
Folder Title: NSC 00023 10/16/1981 [East-West Trade Controls, USSR, Oil] (3 of 3)

WITHDRAWAL SHEET

Ronald Reagan Library

Collection Name EXECUTIVE SECRETARIAT, NSC: MEETING FILE

File Folder NSC0023 (3) 10/16/1981

Box Number 91282

Withdrawer CAS 12/6/2010

FOIA M10-325 RAKU

4

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
101638	NSC PRO	*R 2/16/2001 GUIDELINES*	1	11/25/1981	B1
101639	MEMO	A. LENZ TO J. NANCE RE REVISION OF PAPER *R 10/22/2004 NLRRM1285 #1*	1	12/11/1981	B1
101640	MEMO	R. ALLEN TO THE PRESIDENT RE DECISION ON ISSUE *R 10/22/2004 NLRRM1285 #2*	2	11/28/1981	B1
101641	PAPER	RE STATEMENT OF OPTIONS *R 10/22/2004 NLRRM1285 #3*	1	ND	B1
101642	PAPER RE TECHNOLOGY	*R 10/22/2004 NLRRM1285 #4*	7	ND	B1
101643	TABLE	I: STATEMENT OF OPTIONS *R 10/22/2004 NLRRM1285 #5*	1	ND	B1
101644	PAPER	RE COMMITTEE FOR MULTILATERAL EXPORT CONTROLS (COCOM) *R 10/22/2004 NLRRM1285 #6*	1	ND	B1
101645	PAPER	RE COCOM *PAR 10/22/2004 NLRRM1285 #7; PAR UPHELD 6/11/2013 M325/1*	7	ND	B1 B3

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

- B-1 National security classified information [(b)(1) of the FOIA]
- B-2 Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
- B-3 Release would violate a Federal statute [(b)(3) of the FOIA]
- B-4 Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
- B-6 Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
- B-7 Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
- B-8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
- B-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

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

WITHDRAWAL SHEET
Ronald Reagan Library

Collection Name EXECUTIVE SECRETARIAT, NSC: MEETING FILE

Withdrawer CAS 12/6/2010

File Folder NSC0023 (3) 10/16/1981

FOIA M10-325 RAKU 4

Box Number 91282

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions	
101646	PAPER	RE CONTROLS ***PAR 10/22/2004 M1285 #8; R 8/16/2019 M325/1 #101646***	5	ND	B1	B3
101647	TABLE	B-1: RE EQUIPMENT ***R 10/22/2004 NLRRM1285 #9***	1	ND	B1	
101648	TABLE	B-2: RE EQUIPMENT ***R 10/22/2004 NLRRM1285 #10***	1	ND	B1	
101649	PAPER	RE STRATEGY ***PAR 10/22/2004 NLRRM1285 #11***	5	ND	B1	B3
101650	PAPER	RE POLICY OPTIONS ***R 10/22/2004 NLRRM1285 #12***	1	ND	B1	
101651	PAPER	RE STATEMENT OF PROS AND CONS ***R 10/22/2004 NLRRM1285 #13***	3	ND	B1	
101652	MEMO	L. PAUL BREMER TO ALLEN RE EXPORTS ***R 10/22/2004 NLRRM1285 #14***	6	11/23/1981	B1	
101653	PAPER	RE DECISION ***R 10/22/2004 NLRRM1285 #15***	2	ND	B1	
101654	MEMO	LENZ TO ALLEN RE PRESIDENTIAL DECISION ***R 10/22/2004 NLRRM1285 #16***	2	11/27/1981	B1	

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

B-1 National security classified information [(b)(1) of the FOIA]
B-2 Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
B-3 Release would violate a Federal statute [(b)(3) of the FOIA]
B-4 Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
B-6 Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
B-7 Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
B-8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
B-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

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

WITHDRAWAL SHEET

Ronald Reagan Library

Collection Name EXECUTIVE SECRETARIAT, NSC: MEETING FILE

File Folder NSC0023 (3) 10/16/1981

Box Number 91282

Withdrawer
CAS 12/6/2010

FOIA
M10-325
RAKU

4

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions	
101655	MEMO	LENZ TO ALLEN RE NSC CONSIDERATION ***R 10/22/2004 NLRRM1285 #17***	2	10/20/1981	B1	
101656	PAPER	RE DECISION MEMO ***R 10/22/2004 NLRRM1285 #18***	1	ND	B1	
101657	NSC PROFILE SHEET	***R 10/22/2004 NLRRM1285 #19***	1	10/22/1981	B1	
101658	MEMO	TO LENZ RE PAPER (ANNOTATED) ***PAR 10/22/2004 NLRRM1285 #20***	1	10/27/1982	B1	B3
101659	MEMO	TO LENZ RE PAPER (SAME TEXT AS 101658) ***PAR 10/22/2004 NLRRM1285 #21***	1	10/27/1982	B1	B3
101660	PAPER	RE STRATEGY (SAME TEXT AS 101649) ***PAR 10/22/2004 NLRRM1285 #22***	5	ND	B1	B3
101661	PAPER	RE COCOM (SAME TEXT AS 101645) ***PAR 10/22/2004 NLRRM1285 #23; PAR UPHELD 6/11/2013 M325/1***	7	ND	B1	B3
101662	MEMO	FROM LENZ RE ANALYSIS ***R 10/22/2004 NLRRM1285 #24***	1	10/22/1981	B1	

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

B-1 National security classified information [(b)(1) of the FOIA]
B-2 Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
B-3 Release would violate a Federal statute [(b)(3) of the FOIA]
B-4 Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
B-6 Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
B-7 Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
B-8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
B-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

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

WITHDRAWAL SHEET
Ronald Reagan Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
~~1. NSC profile~~	~~#8190052~~ CAS 2/16/01 WH GUIDELINES	~~11/25/81~~	P-1
~~2. memo~~	~~A. Lenz to J. Nance, re revision of paper [8190052]~~ R 10/22/04 M1285 #1	~~12/11/81~~	~~P-1~~
~~3. memo~~	~~R.V. allen to the President, re decision on issue [8190052] (2 pp)~~ R 10/22/04 M1285 #2	~~11/28/81~~	P-1 ~~P-5~~ ~~P5~~, B3
~~4. paper~~	~~re statement of options [8190052]~~ R 10/22/04 M1285 #3	~~n.d.~~	P-1
~~5. paper~~	~~re technology [8190052] (7 pp)~~ R 10/22/04 M1285 #4	~~n.d.~~	~~P-1~~ ~~P-5~~ ~~P5~~, B3
~~6. table~~	~~I: statement of options [8190052]~~ R 10/22/04 M1285 #5	~~n.d.~~	P-1 ~~P-5~~ ~~P5~~
~~7. paper~~	~~re Committee for Multilateral Export Controls (COCOM) [8190052]~~ R 10/22/04 M1285 #6	~~n.d.~~	~~P-1~~
8. paper	re COCOM [8190052] (7 pp) P 10/22/04 M1285 #7	n.d.	P-1, B3
9. paper	re controls [8190052] (5 pp) P 10/22/04 M1285 #8	n.d.	P-1, B3
~~10. table~~	~~B-1: re equipment [8190052]~~ R 10/22/04 M1285 #9	~~n.d.~~	~~P-1~~
~~11. table~~	~~B-2: re equipment [8190052]~~ R 10/22/04 M1285 #10	~~n.d.~~	~~P-1~~
12. paper	re strategy [8190052] P 10/22/04 M1285 #11	n.d.	P-1, B3
~~13. paper~~	~~re policy options [8190052]~~ R 10/22/04 M1285 #12	~~n.d.~~	~~P-1~~
~~14. paper~~	~~re statement of pros and cons [8190052] (3 pp)~~ R 10/22/04 M1285 #13	n.d.	P-1 ~~P5~~
~~15. memo~~	~~L. Paul Bremer to R.V. Allen, re exports [8190052] (6 pp)~~ R 10/22/04 M1285 #14	~~11/23/81~~	P-1 ~~P-5~~
~~16. paper~~	~~re decision [8190052] (2 pp)~~ R 10/22/04 M1285 #15	~~n.d.~~	~~P-1~~ ~~P-5~~ ~~P5~~

COLLECTION:	
EXEC. SECRETARIAT, NSC (NSC Mtg. Files)	DSD
FILE FOLDER:	
NSC00023 (3/3) 16 Oct 81 Box 91282	8/10/94

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]
- P-1 National security classified information [(a)(1) of the PRA].
- P-2 Relating to appointment to Federal office [(a)(2) of the PRA].
- P-3 Release would violate a Federal statute [(a)(3) of the PRA].
- P-4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA].
- P-5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA.
- P-6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA].

Freedom of Information Act - [5 U.S.C. 552(b)]
- F-2 Release could disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA].
- F-7 Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA].
- F-8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA].
- F-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA].
- C. Closed in accordance with restrictions contained in donor's deed of gift.

WITHDRAWAL SHEET
Ronald Reagan Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
~~17. memo~~	~~A. Lenz to R.V. Allen, re presidential decision (8190052) (2 pp)~~ R 10/22/04 M1285 #16	~~11/27/81~~	P-1 ~~P-5~~ ~~P5~~
~~18. memo~~	~~A. Lenz to R.V. Allen, re NSC consideration [8190052] (2 pp)~~ R 10/22/04 M1285 #17	~~10/20/81~~	P-1 ~~P-5~~ ~~B5~~
~~19. paper~~	~~re decision memo [8190052]~~ R 10/22/04 M1285 #18	~~n.d.~~	P-1
~~20. NSC profile~~	~~#8106180~~ R 10/22/04 M1285 #19	~~10/22/81~~	~~P-1~~ , B3
21. memo	T. Cormack to A. Lenz, re paper (with handwritten notes) [8106180] P 10/22/04 M1285 #20	10/27/81	P-1 , B3
22. memo	T. Cormack to A. Lenz, re paper [8106180] P 10/22/04 M1285 #21	10/27/81	P-1 , B3
23. paper	re strategy [8106180] (5 pp) P 10/22/04 M1285 #22	n.d.	P-1 , B3
24. paper	re COCOM [8106180] (7 pp) P 10/22/04 M1285 #23	n.d.	P-1 , B3
~~25. memo~~	~~A. Lenz to T. Cormack, re analysis [8106180]~~ R 10/22/04 M1285 #24	~~10/22/81~~	~~P-1~~ , B3

COLLECTION: EXEC. SECRETARIAT, NSC (NSC Mtg. Files)	DSD
FILE FOLDER: NSC00023 (3/3) 16 Oct 81 Box 91282	8/10/94

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]
- P-1 National security classified information [(a)(1) of the PRA].
- P-2 Relating to appointment to Federal office [(a)(2) of the PRA].
- P-3 Release would violate a Federal statute [(a)(3) of the PRA].
- P-4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA].
- P-5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA.
- P-6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA].

Freedom of Information Act - [5 U.S.C. 552(b)]
- F-2 Release could disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA].
- F-7 Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA].
- F-8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA].
- F-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA].
- C. Closed in accordance with restrictions contained in donor's deed of gift.

NSC/S PROFILE ~~SECRET~~ ID 8190052

RECEIVED 28 NOV 81 09

TO ALLEN FROM BREMER DOCDATE 25 NOV 81

LENZ 27 NOV 81

LENZ 11 DEC 81

KEYWORDS: COCOM EXPORT CONTROLS

OIL GAS

USSR NSC

SUBJECT: PRESIDENTIAL DECISION ON OIL & GAS ISSUES

ACTION: FWD TO PRES FOR DECISION DUE: 15 DEC 81 STATUS C FILES IFM O

FOR ACTION	FOR CONCURRENCE	FOR INFO
ALLEN		

COMMENTS

REF# 8133835 LOG 8190039 NSCIFID NSC00023 (J / B)

ACTION OFFICER (S)		ASSIGNED	ACTION REQUIRED	DUE	COPIES TO
Pres	P	12/01	Decision		
Lenz	S	12/10	further Action		
NANCE	X	12/11	Pres for decision		
	C	12/21	Close per Nance Note		

DISPATCH ______ W/ATTCH FILE ____ (C)

II/90052

81 14 A9: 09

JANET COLSON	✓		
BUD NANCE			
DICK ALLEN			
IRENE DERUS			
JANET COLSON			
BUD NANCE			
PETER			
CY TO VP		SHOW CC	
CY TO MEESE		SHOW CC	
CY TO BAKER		SHOW CC	
CY TO DEAVER		SHOW CC	
CY TO BRADY		SHOW CC	

BACK TO LENZ —

Why dont you keep this until the dust settles.

Bud 12/21/81

Comments:

MEMORANDUM

System II - 90052

NATIONAL SECURITY COUNCIL

~~SECRET~~

ACTION

December 11, 1981

MEMORANDUM FOR JAMES W. NANCE

FROM: ALLEN J. LENZ

SUBJECT: Revision of Oil/Gas Decision Paper

The attached oil/gas paper, originally forwarded to Darman on December 1 under cover of an RVA memo dated November 28, has been revised as required to reflect Presidential approval of the Caterpillar application to export 200 pipelayers.

I suggest you simply reinsert the memo in the Darman system under cover of the prior RVA memo so that the President will be aware it has RVA's endorsement.

RECOMMENDATION

That you forward the revised memo in its current form.

Approve ________ Disapprove ________

Attachment

Memo to the President dated November 28, 1981

~~SECRET~~

MEMORANDUM

System II

90052

THE WHITE HOUSE

WASHINGTON

~~SECRET~~

ACTION

November 28, 1981

DECLASSIFIED / RELEASED

NLS M1285 #2

BY smf, NARA, DATE 10/22/04

MEMORANDUM FOR THE PRESIDENT

FROM: RICHARD V. ALLEN

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

The issue of controls on exports to the USSR of oil and gas equipment and technology has been discussed in three NSC meetings, initially on July 6 and most recently on October 16. The meetings have revealed sharp disagreement among the participants and the issue remains unresolved.

Following the October 16 meeting, I asked my staff to prepare a paper that would respond to several pertinent questions you had raised. At the same time, Secretary Haig initiated an effort to produce a new interagency paper with appropriate information and analysis. This effort, however, reached an impasse due to irreconcilable differences in departmental perspectives and Al has instead submitted a new State Department paper.

Thus, two papers have been prepared for your use:

- An NSC Staff paper which responds directly to the questions you had raised on October 16. Drawing on CIA analyses, it objectively analyzes the four policy options discussed at the NSC meetings, a new State option, and an additional alternative. The paper makes no recommendations (Tab II).

- A State paper which advocates the adoption of a specific course of action slightly different from State's original position (Tab III).

Your decision is required to deal with a host of export control and related issues. However, because of the complexity of this issue and the sharp division of views, I believe another NSC meeting is unlikely to be useful at this time. Accordingly, you may find a review of the attached papers to be the most effective way of reaching or moving toward a decision on this matter. Should your review raise further questions, we will be pleased to obtain the answers.

~~SECRET~~
Review on November 27, 1987

~~SECRET~~

After a careful review, and in view of the status of the Siberian Pipeline negotiations, I have concluded that you may want to select from Options IV, IV-A, and V (see option selection paper at Tab I). These options are compatible with the consensus that it would be to our advantage to impede Soviet oil and gas production and represent progressively tougher unilateral measures to implement this principle. The specific option chosen depends on how firmly we wish to stand on principle and the degree to which we are prepared to accept resultant export losses.

RECOMMENDATION

That you review the attached materials and indicate your decision on the option sheet at Tab I, or provide me with further questions or guidance.

Approve ________ Disapprove ________

Attachments

Tab I Option Selection Paper
Tab II NSC Prepared Paper
A Impact of COCOM and US Embargoes of Petroleum Equipment and Exports (Prepared by CIA)
B Political and Economic Costs of Allied and U.S. Oil and Gas Controls (Prepared by NSC Staff)
C Possible Allied Responses to U.S. Strategy on the Yamal Pipeline (Prepared by CIA)
D Policy Options Paper (Prepared by State for July NSC Meetings)
Tab III State Prepared Paper

STATEMENT OF OPTIONS

~~Controls on Ex~~ports to the USSR of Oil and Gas Equipment and Technology

Presidential Preference

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

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

OPTION III. The US is most concerned about major Soviet projects which contribute to Soviet production capability and our Allies' vulnerability to Soviet energy leverage (e.g., West Siberian Pipeline). The US will make a major effort with other countries to restrict exports of equipment and technology for such projects. Until this is worked out, the US will deny all technology and end-use equipment exports for major projects while approving end-use equipment exports for major projects. ______

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

OPTION IV-A (Toughened up Option IV). Rather than attempting to impede oil and gas production and exports, our goal will be to deny all exports of technology that allow the Soviets to replicate advanced Western equipment. The US will also embargo exports of end-use equipment when this would hurt the USSR more than the US, e.g., submersible pumps and other equipment that the Soviets can acquire only from the US. Seek European and Japanese support. Senior level review of exports to identify areas of leverage. NOTE: This represents the new State Department position. ______

OPTION V. While it is not feasible to secure Allied cooperation, the US should, nevertheless, stand on sound principles and unilaterally impose controls on oil and gas equipment and technology. NOTE: Not presented at NSC meeting. Surfaced in NSC staff paper. ______

CONTROLS ON EXPORT TO THE USSR OF OIL AND GAS EQUIPMENT AND TECHNOLOGY
(Prepared by NSC Staff)

I. Issue Requiring Decision

The issue requiring your decision has two components: first, setting our basic policy concerning licensing of U.S. exports of oil and gas equipment and technology to the Soviet Union; second, determining whether we will seek similar restrictive licensing actions by our Allies. This decision will shape an important part of our policy on the broader issue of the transfer of Western and U.S. technology to the Soviet Union.

An early decision is required:

- To guide renewal or revision of existing foreign policy controls on oil and gas equipment and technology which, without our action, will expire on December 31.

- To complete our strategy concerning the Siberian Pipeline. Since the Siberian Pipeline would be the major consumer of the items that would be restricted by oil and gas controls, your decision will set our basic strategy and tactics on further dealings with our Allies on this issue.

- To complete our negotiating position for December/January meetings with our Allies at which we will propose strengthening of controls by the 17-nation Committee for Multilateral Export Controls (COCOM).

- To deal with day-to-day licensing problems.

Your decision will have important effects, both immediate and long-term, on our trade and political relations with the Soviet Union, on relations with our Allies, and on domestic and international perceptions of your overall strategy.

II. Essential Background

Allied Security Controls: As an outgrowth of the July NSC meetings, you decided that the U.S. should press for strengthening the COCOM restrictions on exports to the USSR of strategic materials and technology by adding equipment and technology critical in several defense priority industries to existing controls. However, this decision did not directly address oil and gas equipment and technology.

The Siberian Pipeline: The July NSC discussions revealed agreement among your advisors that the Siberian Pipeline constitutes a threat to Allied unity, but sharp disagreement as to our ability to impede its construction without actions that would be more costly to the Alliance than completion of the pipeline itself.

Resolution was accomplished by preparation of talking points that you used in expressing U.S. concerns about the pipeline to our partners at Ottawa. Ottawa discussions on the pipeline, however, were essentially inconclusive.

In early November, a U.S. delegation presented alternatives to the pipeline in the European capitals, but was unable to dissuade the West Europeans who have continued their negotiations to consumate the deal -- negotiations that are apparently nearing completion, with the key FRG-Soviet agreement announced during Brezhnev's Bonn visit.

Caterpillar Pipelayers: In August, you approved a Caterpillar Company request to license 100 pipelayers for export to the Soviet Union. In September, Caterpillar applied to license an additional 200 pipelayers. On December 9 you approved this request.

III. The Oil/Gas Controls Issue -- Basic Components

Those items of equipment and technology used in oil and gas exploration and production that also have significant potential direct application to Soviet military uses are already under U.S. national security and COCOM export control restrictions. These items are, however, not being controlled because they are oil and gas equipment, but rather because of their strategic importance wherever used. Example items include computers and control systems. The availability to the Soviets of Western oil and gas equipment and technology falling outside COCOM restrictions speeds Soviet energy development and reduces their costs while freeing resources for application in the military sector.

The issue to be decided now is whether we should apply additional controls on all oil and gas equipment and technology -- including items not already controlled because of their strategic importance -- in an attempt to affect Soviet military capabilities indirectly; by impeding Soviet energy development and economic growth.

There is consensus among your principal national security advisors (Haig, Weinberger, Casey, JCS, NSC Staff) that it would be to our advantage to impede Soviet oil and gas production. This view rests on the following arguments:

- Reduced oil/gas production would slow Soviet economic development and possibly the growth of Soviet military capabilities.

- Stopping the Siberian Pipeline and reducing Soviet energy exports to the West would avoid a potential weakening of NATO cohesion stemming from European dependence on Soviet energy resources.

- Reduced oil/gas production would diminish Soviet energy exports and hard currency earnings, reduce their ability to buy Western technology and increase competition for resources between their military and civilian sectors.

- It would be inconsistent to try to redress our military disadvantages by increasing U.S. defense expenditures, while at the same time making it easier for the Soviets to devote resources to their military.

There is agreement on the objective of impeding Soviet oil and gas production. But what is crucial, -- the central issue -- is whether we can achieve that objective at political and economic costs that are less than the benefits to be gained. Your advisors differ sharply on this question.

During NSC meetings in July and October, four basic options were presented (Table 1) and discussed, revealing sharp differences among your advisors.

Three basic alternatives are couched in the four options tabled.

- Options I and II place all oil and gas exploration and production equipment, and all oil and gas technology under national security controls. This equipment and technology would be added to the list of new controls to be negotiated with our COCOM Allies. Until negotiations are concluded, the U.S. would implement a unilateral embargo. The only difference between these two options is the degree of pressure used to secure Allied cooperation. (Supported by Weinberger, Casey, Kirkpatrick, JCS, NSC Staff.)

- Option III would seek the same controls as the first two options, but would be invoked only against major Soviet development projects, such as the Siberian Pipeline. This option would require case-by-case determinations of whether an export to the USSR was for a "major project." (Supported by Under Secretary Davis, Energy.)

- Option IV corresponds closely with current U.S. policy, initiated by Carter after the invasion of Afghanistan. Those items of oil and gas equipment not already controlled for national security reasons are placed under "foreign policy" controls, with the presumption that technology license applications will be denied, but applications for export of equipment without significant potential for military uses will be approved. An attempt could be made to have the Allies accept similar controls. (Supported by Haig, Regan, Baldrige. Stockman, Brock, and Under Secretary Davis, Energy.)

The sharp difference of views on the course to be followed results from varying viewpoints on the following key questions:

o To what extent can Allied or unilateral U.S. export controls impede Soviet oil and gas production?

o What would be the political and economic costs of Allied and U.S. oil and gas controls?

o What would be the prospects and costs of obtaining Allied cooperation in multilateral controls on oil and gas equipment and technology?

An examination of these questions follows.

IV. Key Question: To What Extent Can Allied or Unilateral U.S. Export Controls Impede Soviet Oil and Gas Production?

A CIA assessment indicates that a total, effective, multilateral COCOM embargo on exports of oil and gas equipment and technology to the USSR and Eastern Europe -- if sustained over a number of years -- would substantially retard Soviet energy development and that the effects of these restrictions would increase over at least the next decade:

o A sustained Western embargo could cause Soviet losses of 10 to 15 percent of the 20 million barrels per day of oil equivalent production projected for the mid to late 1980s.

o The effect of the reduced oil and gas production could be to lower the average annual growth of Soviet GNP in the 1980s by about one-half percent, or about one-fourth of the two percent rate the CIA estimates will otherwise be achieved.

However, the effects of a unilateral U.S. embargo would be much smaller and only transitory.

The complete text of the CIA analysis is at Tab A.

V. Key Question: What Would Be the Political and Economic Costs of Allied and U.S. Oil and Gas Controls?

Costs to Our Allies: Our Allies will perceive the political and economic costs to be so high that they are most likely to oppose controls on oil and gas equipment and technology to the USSR. A basic West European objective is to sustain or increase the level of trade with the Soviet Union; they expect political and economic gains from this trade to include:

o Substantial short- and long-term trade benefits.

o Energy imports from the Soviet Union are self-liquidating expenditures because they generate equivalent exports to the Soviet Union, an advantage offered by few, if any, other potential energy suppliers.

- The FRG sees good political relations with the USSR as essential to a desired expansion of relations with the German Democratic Republic.

- Other perceived advantages: world energy supplies will be increased by enlarged Soviet production and hence, prices will be driven downward; Soviet energy provides Western Europe a means of diversifying its energy dependence; political relations are improved by trade with the communist countries; a well-fed Soviet bear is less adventurous than a hungry Soviet bear.

Costs to the U.S.: The direct, immediate economic effects of the imposition of oil and gas controls on U.S. exports would be relatively minor in aggregate terms. Commerce feels that a reasonable estimate for U.S. pipeline sales is $600-$700 million, or $125-150 million annually over the next five years.

CIA analysts, however, feel that this sales level could easily be doubled if the Soviets purchase other U.S. equipment such as offshore drilling rigs, submersible pumps, etc., which they badly need to sustain increases in their oil exploration and production.

Although oil and gas equipment sales to the USSR would not be large in aggregate terms, sales by individual firms might be quite significant. For example, a sale by Caterpillar Tractor for 200 pipelayers, valued close to $90 million, is regarded as a major business deal.

Additionally, it may be difficult to disassociate decisions on oil and gas equipment from other large Soviet purchases in the U.S., which include a $274 million purchase of harvester-thresher technology from the financially troubled International Harvester Company that has just been approved and a pending license application for a $200 million purchase for strip mining and road grading equipment from the Allis-Chalmers subsidiary of Fiat-Allis. While a reasonable rationale for restricting exports of pipelayers and other oil and gas equipment while allowing these other transactions may be developed, many business and other interest groups will see the differing treatments as illogical.

The overall domestic political reaction to oil and gas restrictions is likely to be favorable if the U.S. restrictions are part of a concerted Allied effort. However, heavy political pressure against unilaterally imposed restrictions is likely, particularly from representatives of the affected industries who will see little utility in the U.S. "going it alone."

Additional information on Allied and U.S. economic costs of oil and gas controls is at Tab B.

VI. Key Question: What Are the Prospects and Costs of Obtaining Allied Cooperation in Multilateral Controls?

The most significant and immediate effect of a coordinated, multilateral imposition of controls would be to stop construction of the Sibierian Pipeline.

As to costs, the CIA found in a recent analysis:

"A policy of seeking COCOM cooperation to stop the Siberian Pipeline would probably have a low yield and a high cost. The Allies have already decided the project is in their interest and will not voluntarily halt their participation. In the immediate term, U.S. attempts to force a stop to the project are likely to jeopardize the current U.S. initiative to broaden and strengthen COCOM export controls in a number of military related industrial sectors. In addition, the West Europeans view the project as strictly their own affair and resent U.S. interference; U.S. pressure thus could pose major risks for U.S.-Allied relations."

The complete CIA analysis is at Tab C.

VII. The Choice

While your advisors agree that it would be advantageous to impede Soviet oil and gas production, the more difficult and controversial question is whether the costs of steps that would be required to obtain Allied cooperation would be too great. There is little doubt that the costs would be high and that the effects would be felt across a wide range of other issues.

Options I through III are based on sound objectives. These options, in effect, would initiate a political policy of partial, selective economic warfare against the Soviet Union -- through controls designed to affect Soviet energy production, but not through agricultural or other export restrictions -- and would attempt to enlist the aid of our Allies in applying similar controls.

Option IV foregoes economic warfare; it accepts the arguments of extreme difficulty and high costs in getting Allied cooperation, but will not significantly slow Soviet energy development or construction of the Siberian Pipeline.

A listing of the options and pros and cons submitted in July by the Interagency Group is at Tab D.

However, your alternatives also include a "toughened up Option IV" presently proposed by State under which the U.S. would unilaterally add to the Option IV controls on embargo those end-use equipments where the costs of the embargo would be greater to the Soviets than to the U.S.; i.e., submersible pumps and other equipment the Soviets can acquire only from the U.S. The economic costs of this option would fall on those few U.S. firms that have oil/gas equipment with unique capabilities.

Another alternative approach not included in those originally presented would be to accept the conclusion that while it is not feasible to secure Allied cooperation, the U.S. should, nevertheless, stand on sound principles, and unilaterally impose controls on all oil and gas equipment and technology, regardless of availability from foreign sources. This alternative would, however, be inconsistent with your August and December Caterpillar pipelayer approvals and would require denials of future pipelayer licenses. Additionally, this option would not have a significant impact on Soviet energy production, and would incur larger domestic economic costs than a toughened Option IV. The costs would be significant for some firms and restricting oil/gas equipment and technology exports would invite criticism if you approve other large non-oil/gas transactions, such as the International Harvester and Fiat-Allis deals. However, any decision you make on this matter will be controversial with strong support coming from some quarters, heavy criticism from others.

Unilaterally imposed controls would, however, accomplish two important objectives: first, such a decision would convincingly demonstrate to our Allies our determination and seriousness of purpose, and thereby enhance our ability to obtain their cooperation on tightenting COCOM controls on non-oil/gas items; second, it would stake out the "high ground" for U.S. leadership in rallying for tight multilateral controls on all commodities -- including oil and gas equipment and grain -- in the event of a Soviet intervention in Poland.

Table 1

STATEMENT OF ORIGINAL OPTIONS DISCUSSED AT NSC MEETINGS

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

Option I

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

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

Option II

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

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

Option III

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

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

Option IV (Carter Administration Policy)

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

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

~~SECRET~~

~~SECRET~~

THE IMPACT OF COCOM AND US EMBARGOES OF PETROLEUM EQUIPMENT EXPORTS

The U.S. COCOM Initiative

(Prepared by NSC Staff)

The Committee for Multilateral Export Controls (COCOM) is a voluntary 17-nation "gentlemen's agreement" organization that has existed since 1949 without official status by treaty or other formal agreement. A decision to increase the level of controls must be unanimously accepted to be effective.

As an outgrowth of the July NSC meetings, you decided that the U.S. should press for strengthening of COCOM restrictions on exports to the USSR of strategic materials and technology by adding to existing restrictions controls on (1) equipment and technology critical to production in defense priority industries; and (2) technology for production in these industries without regard to whether the USSR already has such technology data (i.e., without the criticality condition).

Our U.S. proposals will be initially advanced to the COCOM group at a high-level meeting in Paris in December or January. The practical effect of the increased restrictions, if accepted by our Allies, would be to add or strengthen controls on several product areas. These would include: computers, communications, high technology micro-electronics, aerospace, machine building, ship-building, metallurgy chemicals and heavy vehicles.

Oil and gas equipment and technology would be added to the above list if you decide we should control these items and press our Allies to do so.

The COCOM negotiations could be contentious and extended, and our proposals could be rejected or effectively blocked by lengthy negotiations, even if we do <u>not</u> add oil and gas items to our proposals. Even if our position is finally agreed to, it is unlikely that we would gain acceptance in less than a year or more.

The analysis which follows was prepared by the CIA.

~~SECRET~~

~~SECRET~~

SECRET E. O. 12958 As Amended 8190052

SECRET [redacted] 1.4c

The Impact of COCOM and US Embargoes of Petroleum Equipment Exports

A total, effective and sustained multilateral COCOM embargo on exports of oil and gas equipment to the USSR and Eastern Europe would substantially retard Soviet energy development, and its impact would increase over at least the next decade. The impact of a unilateral U.S. embargo would be much smaller and transitory.

The most severe effect of a COCOM embargo would be on Soviet gas production. Construction of gas pipelines, the chief constraint on Soviet ability to expand gas production, depends heavily on imports of Western pipe and compressors, and Soviet capabilities for producing such equipment are already stretched to the limit. Without Western equipment a shortfall of at least 15 percent of planned gas production by 1985 would be almost inevitable. The shortfall would continue to increase later in the decade even though Moscow would give a high priority to expansion of its own pipe and compressor industry. A unilateral U.S. embargo would have virtually no effect on Soviet gas production.

In the case of oil, the most critical short term Soviet dependence is for US built submersible pumps, production of which is now a US monopoly. Denial of these pumps could cut Soviet oil production by around 2 percent over the next 2 years or so. Beyond that period, the impact would continue to increase with a COCOM embargo, but would quickly disappear with a unilateral US embargo as other Western producers entered the field.

As time goes on, Soviet dependence on Western oil equipment will increase, reflecting the rapidly growing complexity of oil exploration and development and the limitations of Soviet technology. Finding the smaller and more remote deposits on which Soviet oil production will increasingly depend, developing offshore fields, and expanding the use of enhanced oil recovery all will benefit greatly from--and in some cases will require--Western equipment. Although quantification is not possible, there is little doubt that a COCOM embargo would substantially accelerate the expected decline in Soviet oil production in the second half of the 1980s and beyond.

In turn, a more rapid decline in oil production coupled with a much smaller increase in gas production than is now expected would have an important depressing effect on the Soviet economy. Hard currency earnings would fall sharply, thus greatly curtailing Soviet imports from the West. And economic growth would be even slower than the 2 percent or less rate we now expect.

The judgments of this paper are necessarily tentative because of the absence of information on specific Soviet plans, equipment production and inventories, and oil- and gas-field conditions. Nor can we foresee the long-term adjustment possibilities available to a large command economy. The basis for our conclusions is presented in the accompanying Annex, in which the ranges of impact on production shown for various types of equipment are probably more valid in reflecting relative rather than absolute magnitudes. The aggregate of the individual effects thus at best provides an order of magnitude impression, based on the best current judgments of our petroleum analysts.

ANNEX

Preliminary Judgments on the Impact of COCOM and US Embargo of Oil and Gas Equipment to the USSR

Background

Estimates of the effects of a Western embargo on the export of various kinds of oil and gas equipment to the Soviet Union are necessarily tenuous, as they involve assumptions as to the types and quantities of equipment that the Soviets will seek from the West in the next few years. In the past, imports from the West represented only a small percentage of total Soviet equipment supply. But new problems in exploration, production, and transport of oil and gas will probably lead the USSR to rely more heavily on imports in the 1980s. Although the Soviets show no inclination to avail themselves of opportunities they have ignored in the past, arrangements such as joint ventures or service contracts with Western firms could--under changed circumstances--offer productivity increases in petroleum extraction.

Effect of Embargo on Major Categories of Equipment

Exploration Equipment

The Soviets already have found most of the relatively shallow, easily-located, accessible oil and gas traps. They specifically need Western seismic and well-logging technology to boost oil reserves in the 1980s. Due to the 5 to 6 year discovery-to-production time lag, Western equipment ordered today is unlikely to have much impact on oil production before the late 1980s. While a multilateral embargo could severely constrain Soviet exploration, unilateral controls by the US would have little or no effect. Foreign firms can supply Soviet needs with little or no degradation in quality. But we do not believe that the Soviets can improve their own exploration technology (i.e., geophysical hardware and software) rapidly enough to affect production before the 1990s.

Drilling Equipment

The Soviets plan to nearly double the amount of drilling for oil and gas in 1981-85, with further increases planned for the late 1980s. Soviet drilling productivity is poor by international standards. Western rigs, drill pipe, tool joints, drill bits, blow-out preventors, and drilling-fluid technology already provide substantial aid to Soviet drilling efforts. The Dresser drill-bit plant, if brought on stream with US or Western assistance, could have a considerable impact on Soviet oil

E. O. 12958
As Amended
Sec. 1.4c

production by the late 1980s. Although the US is the world's leader in the production of drilling equipment, producers in Japan and Western Europe could supply the Soviet market. A unilateral US embargo would therefore not have much bite.

Production Equipment

The Soviet oil industry faces rising fluid-lift requirements in the 1980s, as the amount of water produced along with the oil increases. According to Soviet plans, a large additional volume of fluid--perhaps as high as 6 million b/d--must be lifted in 1985 simply to maintain oil production at the 1980 level of about 12 million b/d. To handle the high volume of fluid, the Soviets plan to double the number of wells producing with the help of submersible pumps and gas-lift equipment.

Imported equipment is important for this effort because the capacity and quality of Soviet-made submersible pumps and gas-lift equipment is low. In the case of high capacity pumps, U.S. producers now have a monopoly but, if these were embargoed, other Western suppliers could be expected to enter the field within about two years. Each high-capacity U.S. pump produces on the average about 1,000 to 1,500 b/d of oil under Soviet conditions. The Soviets probably expect to import about 100 such pumps annually (in the 1970's they imported a total of 1,200). The water-cut problem in Soviet oilfields is getting worse, and domestic development of a good substitute pump has not yet been successful. Denial of the U.S. pumps consequently could cost the Soviets 200,000 to 300,000 b/d of oil before other Western suppliers could come on stream. In the case of a COCOM embargo, the impact would continue to grow, probably for several more years.

In addition to high capacity pumps, Western equipment playing a significant role in Soviet oil development includes gas-lift equipment, well-completion equipment, wellhead units, and Christmas-tree assemblies.

The USSR also has an increasing need for Western enhanced-oil-recovery technology. Enhanced recovery projects have long lead times, however, and the effect of Western assistance would be relatively small and felt only after 1985.

Offshore Equipment

The Soviets' least-explored prospective areas for new petroleum discovery are offshore, and their oil and gas production in the late 1980s and beyond heavily depends on the development of such areas. The Soviets already have received substantial assistance from the West. Continued assistance could speed development in the Caspian area. A US embargo applied unilaterally would make little difference. After 1985, COCOM restrictions would have very little effect. Firms in Finland,

E.O. 12958
As Amended
Sec. 1.4c

E. O. 12958
As Amended
Sec. 1.4c

Singapore, Mexico, and Yugoslovia can supply most of the USSR's current offshore needs, and all of their requirements by the late 1980s. Production of the few drilling components now produced only in the US could be quickly introduced abroad.

Oil Refining and Gas Processing Equipment

The Soviets intends to expand their secondary refining and gas processing industries substantially in the 1980s. They are relying almost exclusively, however, on their own production or on equipment imported from Eastern Europe.

Gas Pipeline Equipment

Although the Soviet Bloc produces most of its own oil pipeline equipment, the USSR relies extensively on the West for gas pipeline equipment--large-diameter pipe and valves, compressors, and pipelayers. Since pipelines are the principal bottleneck in Soviet gas production, a COCOM embarog on pipe, compressors, and pipelayers would be a major setback to the Soviet gas industry. High-quality large-diameter pipes and valves are currently produced only in Western Europe and Japan.* Although the Soviets have recently built a plant to manufacture large-diameter pipe, they have yet to master production of pipe of this size. Pipelayers capable of handling this pipe are produced only in the US, Italy and Japan. Large turbine compressors of the type sought by the Soviets for the export pipeline project are built in the United States and the United Kingdom. Smaller units are built by firms in France, Germany, Italy, and Japan; none of these, however, has yet attempted to make a 20 to 25 MW unit, although a French firm has the necessary licensing.

A multilateral COCOM embargo on gas pipeline equipment could reduce gas production by as much as 10 billion cu. ft./day (1.75m b/d, oil equivalent) in 1985 and by substantially more after 1985. US unilateral restrictions on equipment in this area, however, would have minimal impact. The US does not produce the pipe or valves sought by the USSR, and pipelayers and compressors can be supplied from abroad. Foreign production of industrial compressor turbine shafts and blades, the sole area now subject to US control, could begin in sufficient time to prevent a delay in completion of the pipeline.

---

* Although the Soviets produce pipe up to 1,420 mm. (56 inches) in diameter, little is for natural gas pipeline service. Most Soviet pipe is spiral welded and lacks the (HSLA) high-strength, low alloy metallurgy of Western steel for Arctic pipeline service. Most of the large pipe imported by the USSR is fabricated with a single longitudinal weld made by the submerged arc process.

Implications of an Embargo on Equipment for the Yamal Pipeline

A full COCOM embargo on equipment for Siberia-to-Europe gas pipeline presupposes West European agreement to abandon the project. A unilateral US embargo on critical gas turbine components destined for use on the Yamal Pipeline probably would not substantially delay the project.

(a) The Soviets have designed the export pipeline compressor stations to use either General Electric (GE) or Rolls-Royce (United Kingdom) turbines, and a US embargo on GE could prompt Moscow immediately to switch to Rolls-Royce, which probably can produce the needed turbines roughly within the time sought by the Soviets.

(b) Even if the Soviets stay with the GE design and thus receive complete delivery from West European firms of turbine-compressor units two years later than without the embargo on GE, the pipeline probably would not be seriously delayed beyond the full-capacity completion date we now expect--late 1986 to early 1987. The Soviets would take at least 5 years to build the pipeline and complete all of the compressor stations even without an embargo on GE exports. Thus many turbine-compressor units, even if delivered by late 1983 as Moscow wants, would have to wait several years before installment in compressor stations. If West European delivery of the GE-design turbines were not completed until late 1985, the Soviets could still bring the pipeline to full capacity within another year by placing those late-arriving units into the last compressor stations to be completed.

(c) Because of likely slippage of construction schedules on the Soviet side, even a substantial delay in delivery of Rolls-Royce turbines (beyond the late-1983 to early-1984 deadline now seen as feasible if Moscow switches soon to that firm) probably would not delay the completion of the pipeline project.

Economic Impact of Export Controls

A sustained multilateral embargo on exports of energy-related equipment to the USSR could lead not only to substantial effects on oil and gas production but also to a significant worsening of already poor economic prospects. The losses in gas and oil production would probably amount to 2 - 3 million b/d (oil equivalent) in the mid and late 1980's, of which the longer part would be gas.

Part of this short-fall in energy production--perhaps of the order of 1 million b/d--would be absorbed through cuts in exports of oil and gas to the West and Eastern Europe. Exports of oil and gas account for about one half of present Soviet hard currency earnings.

Even after major trade adjustments, domestic energy supplies would probably be reduced by 1 - 2 million b/d, or some 5% by the mid to late 1980's.

The average annual growth of GNP in the 1980's (now projected at around 2 percent) probably would be lowered by half a percentage point or so. As time went on, the USSR would adjust to an embargo through cutbacks in imports from the West, stepped-up domestic production of oil and gas equipment, and forced conservation, as well as through slower economic growth.

SECRET

10

POLITICAL AND ECONOMIC COSTS OF ALLIED AND U.S. OIL AND GAS CONTROLS

(Prepared by NSC Staff)

DECLASSIFIED
NLRR M325/1 #101646
BY RW NARA DATE 8/16/19

Costs to Our Allies

Our European Allies are likely to oppose the imposition of controls on oil and gas equipment and technology on several grounds including: world energy supplies will be increased by enlarged Soviet production; Soviet energy provides them a means of diversifying their energy dependence; political relations are improved by trade with the communist countries; a well-fed Soviet bear is less adventurous than a hungry Soviet bear.

In addition to these arguments, however, they see very tangible short- and long-term trade benefits in sustaining or increasing Soviet oil and gas production capabilities. To begin, the Siberian Pipeline and other major Soviet energy development projects offer the near-term prospect of significant exports to the USSR (approximately $12-15 billion from the Siberian Pipeline alone).

But more than short-run trade considerations pertain. Our Allies realize that the pipeline and other major Soviet energy projects are necessary to sustain Soviet energy exports during the 1980s. They also recognize that lack of hard currency is the most fundamental constraint on Soviet/East European imports from the West and that energy purchases from the Soviets provide the Soviets means to purchase from the West. Thus, our Allies see energy imports from the Soviet Union as self-liquidating expenditures because they generate equivalent exports to the Soviet Union, an advantage offered the energy dependent West Europeans by few, if any, other potential energy suppliers.

There is, therefore, a fundamental difference between U.S. and West European objectives concerning the Siberian Pipeline and other Soviet energy development projects. An important U.S. objective is to cap or reduce the level of Western -- or, at least, West European -- trade with the Soviets. But a basic West European objective -- to sustain or increase the level of that trade -- is directly contradictory.

Because it would strike at the heart of Soviet-East European trade capabilities, the West Europeans are likely to see the addition of oil and gas equipment to the list of COCOM controlled items as a means of waging long-term economic warfare against the Soviets, rather than being merited by the direct national security risks involved.

Our Allies have always been less disposed to economic warfare than the U.S., probably because they are more trade dependent -- and hence themselves more vulnerable to trade restrictions -- and because economic warfare against the Soviet Union could be more costly in short-run commercial terms to them.

SECRET

In 1979 pre-Afghanistan trade, U.S. exports to the Soviet Union were $3.6 billion, 20 percent of a 15 Western nation total of $18.1 billion, and second only to FRG exports of over $3.6 billion. However, U.S. exports to the Soviet Union have always been dominated by agricultural commodities, which would not be directly affected by oil/gas controls. For example, 1979 U.S. agricultural exports to the USSR were $2.9 billion, but manufactured goods totalled only $655 million, the second largest ever achieved by U.S. exporters, but less than five percent of Western manufactured good exports of $13.6 billion. In the same year, FRG manufactured good exports to the USSR were $3.5 billion; Japan, $2.4 billion; France, $1.8 billion.

Our Allies may thus find inconsistent U.S. proposals that would have a substantial effect on their manufactured good exports, but would have a relatively minor effect on similar U.S. exports and no direct effect on our multi-billion dollar grain exports.

Additionally, compared to the size of the economies involved, trade with the Soviet Union and Eastern Europe is much less important to the U.S. than to several West European countries. For example, comparative 1979 exports to the Soviet Union and Eastern Europe expressed as a percentage of gross national product were:

Country	Exports to USSR/EE Percent of GNP
FRG	1.48
Italy	.81
France	.70
U.K.	.52
U.S.	.24

On a micro-economic basis, some European industries would be even more strongly affected by a stop on exports for the Siberian Pipeline and other oil and gas projects. Major portions of exports of various West European industries' outputs have gone to Soviet/East European markets: 20.4 percent of the FRG's iron and steel, which includes steel pipe; ten percent of its non-electric machinery and chemicals exports; more than eight percent of French iron and steel and non-electric machinery; almost 18 percent of Italian iron and steel exports.

Some individual firms would also be severely affected by a stop on the pipeline. West German manufacturing companies would be the primary recipients of Soviet orders for the project, which could help alleviate current unemployment problems in particular regions of the country. Most of the jobs stemming from exports for the pipeline would be concentrated in the steel and manufacturing sectors, which have been hard hit by slack domestic and foreign demand.

A.E.G. (German General Electric) recently announced that the pipeline contracts would assure 20,000 to 25,000 jobs over the next two years.

Soviet orders for steel pipe will account for more than one-half the outlays for the pipeline. This project could substantially benefit Mannesmann AG, which has seen a seventy percent drop in its production of large diameter steel pipe. A.E.G. Telefunken, the electrical giant, hopes to supply compressor stations, pumps, and other equipment.

Japan could also benefit heavily, possibly obtaining large segments of the orders for pipelayers and steel pipe, amounting to perhaps $3 billion.

Most U.S. policymakers see East-West trade as benefiting the Warsaw Pact countries more than the West. We thus see restrictions on trade as a long-term means of reducing Soviet economic growth and forcing a reduction in their defense expenditures that would, in turn, allow us to make similar reductions. We assume that we should be able to obtain European and Japanese cooperation in using trade sanctions as a foreign policy tool.

However, the use of such restrictions has never been clearly defined or employed by the U.S. in the context of a consistent, long-range strategy for dealing with the Soviet Union and Eastern Europe. Thus, given their much larger benefits from and dependencies on East-West trade, some U.S. Allies may be unwilling to accept our view that the East benefits more from the trade than does the West. They see East-West trade as "mutually beneficial" and tend to focus on its short-term economic benefits to them -- benefits that are more immediate and more tangible than those that might accrue over the long term from "economic warfare" restrictions on trade.

Economic and Domestic Political Costs to the U.S. of Oil and Gas Controls

A sustained, successful multilateral embargo of oil and gas equipment and technology would, in the long term, have a significant impact on Soviet energy production and exports and would ultimately impair Soviet ability to import all commodities, including U.S. grain, with resultant potentially significant effects on U.S. agricultural exports.

The direct, immediate effects of the imposition of oil and gas controls on U.S. exports would, however, be relatively minor in aggregate terms. U.S. exports of oil and gas equipment to the USSR ranged from about $20 million in 1972 to a peak of $150 million in 1979. In 1980, by reason of Post-Afghanistan restrictions, exports of such equipment fell to about $50 million. Most U.S. exports of oil and gas equipment to the USSR are oil field equipment (well testing, drilling and completion equipment), pipelayers, and pressure sensitive tape for wrapping pipe. Gas compressor units and parts were important exports in the mid-1970s, but sales fell to zero in recent years.

Firm projections for U.S. oil and gas equipment sales to the Soviet Union are impossible, but Commerce Department experts believe that under ideal circumstances, U.S. oil and gas equipment exports to the USSR for construction of the Siberian Pipeline could reach $200 million annually over the five-year construction period through 1987. However, they see exports of $125-150 million annually as more likely.

This estimate assumes G.E. will supply the turbine cores for the gas compressors (about $225 million), that Caterpillar would supply at least half of the pipelayers (perhaps as many as 500 at about $225 million), and that other suppliers would provide equipment ($150-200 million) for the pipeline or associated development projects.

CIA analysts feel that sales of oil and gas equipment for other projects could easily double the total to $300-400 million annually if the Soviets purchase other U.S. equipments such as offshore drilling rigs, submersible pumps, etc., which they badly need to sustain increases in their oil exploration and production.

Although oil and gas equipment sales to the USSR would not be large in aggregate terms and would represent relatively minor portions of oil and gas equipment industry exports, for individual firms sales to the Soviets might be quite significant. For example, a sale by Caterpillar Tractor for 200 pipelayers, valued close to $90 million, is regarded as a major business deal.

Most oil and gas equipment suppliers are located in Texas and Oklahoma. Suppliers of gas compressor units and turbine drive units for the compressors are located in New York, New Jersey, and South Carolina. Other states affected would include Illinois and, to a lesser extent, California. Major U.S. firms involved in oil/gas equipment exports to the USSR are listed in Table B-1. Foreign country supplier alternatives are shown in Table B-2.

It is estimated that about 2400 job man years would result from each $100 million in oil and gas equipment exports.

Your decision on a U.S. licensing policy on oil and gas equipment is further complicated by three recent license applications that involve large dollar values of exports: a $90 million Caterpillar pipelayer deal; a $274 million International Harvester Company export; and a $200 million Fiat-Allis export license application.

The International Harvester Company license, approved on November 25, will permit the sale of agricultural grain harvester-thresher technology to the USSR valued at $274 million, with delivery over the next five years. The $90 million Caterpillar pipelayer application, approved on December 9, will allow export of 200 pipelayers.

The pending Fiat-Allis application would permit the Illinois Allis-Chalmers subsidiary of the Italian company to export $170 million of parts kits that would allow Soviet assembly in the USSR of road building/strip mining equipment. The U.S. company would also receive a $30 million license fee and the prospect of another $200 million of exports over the next five years. The value of the transaction to the Fiat-Allis parent company is $2 billion.

Neither the already approved International Harvester nor the pending Fiat-Allis deal technically fall under the oil and gas controls policy guidelines. The recently approved pipelayer exports would be precluded by all of the options except IV and IVA. However, unless uniform treatment (reject all or approve all) is applied to applications for these kinds of transactions, public perceptions of U.S. policy may be confused and those denied licenses may complain of inequitable treatment.

Table B-1

United States Companies Marketing
Oil and Gas Equipment to the USSR

Company	Location	Export
Baker World Trade	Houston, TX	Drilling, Production & Testing
Cameron Iron Works	Houston, TX	Drilling & Completion
Dresser Industries	Houston, TX	Well Logging Units
Ferrostall Corp.	Houston, TX	Offshore Jacking & Aligning
Geospace	Houston, TX	Geophones
GeoResources, Inc.	Houston, TX	Geophones
Intertorg	Houston, TX	Well Logging Units
Lynes, Inc.	Houston, TX	Testing
McDermott Corp.	Houston, TX	Launching Barges
NL Industries, Inc.	Houston, TX	Drilling & Completion
Totco Div. of Baker Co.	Houston, TX	Well Logging Units
Otis Engineering Corp.	Dallas, TX	Testing & Completion
Texas Instruments	Dallas, TX	Gravity Meters
Raytheon	Concord, MA	Seismic Profiling Equipment
Armco Internat'l, Inc.	New York, NY	Drilling
General Electric Co.	Schenectady, NY	Turbine Drive Units
Dresser Clark	Olean, NY	Compressor Units
Ingersoll Rand	Philipsburg, NJ	Compressor Units
Geometrics Div. of EG&G	Sunnyvale, CA	Magnetometers
Varco Disc.	Orange, CA	Drilling
Cooper Manuf. Corp.	Tulsa, OK	Workover Rig
Mertz, Inc.	Tulsa, OK	Geophysical Vibrators
Caterpillar Overseas	Peoria, IL	Pipelayers
EDO Western	Salt Lake City, UT	Geophones, Seismic Equipment

SECRET

Table B-2

Foreign Availability of Oil and Gas Equipment
Necessary for Pipeline Distribution System

	EQUIPMENT							
Country	Pipe	Valves/ Regulators	Gas Turbines	Electronic Controls	Arctic Construction Technology	Pipe-Layers	Off Road Trucks	Test Equipment
nited States	X	X*	X	X*	X	X	X+	X*
nited ingdom		X	X	X			X	X
apan	X	X	X**			X		
rance		X	X**	X			X	X
taly		X	X**					
ederal epublic f Germany	X	X	X**	X				

* U.S. has edge in Winterizing of this equipment.

**Licensees of U.S. firms.

+U.S. most rugged.

SECRET

Possible Allied Responses to US Strategy on the Yamal Pipeline

(Prepared by CIA)

A policy of seeking COCOM cooperation to stop the Siberian pipeline would probably have a low yield and a high cost. The Allies have already decided that the project is in their interest and will not voluntarily halt their participation. In the immediate term, US attempts to force a stop to the project are likely to jeopardize the current US initiative to broaden and strengthen COCOM export controls in a number of military-related industrial sectors. In addition, the West Europeans view the project as strictly their own affair and resent US interference; US pressure thus could pose major risks for US-Allied relations. [redacted]

E. O. 12958 As Amended Sec. 1.4c

COCOM may not in any case be the best vehicle for applying US pressure. The US is no longer able to exert a significant amount of influence or control within COCOM because Western Europe and Japan, as well as several non-COCOM members such as Austria, Switzerland, and Sweden, either possess equivalent technology or are ahead in a number of the latest technologies that COCOM attempts to deny the Communist countries. Although reasonably successful, the recent US experience in attempting to strengthen COCOM controls in the aftermath of the Soviet invasion of Afghanistan illustrates how difficult it has become for one country to force its way in the COCOM forum. Oil and gas equipment technology is not currently subject to COCOM embargo, and our Allies would resist strongly placing such items on the COCOM list on strategic grounds. However, because some advanced technology components involved in the pipeline may be subject to COCOM exception notes, the US could at least raise the issue as one of concern within present COCOM procedures. [redacted]

E. O. 12958 As Amended Sec. 1.4c

Even outside COCOM, persuasion has failed with the West Europeans and Japanese because -- despite US arguments -- they see aiding the Soviets in energy production as a positive contribution to the global economy. They also are convinced they will derive a formidable list of economic and political benefits from the pipeline project, including:

- Near-term export earnings for industries supplying materials for the pipeline and a stream of future exports financed by Soviet gas sales.
- The chance to use another country's energy resources, thus saving domestic resources for later consumption.
- The project's contribution to improved East-West relations generally. [redacted]

E. O. 12958 As Amended Sec. 1.4c

Convincing the Allies to halt pipeline-related equipment and technology sales would require several carrots or sticks, or some combination of the two. These incentives could be used directly or indirectly. In other words, the potential benefits to the major Allies outlined above must be attacked or offset directly, or an indirect cost must be imposed that is perceived to be greater than the potential benefits. [redacted]

E.O. 12958 As Amended Sec. 1.4c

It is very late in the game to attack West European and Japanese perceptions directly.

- The West Europeans have not found credible US suggestions concerning other energy sources such as US coal, help in nuclear construction, or assistance in developing alternative sources of gas such as Algeria, Nigeria, or the North Sea.

- No substitute project appears on the immediate horizon that could provide the employment and earnings offered by the Soviet deal.

- Most West Europeans are convinced they will need the gas, and they view with suspicion any US forecasts indicating otherwise.

- The West Europeans and Japanese would perceive a restrictive US pipeline policy as a potential threat to all East-West trade, rather than a threat "only" to energy-related trade. Moreover, backing out of the pipeline deal after preliminary agreements have been reached would be viewed by the Allies as a breach of faith on their part that would threaten other commercial relations. [redacted]

E.O. 12958 As Amended Sec. 1.4c

It would at least theoretically be possible to make benefits available to the Allies that offset many of those they think would derive from the pipeline. But alternatives would be extremely costly, e.g., providing them with commensurate export earnings, or giving them guarantees in regard to energy supply that would be credible enough to offset their perception of Soviet reliability. Moreover, some of the motives for their commitment -- desire to encourage Soviet energy production and to broaden East-West relations, for example -- are almost impossible to counter. [redacted]

E.O. 12958 As Amended Sec. 1.4c

Washington could warn that US trade relations with both Japan and Western Europe would be harmed seriously if the pipeline sales are concluded. For example, a tighter trigger price mechanism on steel or a tougher stance toward EC agricultural commodities such as sugar could be adopted. Other pressures could include non-tariff measures such as stricter labeling standards or increases in excise taxes on alcoholic beverages. The US might also limit sales of particular goods to the Allies, although such measures would have only a minor impact since alternatives to most US goods exist. More important, trade actions along these lines would be interpreted as first salvos in a full-fledged economic war and would almost certainly result in retaliation. As the US currently runs a sizable trade surplus with Western Europe -- to the tune of around $25 billion last year -- the US probably would be the ultimate loser in economic terms. [redacted]

E. O. 12958
As Amended
Sec. 1.4c

In the area of finance, the US could offer to reduce its interest rates -- a major irritant in current economic relations with the Allies. The West Europeans and Japanese would probably view the promise as either impossible to keep or something the US should do regardless of Allied decisions on the Soviet gas deal. The US also might threaten to tighten controls on US banking subsidiaries overseas or on foreign investment in the US. This would upset West European and Japanese capital markets but would be unlikely to force the Allies to renege on the pipeline deal. In addition, the Allies would view such a move as self-defeating as it could punish US banks and the dollar more than it would hurt the Allies. [redacted]

12958
Amended
Sec. 1.4c

Another potential area for US action is in the military/strategic field. The US could refuse to pay for stationing US troops in Western Europe, particularly in West Germany, and threaten to withdraw these troops if funds were not forthcoming from the West Europeans. Such a move would of course greatly aggravate the West Europeans' current concerns over whether they could count on the US if war broke out in Europe, and it would make NATO cooperation even more difficult. A significant positive incentive would be a US offer to make the "two-way street" in government military contracts wider and allow more traffic on it. A negative incentive would be US cutbacks in military technology sharing or co-production agreements such as jet engines for Sweden or tactical systems for the UK and Japan. [redacted]

E. O. 12958
As Amended
Sec. 1.4c

From an individual country point of view, the United Kingdom would stand to lose the least if exports of pipeline-related equipment were blocked. The British enjoy net energy self-sufficiency, and they will be buying none of the Soviet gas. On the other hand, British agreement to US strategic export definitions would have little impact on the other major West Europeans, all of whom are more involved in the pipeline project and whose stake in East-West trade generally is much greater. Moreover, Rolls Royce is the only major producer of pipeline compressors that does not rely on US technology. If the US refuses to license pipeline-related exports and is able to prevent foreign licensees from selling the equipment, London and Rolls Royce have indicated their willingness to fill the vacuum -- an action consistent with Britain's present economic problems. [redacted]

E. O. 12958
As Amended
Sec. 1.4c

West Germany's commitment to the pipeline project -- and to "Ostpolitik" generally -- is firm and Bonn views the two as closely linked. Although West Germany's future gas needs are not as pressing as those of France or Italy, the project for Bonn has become an important symbol of the benefits of East-West economic cooperation. Cancellation of the pipeline deal thus would be seen as a severe blow to Ostpolitik and would undermine Bonn's fundamental national policy -- reconciliation with East Germany. Because the US is perceived to endorse this reconciliation, US action against the pipeline would be seen as a betrayal of German interests. Given the current political climate in West Germany, no government in Bonn could survive if it gave in to US pressure. Even if the more conservative opposition came to power, it would defend West German interests in similar terms. [redacted]

E. O. 12958
As Amended
Sec. 1.4c

French President Mitterrand is more cautious toward the Soviet relationship than was his predecessor, and Paris currently appears more willing to consider the strategic implications of the gas deal than is Bonn, Rome, or perhaps even London. Paris argues, however, that France needs the gas and that allowances have already been made to reduce the potential for Soviet leverage. The amount of gas to be purchased has been reduced, increased storage capacity is planned, interruptable contracts for industry will be used, and residential consumption will not be encouraged. The French also point out that their only immediate alternative supplier is Algeria, and it's cut-off of gas exports last year, plus current price disputes, indicate that the USSR is a better -- and safer -- bet. In addition, although Mitterrand's East-West views appear close to Washington's, the French president cannot appear to be giving in to US pressure. [redacted]

E. O. 12958
As Amended
Sec. 1.4c

The Italians, although apparently further along in the pipeline negotiations than the other West Europeans, might be more vulnerable to US pressure. A US commitment to grant the Italians more nearly equal status in "Western power" deliberations would go a long way toward persuading Rome -- provided that the Italians saw no chance of other West Europeans snapping up any deal turned down by Rome. Italy's decision would have little impact, however, on the decisions of France or West Germany. [redacted]

E. O. 12958
As Amended
Sec. 1.4c

Japan, in response to a perception that the US has begun to ease up on Afghanistan-related sanctions, has been edging recently toward a new dialogue with Moscow. The Japanese believe that increased interdependence contributes to the stability of Tokyo's relations with Moscow; they would not voluntarily abandon a cooperative approach except as part of a unified Western response to a crisis in East-West relations. Even in a crisis, Tokyo would be likely to follow suit only if the leading West European allies, particularly West Germany, agreed to tight new sanctions. The cost of buying Japanese cooperation if West Germany did not go along would be extremely high. To placate the business community, Tokyo would surely argue for future access to Alaskan oil if it were forced to deal itself out of the pipeline or to cut back on other joint energy development projects in the USSR. The US has a growing trade deficit with Japan and could use Japanese reliance on the US market as a lever. Any move to tie the trade issue to East-West relations, however, would run a very high risk of undoing what progress Washington has made in opening Japan's market to US goods and encouraging the Japanese to increase their defense efforts. [redacted]

E.O. 12958
As Amended
Sec. 1.4c

It is therefore our judgment that persuading the Allies to halt the pipeline project could be accomplished only at great cost. In fact, the political and strategic impact of applying the sticks to achieve US goals could be profound. COCOM almost certainly would be undermined and might collapse. The very informality of COCOM makes it both a flexible and a fragile organization. The unanimity rule allows each member to protect its own interests but also can prevent action. The other COCOM members already view the US as too restrictive and will resist further US moves to tighten the COCOM embargo at the upcoming high-level COCOM Ministers Conference tentatively scheduled for November 1981. A perception of US heavy-handedness in COCOM could shatter the consensus that holds COCOM together. Beyond COCOM, there is a good chance that NATO and Western cooperation generally would be seriously threatened. [redacted]

E.O. 12958
As Amended
Sec. 1.4c

Any pressures applied by the US would have a much greater chance of success if the West Europeans saw total, unwavering commitment on Washington's part. For example, in West European eyes, US opposition to the pipeline deal currently appears self-serving and inconsistent. US decisions to lift the grain embargo and to approve the Caterpillar pipe-laying equipment contract have contributed to this view. We believe a successful campaign would necessarily involve at least the appearance of shared sacrifice. For the West Europeans, the clearest example of US sacrifice would be a firm US embargo on grain exports to the USSR as well as sales of energy equipment and technology. We would emphasize, however, that such measures might not succeed and that the West Europeans would be sorely tempted in any event to fill the void created by a US embargo on exports to the Soviet Union. [redacted]

E.O. 12958
As Amended
Sec. 1.4c

POLICY OPTIONS PAPER

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

(Prepared by State for July NSC Meetings)

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

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

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

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

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

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

Attachment

Statement of Pros and Cons

~~SECRET~~

Statement of Pros and Cons

Option I

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

Pro:

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

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

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

Con:

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

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

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

~~SECRET~~

Option II

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

Pro:

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

Con:

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

Option III

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

Pro:

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

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

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

Con:

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

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

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

Option IV

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

Pro:

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

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

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

Con:

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

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

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

8133835
XR-8133834

MEMORANDUM FOR RICHARD V. ALLEN
THE WHITE HOUSE

November 23, 1981

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

Introduction

Following the October 16 NSC meeting, State led an interagency effort to provide the President with more information and analysis on this issue. We could not agree on how to present this issue to the President, and other agencies are submitting separate papers.

This paper presents the State Department's analysis and recommendations. As discussed more fully below, it proposes that the President select a toughened Option IV. Under this option the U.S. would embargo all oil and gas technology, and would embargo equipment in those cases when that would serve our foreign policy interests and hurt the Soviets more than it hurts us. We specifically propose to withhold approval of exports of submersible pumps used in oil production, and to seek Allied support in restricting this item.

Objective

We are agreed that where feasible and consistent with our overall stategic relationship with the USSR, it would be desirable to impede Soviet energy development and to prevent the excessive dependence of our European allies on Soviet energy exports. Such a policy would ensure that the cost of Soviet energy development is more fully borne by the Soviet Union. To adequately develop their energy potential, the Soviets would need to reallocate resources from other sectors of their economy, including possibly the military. To be effective, however, this policy should identify practical steps which would impose higher costs on the USSR than on ourselves and our allies.

Current Policy

The Carter Administration established foreign policy controls on exports of oil and gas exploration and production equipment and technology in 1978. In early 1980, the Carter Administration tightened its guidelines for granting export licenses as part of our response to the Soviet invasion of Afghanistan. The 1980 licensing policy, currently in force, directs officials to deny exports of technology for the manufacture of oil and gas equipment, and to approve exports of other oil and gas technologies and end-use equipment that are not subject to multilateral COCOM controls.

Need for a Policy Decision

We need to tighten the current licensing policy to reflect more accurately the Administration's objectives and to inform U.S. business and our European allies of our intentions. License applications for several highly visible prospective sales to the USSR, such as Caterpillar pipelayers, are pending. Furthermore, several European nations are on the verge of completing negotiations with the Soviets for a major pipeline project that would transport natural gas from Siberia to West European markets. The Europeans plan to use GE technology and components in building the compressors to power that pipeline.

Options for Changing Current Policy

Although there is broad agreement that we should toughen the current policy, agencies disagree on:

(1) whether we should embargo all equipment and technology, or concentrate on those goods and know-how where the U.S. has the greatest leverage; and,

(2) whether controls should be based on security or foreign policy grounds.

Four policy options were presented in an early-September NSC memorandum. Under Options I and II we would embargo all oil and gas equipment and technology. Option III would seek to restrict all equipment and technology destined for major Soviet energy projects. Option IV focuses on technology and equipment where the U.S. has significant leverage.

Options I and II would place oil and gas equipment and technology under national security controls. Options III and IV would maintain the foreign policy rationale for our export controls. Foreign policy controls are renewed yearly, and provide a flexible tool that can be applied selectively when the U.S. has specific leverage. National security controls, on the other hand, are more permanent, cover commodities with military applications, and give the Secretary of Defense a veto over export licenses.

Analysis of the Options

Careful assessments of Soviet energy development requirements by the CIA and others have demonstrated that nearly all of the equipment we could control is already available from other suppliers, or could be rapidly developed. The attitude, interests, and policies of Europe and Japan are critical to the success of any policy aimed at hindering Soviet energy. Our allies are unlikely to support restrictions on exports of all oil and gas equipment. Besides being principal suppliers of energy equipment and technology to the USSR, the Europeans are also leading purchasers of Soviet oil and gas. They see Soviet gas supplies as alternatives to heavy dependence on unstable Middle Eastern and African sources, and they are confident of their ability to deal with possible supply interruptions. Despite high level U.S. concerns, the West Siberian gas pipeline project appears destined to move ahead.

In this context, the five European pipeline participants certainly will oppose export controls, such as those proposed under Options I, II and III, that would interfere with the pipeline project. From their point of view the gas is needed, there are no better alternatives to Soviet gas, and considerable economic benefits will flow to depressed regions and industries from equipment sales for the pipeline. Europeans believe Soviet gas will allow them to shut-in or stretch-out indigenous gas resources. They would encourage their industries to replace any pipeline-related equipment embargoed by the U.S.

In our consultations on the pipeline we have pressed the Europeans to develop an expensive set of emergency preparedness measures for dealing with gas supply interruptions. The Europeans could be persuaded to work with us to develop a more effective "safety net," which would substantially reduce their vulnerability to Soviet energy leverage. If we attack the pipeline through our export licensing policy, we will jeopardize our efforts to influence European energy security planning.

Cooperation on controls on oil and gas equipment not related to the pipeline would also be highly difficult. European leaders believe it is desirable to expand global energy supplies wherever possible and would see such controls as a measure of "economic warfare" that would exacerbate their unemployment, which in many European countries is already at levels not reached since the Great Depression.

Proponents of Options I and II recognize that it would not be easy to get the European and Japanese cooperation required to make export controls effective. They believe, however, that committed and consistent use of U.S. pressure on the allies could induce them to cooperate, and that, given the threat to alliance cohesion posed by European dependence on Soviet energy, we must make the effort.

But proponents of Options I and II have never defined what instruments of leverage they would use to secure allied support, nor have they estimated the impact that such a policy would have on other important U.S. security and foreign policy objectives. It seems to us, therefore, that the U.S. should avoid starting down such a road without a clear picture of the leverage we have and the effect on the Alliance of using each pressure on our partners. We need to keep in mind that at this time we are also pressing the Europeans:

-- to follow through with TNF basing;

-- to increase their military budgets;

-- to agree to much broader COCOM controls;

-- to participate in a multinational force in the Sinai;

-- to make changes in their Common Agricultural Policy;

-- to reduce subsidies on steel; and,

-- to develop a more effective "safety net" for dealing with gas supply interruptions.

Given the importance of energy trade and equipment sales to the Europeans, and given the current political atmosphere, we believe that if coercive leverage were attempted, it would overload U.S.-European political circuits and fail.

Failure to achieve multilateral support for an embargo on oil and gas equipment would leave us with unilateral controls. But for most items of equipment, U.S. unilateral leverage appears to be limited, although less so in the case of oil than for gas.

In gas, the basic items required for Soviet development -- compressors, pipe, gas treatment equipment, pipelayers, etc. -- are readily available from other allied countries. Unilateral U.S. controls would not delay Soviet gas development plans. Some European equipment suppliers utilize U.S. technology under license from U.S. firms and incorporate U.S. manufactured components in their products. The most significant case is turbines for the pipeline gas compressors. Since these compressors heretofore have not been controlled for export to the USSR, present U.S. regulations do not require U.S. authorization for the foreign firms to export to the USSR this product of U.S. technology.

In oil, unilateral U.S. controls could, in the short term, impede Soviet production and discoveries. Compared to a no-control scenario, unilateral U.S. controls on equipment and technology could, according to the CIA, reduce Soviet oil production in 1985 by an estimated 250,000 to 350,000 barrels a day (b/d), or 2 to 3 percent of unimpeded Soviet oil production. Of this amount, 200,000 to 300,000 b/d would be due solely to equipment export restrictions on high capacity submersible pumps. Without these pumps, the Soviets could not maintain production in developed fields.

Over the longer term, however, equipment restrictions would be offset as foreign suppliers develop the capacity to produce equipment controlled by the U.S. Technology controls, however, would have a more significant long term impact at lower economic cost to the U.S. Assuming no radical change in Soviet technology advance, instituting across the board unilateral controls on technology might reduce Soviet oil production in 1990 by roughly 6 percent, with drilling technolgy controls responsible for much of this impact.

State Department Position

The State Department has concluded that a toughened Option IV is the best basis for U.S. policy. We propose to toughen this option as follows:

Original Option IV	State's Tougher Option IV
1) embargo technology that allows the Soviet to replicate advanced Western equipment	1) embargo all technology
2) presume approval of equipment exports	2) embargo equipment exports when this would hurt the Soviets more than the U.S., i.e. when it would be effective
3) staff level review of equipment exports	3) senior level review of equipment exports, with an immediate effort to identify equipment areas where the West has leverage
4) technology controls remain unilateral	4) seek European and Japanese support
5) no specific proposals for equipment denial	5) withhold approval of licenses for submersible pumps and other equipment that the Soviets can acquire only from the U.S.

Options I and II will not work. These options would penalize U.S. exporters, lead to serious (and public) rifts with our allies, and, compared to Option IV, produce no additional costs to the Soviet economy.

Option III, an embargo of equipment for "major projects", is not a sufficiently defined policy. The energy sector is a seemless web. Much energy equipment is movable and all equipment is fungible. It is virtually impossible, therefore, to effectively quarantine a specific project. Furthermore, given European determination to go ahead with the gas pipeline and long-term Japanese-Soviet cooperation in the development of oil resources near Sakhalin, this policy would be seen as directly and solely aimed at the interests of our allies.

The pending decision on oil and gas export control policy has crucial implications for East-West as well as Alliance politics. The Department of State believes that Option IV offers a reasonable prospect of imposing substantial costs on the USSR while minimizing costs to the U.S. and new Alliance rifts. In contrast, Options I and II, by pushing a policy sure to result in a categorical rebuff by our allies, will repeat the mistakes of the grain embargo and the Olympic boycott, making the U.S. look weak even while advocating a tough position.

L. Paul Bremer, III
Executive Secretary

SECRET

SECRET

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

Background

On December 8 you advised Congressional leaders of your intention to license the sale of 200 Caterpillar Company Pipelayers to the Soviet Union. This decision has been announced by the Commerce Department. You have not yet, however, made a decision on the general policy to be applied to exports of other items of oil and gas equipment and technology.

Issue Requiring Decision

The issue requiring your decision has two components: first, setting our basic policy concerning licensing of U.S. exports of oil and gas equipment and technology to the Soviet Union; second, determining whether we will seek similar restrictive licensing actions by our Allies. This decision will shape an important part of our policy on the broader issue of the transfer of Western and U.S. technology to the Soviet Union.

An early decision is required:

- To guide renewal or revision of existing foreign policy controls on oil and gas equipment and technology which, without our action, will expire on December 31.
- To complete our strategy concerning the Siberian Pipeline. Since the Siberian Pipeline would be the major consumer of the items that would be restricted by oil and gas controls, your decision will set our basic strategy and tactics on further dealings with our Allies on this issue.
- To complete our negotiating position for December/ January meetings with our allies at which we will propose strengthening of controls by the 17-nation Committee for Multilateral Export Controls (COCOM).
- To deal with day-to-day licensing problems.

Your decision will have important effects, both immediate and long-term, on our trade and political relations with the Soviet Union, on relations with our Allies, and on domestic and international perceptions of your overall strategy.

Prior NSC Consideration

The issue of controls on exports to the USSR of oil and gas equipment and technology has been discussed in three NSC meetings, initially on July 6 and most recently on October 16.

SECRET
Review on December 11, 1987

SECRET

The meetings have revealed sharp disagreement among the participants and the issue remains unresolved.

Following the October 16 meeting, the NSC staff prepared a paper that provides a comprehensive overview of the issue and responds to several pertinent questions you had raised during the NSC meetings.

Drawing on CIA analyses, it objectively analyzes four policy options discussed at the NSC meetings, a new State option, and an additional alternative. The paper makes no recommendations, but includes a recently forwarded State Department advocacy statement.

RECOMMENDATION

Your decision is urgently required to deal with a host of export control and related issues. However, because of the complexity of this issue and the sharp division of views, another NSC meeting is unlikely to be useful at this time. Accordingly, a review of the paper that has been prepared may be the most effective way of reaching or moving toward a decision on this matter. Should your review raise further questions, we will be pleased to obtain the answers.

THE WHITE HOUSE
WASHINGTON

Bud

I think this is one we need to have Dick look at.

JB

I agree with JANET. What would you like done?

Bud

II/90052

Jean

Date memo 11/28

J

12/11/81 NOTE:

Original pkg was not forwarded to Pres., by Darman. picked up by Lenz office 12/11 1330 hr for revision/redo.

90052
SYSTEM II

RECEIVED

81 NOV 28 A9: 43

JANET COLSON	✓		
BUD NANCE			
DICK ALLEN			
IRENE DERUS	ejd 12/1		
JANET COLSON			
BUD NANCE			
PETER			
CY TO VP	✓	SHOW CC	✓
CY TO MEESE	✓	SHOW CC	✓
CY TO BAKER	✓	SHOW CC	✓
CY TO DEAVER	✓	SHOW CC	✓
CY TO BRADY		SHOW CC	

Comments:

Send it forward
CC Meese, Baker.

RVA 11/30

~~SECRET~~

90052
System II

ajl

MEMORANDUM

NATIONAL SECURITY COUNCIL

~~SECRET~~

ACTION

November 27, 1981

DECLASSIFIED / RELEASED

NLS M1285 #14

BY smf, NARA, DATE 12/22/04

MEMORANDUM FOR RICHARD V. ALLEN

FROM: ALLEN J. LENZ ajl

SUBJECT: Presidential Decision on Oil/Gas

Attached, per your request, is a set of papers which I believe will allow the President to make an informed decision on the oil/gas issue, You will want to consider the following in forwarding it to the President:

- Weinberger has decided not to oppose the IH harvester thresher technology sale. Commerce is preparing a press release. I have suggested that it may be useful to advise our Allies before the announcement here, which appears to me to have no urgency.

- The package includes the State memo transmitted on a Bremer to Allen memo on November 25.

  The State submission -- an advocacy piece -- is infinitely better than their earlier drafts and is useful. However, while there is some overlap between the NSC and State papers, our broader paper is still essential to answer the questions the President has raised.

- There is no DOD paper. There has been more than ample opportunity for them to submit one. I see no reason to further await or solicit a DOD paper.

- You will want to carefully review the first paragraph of page 2 of your memo to the President, which suggests he may want to focus his analysis on Option IV, the new State revision of Option IV, and the NSC Staff added Option V. All of us on the staff who have worked on this issue (Pipes, Rentschler, Blair, Stearman, Nau, Myer, Shoemaker, Bailey and me) feel that, at this stage of the game, Options I through III are not viable and that the choice must be among IV, IV-A and V. If you agree, I believe you will make the President's job easier and add to your own credibility on this issue by so stating in your memo to him.

~~SECRET~~
Review on November 27, 1987

~~SECRET~~

- Dick Pipes would prefer Option V, but allows that he could "live with" IV-A.

- If the President does reach a decision based on this paper, he will want to think about how he will tell the victorious and defeated protagonists (preferably in private sessions) and we will want to carefully think through the decision directive and any public statements that are to be made.

RECOMMENDATION

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

Approve _____ Disapprove ________

Attachments

Tab i	Memo to the President	
Tab I	Option Selection Paper	
Tab II	NSC Prepared Paper	
	A	Impact of COCOM and US Embargoes of Petroleum Equipment and Exports (Prepared by CIA)
	B	Political and Economic Costs of Allied and U.S. Oil and Gas Controls (Prepared by NSC Staff)
	C	Possible Allied Responses to U.S. Strategy on the Yamal Pipeline (Prepared by CIA)
	D	Policy Options Paper (Prepared by State for July NSC Meetings)
Tab III	State Prepared Paper	

~~CONFIDENTIAL~~

MEMORANDUM

SYSTEM II

90052

NATIONAL SECURITY COUNCIL

~~CONFIDENTIAL~~

ACTION

October 20, 1981

NOTED

MEMORANDUM FOR RICHARD V. ALLEN

FROM: ALLEN J. LENZ AJL

SUBJECT: Next Steps on NSC Consideration of Oil/Gas Issue

You will recall that the October 16 NSC meeting closed with Ed Meese indicating that he wanted the oil/gas issue placed on the agenda again as soon as practical. In response to the request, Admiral Nance has tentatively scheduled the item for consideration again on Tuesday, October 28.

As I advised you earlier, following the October 16 event, Haig tasked Rashish with reconvening the SIG to discuss ways to move forward on this issue. The group met today, with predictable results. After 75 minutes, participants left with the impression that a paper is to be produced by the group under State leadership for the Tuesday meeting, albeit without any clear idea of who is to do what. In fact, of course, it is hopeless to expect the agencies, with their widely divergent views on what should be done, to produce an agreed upon paper (or even one with noted dissents) in five days when they could not produce one in four months.

The following are my recommendations on how to handle this issue:

- No useful purpose will be served by another NSC meeting on this topic, at least until after the President has had an opportunity to digest a well-prepared paper that answers, to the best of our ability, the questions he has posed (my summary of the questions he has posed is at Tab I). Even after such a paper, a further NSC meeting may not be desirable, but further questions might be better resolved by other than a group meeting.

- The interagency process is not capable of producing the requisite paper in time for a meeting next week or, indeed, in time for a meeting anytime in the foreseeable future.

~~CONFIDENTIAL~~
Review October 20, 1987

~~CONFIDENTIAL~~

- This appears to me to be a time when the NSC Staff should step into the breach and prepare the required paper, drawing on agency resources as required, but unilaterally authoriing and taking responsibility for, the product.

- I believe we can prepare a paper that answers many of the President's questions, but not all of them. Larry Brady has already done some work that will be very helpful. However, a well-organized paper will take some time. A week of preparation time will give a better product than three or four days. Again, however, I suggest no meeting, at least until the President has had time to read and digest the paper, which will not be reams of material, but will necessarily be more than a few pages. I believe he has reached the point where he will willingly take on quite a few pages to make him comfortable with making a decision on this contentious matter.

- I believe I can write a balanced paper (probably more so than you might prefer). However, no paper can satisfy all of the agencies as representing a balanced presentation. This raises the question of whether you would make an NSC authorized paper available to them. Your alternatives include the following:

  -- No circulation of the paper to the agencies, either before or after the decision.

  -- Circulation before the decision, with key agencies (State, DOD, Commerce, Energy) allowed to submit supplementing documents not exceeding, say, two pages that would be forwarded to the President with the NSC Summary paper.

RECOMMENDATION

That you urge there be no further NSC meetings on this topic, at least until availability of an acceptable paper responding to the President's concerns.

Approve ________ Disapprove ________

That you approve my going ahead with preparation of an NSC Staff prepared paper.

Approve ________ Disapprove ________

Attachment

Tab I My Summary of Questions Posed

~~CONFIDENTIAL~~

THE WHITE HOUSE

WASHINGTON

~~CONFIDENTIAL~~

DECISION MEMORANDUM

The following requirements were set as a result of the October 16, 1981, National Security Council meeting:

Additional Analysis of Implications of Oil/Gas Controls Policy Options

An informed decision on United States Policy on the export of oil and gas equipment and technology to the Soviet Union requires additional information, including the following:

- o A brief analysis of the relationship of the oil/gas decision to U.S. initiatives on the Siberian Pipeline and on tightening of Allied Security Controls through the COCOM mechanism.

- o What kinds of oil and gas equipment and technology are controlled under existing national security controls?

- o What kinds of items (indicate broad categories) would be added to existing national security controls under each of the options specified?

- o An assessment of our ability to obtain Allied cooperation with U.S. actions under each of the oil/gas policy alternatives and the costs and risks of pressures required to obtain Allied cooperation.

- o Failing achievement of Allied cooperation, what will be the effect of unilateral U.S. restrictions? Which items would the Soviets be able to obtain from other sources? Which countries would provide supply alternatives? Which items are available only from the United States?

- o What are the likely losses in exports that would result from unilateral U.S. export restrictions under each of the options? To the extent practical, indicate losses by product or industry.

Approve ________ Disapprove ________

DECLASSIFIED / RELEASED

~~CONFIDENTIAL~~
Review October 19, 1987

NLS M1285 #18

BY [illegible], NARA, DATE 12/22/04

~~CONFIDENTIAL~~

NSC/S PROFILE ~~SECRET~~ ID 8106180

RECEIVED 22 OCT 81 19

TO CORMACK, T FROM LENZ DOCDATE 22 OCT 81

DECLASSIFIED / RELEASED

NLS M1285 # 17

BY smf, NARA, DATE 10/22/04

KEYWORDS: USSR TECHNOLOGY TRANSFERS

COCOM OIL

GAS

SUBJECT: REQUEST FOR ANALYSIS OF ABILITY OF US COCOM OIL & GAS CONTROLS TO IMPEDE SOVIET OIL & GAS PRODUCTION

ACTION: LENZ SGD MEMO TO CORMACK DUE: 27 OCT 81 STATUS D FILES

FOR ACTION	FOR CONCURRENCE	FOR INFO
CIA		STEARMAN
		BERTA
		PIPES
		LENZ
		BAILEY
		WEISS

COMMENTS

REF# LOG NSCIFID (J /)

ACTION OFFICER (S)	ASSIGNED	ACTION REQUIRED	DUE	COPIES TO
	- 10/28	Recd CIA memo		Same
Lenz	S 10/28	Any action necessary	10/29	
	[illegible]	[illegible]		
		90052 [illegible]		

DISPATCH Via hdx CF 10/22 W/ATTCH FILE [illegible] (C)

~~SECRET~~

CENTRAL INTELLIGENCE AGENCY

WASHINGTON, D.C. 20505

this paper was requested orally
AF
will be

27 October 1981

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

SUBJECT: Possible Allied Response to US Strategy on the Pipeline

Attached is a paper in response to your request of 23 October. The paper was prepared by the Office of European Analysis, National Foreign Assessment Center and coordinated within CIA as appropriate.

[redacted]

Thomas B. Cormack
Executive Secretary

E.O. 12958
As Amended
Sec. 1.4c+6.2c

Attachment:
As stated

E.O. 12958
As Amended
Sec. 1.4c+6.2c

[redacted]

~~SECRET~~

~~SECRET~~

16150
TAB D

CENTRAL INTELLIGENCE AGENCY
WASHINGTON, D.C. 20505

27 October 1981

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

SUBJECT: Possible Allied Response to US Strategy on the Pipeline

Attached is a paper in response to your request of 23 October. The paper was prepared by the Office of European Analysis, National Foreign Assessment Center and coordinated within CIA as appropriate.

[redacted]

Thomas B. Cormack
Executive Secretary

E.O. 12958
As Amended
Sec. 1.4c+6.2c

Attachment:
As stated

DECLASSIFIED IN PART
NLS M1285 #21
By emf, NARA, Date 10/22/04

E.O. 12958
As Amended
Sec. 1.4c+6.2c

[redacted]

~~SECRET~~

Possible Allied Responses to US Strategy on the Yamal Pipeline

A policy of seeking COCOM cooperation to stop the Siberian pipeline would probably have a low yield and a high cost. The Allies have already decided that the project is in their interest and will not voluntarily halt their participation. In the immediate term, US attempts to force a stop to the project are likely to jeopardize the current US initiative to broaden and strengthen COCOM export controls in a number of military-related industrial sectors. In addition, the West Europeans view the project as strictly their own affair and resent US interference; US pressure thus could pose major risks for US-Allied relations. [redacted]

COCOM may not in any case be the best vehicle for applying US pressure. The US is no longer able to exert a significant amount of influence or control within COCOM because Western Europe and Japan, as well as several non-COCOM members such as Austria, Switzerland, and Sweden, either possess equivalent technology or are ahead in a number of the latest technologies that COCOM attempts to deny the Communist countries. Although reasonably successful, the recent US experience in attempting to strengthen COCOM controls in the aftermath of the Soviet invasion of Afghanistan illustrates how difficult it has become for one country to force its way in the COCOM forum. Oil and gas equipment technology is not currently subject to COCOM embargo, and our Allies would resist strongly placing such items on the COCOM list on strategic grounds. However, because some advanced technology components involved in the pipeline may be subject to COCOM exception notes, the US could at least raise the issue as one of concern within present COCOM procedures. [redacted]

Even outside COCOM, persuasion has failed with the West Europeans and Japanese because -- despite US arguments -- they see aiding the Soviets in energy production as a positive contribution to the global economy. They also are convinced they will derive a formidable list of economic and political benefits from the pipeline project, including:

- Near-term export earnings for industries supplying materials for the pipeline and a stream of future exports financed by Soviet gas sales.
- The chance to use another country's energy resources, thus saving domestic resources for later consumption.
- The project's contribution to improved East-West relations generally. [redacted]

Convincing the Allies to halt pipeline-related equipment and technology sales would require several carrots or sticks, or some combination of the two. These incentives could be used directly or indirectly. In other words, the potential benefits to the major Allies outlined above must be attacked or offset directly, or an indirect cost must be imposed that is perceived to be greater than the potential benefits. [redacted]

E. O. 12958
As Amended
Sec. 1.4c

It is very late in the game to attack West European and Japanese perceptions directly.

- o The West Europeans have not found credible US suggestions concerning other energy sources such as US coal, help in nuclear construction, or assistance in developing alternative sources of gas such as Algeria, Nigeria, or the North Sea.
- o No substitute project appears on the immediate horizon that could provide the employment and earnings offered by the Soviet deal.
- o Most West Europeans are convinced they will need the gas, and they view with suspicion any US forecasts indicating otherwise.
- o The West Europeans and Japanese would perceive a restrictive US pipeline policy as a potential threat to <u>all</u> East-West trade, rather than a threat "only" to energy-related trade. Moreover, backing out of the pipeline deal after preliminary agreements have been reached would be viewed by the Allies as a breach of faith on their part that would threaten other commercial relations. [redacted]

E. O. 12958
As Amended
Sec. 1.4c

It would at least theoretically be possible to make benefits available to the Allies that offset many of those they think would derive from the pipeline. But alternatives would be extremely costly, e.g., providing them with commensurate export earnings, or giving them guarantees in regard to energy supply that would be credible enough to offset their perception of Soviet reliability. Moreover, some of the motives for their commitment -- desire to encourage Soviet energy production and to broaden East-West relations, for example -- are almost impossible to counter. [redacted]

E. O. 12958
As Amended
Sec. 1.4c

Washington could warn that US <u>trade</u> relations with both Japan and Western Europe would be harmed seriously if the pipeline sales are concluded. For example, a tighter trigger price mechanism on steel or a tougher stance toward EC agricultural commodities such as sugar could be adopted. Other pressures could include non-tariff measures such as stricter labeling standards or increases in excise taxes on alcoholic beverages. The US might also limit sales of particular goods to the Allies, although such measures would have only a minor impact since alternatives to most US goods exist. More important, trade actions along these lines would be interpreted as first salvos in a full-fledged economic war and would almost certainly result in retaliation. As the US currently runs a sizable trade surplus with Western Europe -- to the tune of around $25 billion last year -- the US probably would be the ultimate loser in economic terms. [redacted]

E. O. 12958
As Amended
Sec. 1.4c

In the area of finance, the US could offer to reduce its interest rates -- a major irritant in current economic relations with the Allies. The West Europeans and Japanese would probably view the promise as either impossible to keep or something the US should do regardless of Allied decisions on the Soviet gas deal. The US also might threaten to tighten controls on US banking subsidiaries overseas or on foreign investment in the US. This would upset West European and Japanese capital markets but would be unlikely to force the Allies to renege on the pipeline deal. In addition, the Allies would view such a move as self-defeating as it could punish US banks and the dollar more than it would hurt the Allies. [redacted]

E. O. 12958
As Amended
Sec. 1.4c

Another potential area for US action is in the military/strategic field. The US could refuse to pay for stationing US troops in Western Europe, particularly in West Germany, and threaten to withdraw these troops if funds were not forthcoming from the West Europeans. Such a move would of course greatly aggravate the West Europeans' current concerns over whether they could count on the US if war broke out in Europe, and it would make NATO cooperation even more difficult. A significant positive incentive would be a US offer to make the "two-way street" in government military contracts wider and allow more traffic on it. A negative incentive would be US cutbacks in military technology sharing or co-production agreements such as jet engines for Sweden or tactical systems for the UK and Japan. [redacted]

E. O. 12958
As Amended
Sec. 1.4c

From an individual country point of view, the United Kingdom would stand to lose the least if exports of pipeline-related equipment were blocked. The British enjoy net energy self-sufficiency, and they will be buying none of the Soviet gas. On the other hand, British agreement to US strategic export definitions would have little impact on the other major West Europeans, all of whom are more involved in the pipeline project and whose stake in East-West trade generally is much greater. Moreover, Rolls Royce is the only major producer of pipeline compressors that does not rely on US technology. If the US refuses to license pipeline-related exports and is able to prevent foreign licensees from selling the equipment, London and Rolls Royce have indicated their willingness to fill the vacuum -- and action consistent with Britain's present economic problems. [redacted]

E. O. 12958
As Amended
Sec. 1.4c

West Germany's commitment to the pipeline project -- and to "Ostpolitik" generally -- is firm and Bonn views the two as closely linked. Although West Germany's future gas needs are not as pressing as those of France or Italy, the project for Bonn has become an important symbol of the benefits of East-West economic cooperation. Cancellation of the pipeline deal thus would be seen as a severe blow to Ostpolitik and would undermine Bonn's fundamental national policy -- reconciliation with East Germany. Because the US is perceived to endorse this reconciliation, US action against the pipeline would be seen as a betrayal of German interests. Given the current political climate in West Germany, no government in Bonn could survive if it gave in to US pressure. Even if the more conservative opposition came to power, it would defend West German interests in similar terms. [redacted]

E.O. 12958
As Amended
Sec. 1.4c

French President Mitterrand is more cautious toward the Soviet relationship than was his predecessor, and Paris currently appears more willing to consider the strategic implications of the gas deal than is Bonn, Rome, or perhaps even London. Paris argues, however, that France needs the gas and that allowances have already been made to reduce the potential for Soviet leverage. The amount of gas to be purchased has been reduced, increased storage capacity is planned, interruptable contracts for industry will be used, and residential consumption will not be encouraged. The French also point out that their only immediate alternative supplier is Algeria, and it's cut-off of gas exports last year, plus current price disputes, indicate that the USSR is a better -- and safer -- bet. In addition, although Mitterrand's East-West views appear close to Washington's, the French president cannot appear to be giving in to US pressure. [redacted]

E.O. 12958
As Amended
Sec. 1.4c

The Italians, although apparently further along in the pipeline negotiations than the other West Europeans, might be more vulnerable to US pressure. A US commitment to grant the Italians more nearly equal status in "Western power" deliberations would go a long way toward persuading Rome -- provided that the Italians saw no chance of other West Europeans snapping up any deal turned down by Rome. Italy's decision would have little impact, however, on the decisions of France or West Germany. [redacted]

E.O. 12958
As Amended
Sec. 1.4c

Japan, in response to a perception that the US has begun to ease up on Afghanistan-related sanctions, has been edging recently toward a new dialogue with Moscow. The Japanese believe that increased interdependence contributes to the stability of Tokyo's relations with Moscow; they would not voluntarily abandon a cooperative approach except as part of a unified Western response to a crisis in East-West relations. Even in a crisis, Tokyo would be likely to follow suit only if the leading West European allies, particularly West Germany, agreed to tight new sanctions. The cost of buying Japanese cooperation if West Germany did not go along would be extremely high. To placate the business community, Tokyo would surely argue for future access to Alaskan oil if it were forced to deal itself out of the pipeline or to cut back on other joint energy development projects in the USSR. The US has a growing trade deficit with Japan and could use Japanese reliance on the US market as a lever. Any move to tie the trade issue to East-West relations, however, would run a very high risk of undoing what progress Washington has made in opening Japan's market to US goods and encouraging the Japanese to increase their defense efforts. [redacted]

E.O. 12958
As Amended
Sec. 1.4c

It is therefore our judgment that persuading the Allies to halt the pipeline project could be accomplished only at great cost. In fact, the political and strategic impact of applying the sticks to achieve US goals could be profound. COCOM almost certainly would be undermined and might collapse. The very informality of COCOM makes it both a flexible and a fragile organization. The unanimity rule allows each member to protect its own interests but also can prevent action. The other COCOM members already view the US as too restrictive and will resist further US moves to tighten the COCOM embargo at the upcoming high-level COCOM Ministers Conference tentatively scheduled for November 1981. A perception of US heavy-handedness in COCOM could shatter the consensus that holds COCOM together. Beyond COCOM, there is a good chance that NATO and Western cooperation generally would be seriously threatened. [redacted]

E.O. 12958
As Amended
Sec. 1.4c

Any pressures applied by the US would have a much greater chance of success if the West Europeans saw total, unwavering commitment on Washington's part. For example, in West European eyes, US opposition to the pipeline deal currently appears self-serving and inconsistent. US decisions to lift the grain embargo and to approve the Caterpillar pipe-laying equipment contract have contributed to this view. We believe a successful campaign would necessarily involve at least the appearance of shared sacrifice. For the West Europeans, the clearest example of US sacrifice would be a firm US embargo on grain exports to the USSR as well as sales of energy equipment and technology. We would emphasize, however, that such measures might not succeed and that the West Europeans would be sorely tempted in any event to fill the void created by a US embargo on exports to the Soviet Union. [redacted]

E.O. 12958
As Amended
Sec. 1.4c

The Impact of COCOM and US Embargoes of Petroleum Equipment Exports

A total, effective and sustained multilateral COCOM embargo on exports of oil and gas equipment to the USSR and Eastern Europe would substantially retard Soviet energy development, and its impact would increase over at least the next decade. The impact of a unilateral U.S. embargo would be much smaller and transitory.

The most severe effect of a COCOM embargo would be on Soviet gas production. Construction of gas pipelines, the chief constraint on Soviet ability to expand gas production, depends heavily on imports of Western pipe and compressors, and Soviet capabilities for producing such equipment are already stretched to the limit. Without Western equipment a shortfall of at least 15 percent of planned gas production by 1985 would be almost inevitable. The shortfall would continue to increase later in the decade even though Moscow would give a high priority to expansion of its own pipe and compressor industry. A unilateral U.S. embargo would have virtually no effect on Soviet gas production.

In the case of oil, the most critical short term Soviet dependence is for US built submersible pumps, production of which is now a US monopoly. Denial of these pumps could cut Soviet oil production by around 2 percent over the next 2 years or so. Beyond that period, the impact would continue to increase with a COCOM embargo, but would quickly disappear with a unilateral US embargo as other Western producers entered the field.

As time goes on, Soviet dependence on Western oil equipment will increase, reflecting the rapidly growing complexity of oil exploration and development and the limitations of Soviet technology. Finding the smaller and more remote deposits on which Soviet oil production will increasingly depend, developing offshore fields, and expanding the use of enhanced oil recovery all will benefit greatly from--and in some cases will require--Western equipment. Although quantification is not possible, there is little doubt that a COCOM embargo would substantially accelerate the expected decline in Soviet oil production in the second half of the 1980s and beyond.

In turn, a more rapid decline in oil production coupled with a much smaller increase in gas production than is now expected would have an important depressing effect on the Soviet economy. Hard currency earnings would fall sharply, thus greatly curtailing Soviet imports from the West. And economic growth would be even slower than the 2 percent or less rate we now expect.

E. O. 12958
As Amended
Sec. 1.4c

The judgments of this paper are necessarily tentative because of the absence of information on specific Soviet plans, equipment production and inventories, and oil- and gas-field conditions. Nor can we foresee the long-term adjustment possibilities available to a large command economy. The basis for our conclusions is presented in the accompanying Annex, in which the ranges of impact on production shown for various types of equipment are probably more valid in reflecting relative rather than absolute magnitudes. The aggregate of the individual effects thus at best provides an order of magnitude impression, based on the best current judgments of our petroleum analysts.

As Amended
Sec. 1.4c

ANNEX

Preliminary Judgments on the Impact of COCOM and US Embargo of Oil and Gas Equipment to the USSR

Background

Estimates of the effects of a Western embargo on the export of various kinds of oil and gas equipment to the Soviet Union are necessarily tenuous, as they involve assumptions as to the types and quantities of equipment that the Soviets will seek from the West in the next few years. In the past, imports from the West represented only a small percentage of total Soviet equipment supply. But new problems in exploration, production, and transport of oil and gas will probably lead the USSR to rely more heavily on imports in the 1980s. Although the Soviets show no inclination to avail themselves of opportunities they have ignored in the past, arrangements such as joint ventures or service contracts with Western firms could--under changed circumstances--offer productivity increases in petroleum extraction.

Effect of Embargo on Major Categories of Equipment

Exploration Equipment

The Soviets already have found most of the relatively shallow, easily-located, accessible oil and gas traps. They specifically need Western seismic and well-logging technology to boost oil reserves in the 1980s. Due to the 5 to 6 year discovery-to-production time lag, Western equipment ordered today is unlikely to have much impact on oil production before the late 1980s. While a multilateral embargo could severely constrain Soviet exploration, unilateral controls by the US would have little or no effect. Foreign firms can supply Soviet needs with little or no degradation in quality. But we do not believe that the Soviets can improve their own exploration technology (i.e., geophysical hardware and software) rapidly enough to affect production before the 1990s.

Drilling Equipment

The Soviets plan to nearly double the amount of drilling for oil and gas in 1981-85, with further increases planned for the late 1980s. Soviet drilling productivity is poor by international standards. Western rigs, drill pipe, tool joints, drill bits, blow-out preventors, and drilling-fluid technology already provide substantial aid to Soviet drilling efforts. The Dresser drill-bit plant, if brought on stream with US or Western assistance, could have a considerable impact on Soviet oil

E. O. 12958
As Amended
Sec. 1.4c

production by the late 1980s. Although the US is the world's leader in the production of drilling equipment, producers in Japan and Western Europe could supply the Soviet market. A unilateral US embargo would therefore not have much bite.

Production Equipment

The Soviet oil industry faces rising fluid-lift requirements in the 1980s, as the amount of water produced along with the oil increases. According to Soviet plans, a large additional volume of fluid--perhaps as high as 6 million b/d--must be lifted in 1985 simply to maintain oil production at the 1980 level of about 12 million b/d. To handle the high volume of fluid, the Soviets plan to double the number of wells producing with the help of submersible pumps and gas-lift equipment.

Imported equipment is important for this effort because the capacity and quality of Soviet-made submersible pumps and gas-lift equipment is low. In the case of high capacity pumps, U.S. producers now have a monopoly but, if these were embargoed, other Western suppliers could be expected to enter the field within about two years. Each high-capacity U.S. pump produces on the average about 1,000 to 1,500 b/d of oil under Soviet conditions. The Soviets probably expect to import about 100 such pumps annually (in the 1970's they imported a total of 1,200). The water-cut problem in Soviet oilfields is getting worse, and domestic development of a good substitute pump has not yet been successful. Denial of the U.S. pumps consequently could cost the Soviets 200,000 to 300,000 b/d of oil before other Western suppliers could come on stream. In the case of a COCOM embargo, the impact would continue to grow, probably for several more years.

Now [illegible] order ? barred by Regs

In addition to high capacity pumps, Western equipment playing a significant role in Soviet oil development includes gas-lift equipment, well-completion equipment, wellhead units, and Christmas-tree assemblies.

The USSR also has an increasing need for Western enhanced-oil-recovery technology. Enhanced recovery projects have long lead times, however, and the effect of Western assistance would be relatively small and felt only after 1985.

Offshore Equipment

The Soviets' least-explored prospective areas for new petroleum discovery are offshore, and their oil and gas production in the late 1980s and beyond heavily depends on the development of such areas. The Soviets already have received substantial assistance from the West. Continued assistance could speed development in the Caspian area. A US embargo applied unilaterally would make little difference. After 1985, COCOM restrictions would have very little effect. Firms in Finland,

E.O. 12958
As Amended
Sec. 1.4c

Singapore, Mexico, and Yugoslovia can supply most of the USSR's current offshore needs, and all of their requirements by the late 1980s. Production of the few drilling components now produced only in the US could be quickly introduced abroad.

Oil Refining and Gas Processing Equipment

The Soviets intends to expand their secondary refining and gas processing industries substantially in the 1980s. They are relying almost exclusively, however, on their own production or on equipment imported from Eastern Europe.

Gas Pipeline Equipment

Although the Soviet Bloc produces most of its own oil pipeline equipment, the USSR relies extensively on the West for gas pipeline equipment--large-diameter pipe and valves, compressors, and pipelayers. Since ~~pipelines are the principal bottleneck in Soviet gas production, a COCOM embargo on pipe,~~ compressors, and pipelayers would be a major setback to the Soviet gas industry. High-quality large-diameter pipes and valves are currently produced only in Western Europe and Japan.* Although the Soviets have recently built a plant to manufacture large-diameter pipe, they have yet to master production of pipe of this size. Pipelayers capable of handling this pipe are produced only in the US, Italy and Japan. Large turbine compressors of the type sought by the Soviets for the export pipeline project are built in the United States and the United Kingdom. Smaller units are built by firms in France, Germany, Italy, and Japan; none of these, however, has yet attempted to make a 20 to 25 MW unit, although a French firm has the necessary licensing.

A multilateral COCOM embargo on gas pipeline equipment could reduce gas production by as much as 10 billion cu. ft./day (1.75m b/d, oil equivalent) in 1985 and by substantially more after 1985. US unilateral restrictions on equipment in this area, however, would have minimal impact. The US does not produce the pipe or valves sought by the USSR, and pipelayers and compressors can be supplied from abroad. Foreign production of industrial compressor turbine shafts and blades, the sole area now subject to US control, could begin in sufficient time to prevent a delay in completion of the pipeline.

* Although the Soviets produce pipe up to 1,420 mm. (56 inches) in diameter, little is for natural gas pipeline service. Most Soviet pipe is spiral welded and lacks the (HSLA) high-strength, low alloy metallurgy of Western steel for Arctic pipeline service. Most of the large pipe imported by the USSR is fabricated with a single longitudinal weld made by the submerged arc process.

[redacted]

E. O. 12958
As Amended
Sec. 1.4c

Implications of an Embargo on Equipment for the Yamal Pipeline

~~A full COCOM embargo on equipment for Siberia-to-Europe~~ gas ~~pipeline presupposes West European agreement to abandon the project. A unilateral US embargo on critical gas turbine~~ components destined for use on the Yamal Pipeline probably would not substantially delay the project.

(a) The Soviets have designed the export pipeline compressor stations to use either General Electric (GE) or Rolls-Royce (United Kingdom) turbines, and a US embargo on GE could prompt Moscow immediately to switch to Rolls-Royce, which probably can produce the needed turbines roughly within the time sought by the Soviets.

(b) Even if the Soviets stay with the GE design and thus receive complete delivery from West European firms of turbine-compressor units two years later than without the embargo on GE, the pipeline probably would not be seriously delayed beyond the full-capacity completion date we now expect--late 1986 to early 1987. The Soviets would take at least 5 years to build the pipeline and complete all of the compressor stations even without an embargo on GE exports. Thus many turbine-compressor units, even if delivered by late 1983 as Moscow wants, would have to wait several years before installment in compressor stations. If West European delivery of the GE-design turbines were not completed until late 1985, the Soviets could still bring the pipeline to full capacity within another year by placing those late-arriving units into the last compressor stations to be completed.

(c) Because of likely slippage of construction schedules on the Soviet side, even a substantial delay in delivery of Rolls-Royce turbines (beyond the late-1983 to early-1984 deadline now seen as feasible if Moscow switches soon to that firm) probably would not delay the completion of the pipeline project.

Economic Impact of Export Controls

A sustained multilateral embargo on exports of energy-related equipment to the USSR could lead not only to substantial effects on oil and gas production but also to a significant worsening of already poor economic prospects. The losses in gas and oil production would probably amount to 2 - 3 million b/d (oil equivalent) in the mid and late 1980's, of which the longer part would be gas.

Part of this short-fall in energy production--perhaps of the order of 1 million b/d--would be absorbed through cuts in exports

~~SECRET~~ [redacted]

E. O. 12958
As Amended
Sec. 1.4c

of oil and gas to the West and Eastern Europe. Exports of oil and gas account for about one half of present Soviet hard currency earnings.

% of total

Even after major trade adjustments, domestic energy supplies would probably be reduced by 1 - 2 million b/d, or some 5% by the mid to late 1980's.

The average annual growth of GNP in the 1980's (now projected at around 2 percent) probably would be lowered by half a percentage point or so. As time went on, the USSR would adjust to an embargo through cutbacks in imports from the West, stepped-up domestic production of oil and gas equipment, and forced conservation, as well as through slower economic growth.

E.O. 12958
As Amended
Sec. 1.4c

6180

NATIONAL SECURITY COUNCIL

WASHINGTON, D.C. 20506

VIA LDX

~~SECRET~~

October 22, 1981

MEMORANDUM FOR THOMAS B. CORMACK
Executive Secretary
Central Intelligence Agency

SUBJECT: Analysis of Ability of U.S./COCOM Oil/Gas Controls to Impede Soviet Oil/Gas Production

The following is urgently required for high-level executive use:

> A concise (three to five pages) analysis of the ability to impede Soviet oil/gas production by imposition of the Option I/II Oil and Gas Equipment and Technology Controls as defined in the existing Oil/Gas Options Paper. The assessment should focus on the probable net effect on Soviet oil/gas production (a) if the U.S. were successful in enlisting COCOM acceptance of such controls and (b) if the U.S. proceeds unilaterally, without COCOM cooperation.

Ideally, both assessments would provide estimates of the effects on production levels in terms of the percentage of production loss that would result and would translate these percentages to effects on the growth rate of the economy and to other difficulties and shortages that might result.

It is also important that the time frame over which the effects of the U.S./Western control actions would occur be defined. For example, since most Western exports aid drilling or exploration, there would probably be considerable lag between the imposition of controls and resultant effects on Soviet production.

Similarly, how long would Soviet production be impaired? Permanently? Or would they gradually overcome the loss of Western equipment and technology?

I recognize the difficulties of providing this information. However, I am confident that your estimates will be very useful in establishing the rough orders of magnitude of the effects of alternative policies.

Your response by close of business, Tuesday, October 27, 1981, would be greatly appreciated. Please do not hesitate to call me for any further amplification that may be required.

Allen J. Lenz
Staff Director

DECLASSIFIED / RELEASE
NLS M1255 #24
BY __, NARA, DATE 10/27/..

~~SECRET~~

Review October 23, 1987

~~SECRET~~