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11323	MEMO	NAU TO CLARK RE VERSAILLES SUMMIT: EAST-WEST EXPORT CREDITS [56 - 56] *R* ***1/2/2008*** ***NLRRF06-114/10***	1	6/11/1982	B1
11325	PAPER	REPORT ON THE EAST-WEST CREDIT ISSUE AT THE VERSAILLES SUMMIT [57 - 60] *R* ***1/2/2008*** ***NLRRF06-114/10***	4	ND	B1
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11328	MEMO	PIPES TO ROBINSON RE SANCTIONS [66 - 66] *R 1/2/2008 NLRRF06-114/10*	1	7/8/1982	B1
11335	CABLE	091658Z JUL 82 [67 - 70] *R 1/2/2008 NLRRF06-114/10*	4	7/9/1982	B1
11336	CABLE	101032Z JUL 82 [71 - 73] *R 1/2/2008 NLRRF06-114/10*	3	7/10/1982	B1

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Soviet Union General

sanctions

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Some Constraints on Western Use of
Economic Sanctions Against the
Soviet Union and Eastern Europe

Draft
February 9, 1981

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377-2456

This paper represents the views of the author and should not be construed as a statement of U.S. Department of Commerce policy.

CONTROLLED BY Allen J. Lenz

DECONTROL February 9, 1982

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Executive Summary

Unilateral U.S. efforts to exert economic leverage on the Soviet Union have been only modestly successful. Attempts at multilateral actions have also been flawed, with failure sometimes attributed to lack of U.S. consultations with its allies.

This paper argues, however, that there are strong, growing, and perhaps, inexorable economic forces that make it questionable--probably unlikely--that significant economic pressure can be exerted by a unified Western Alliance on the Soviet Union and other Warsaw Pact members for a sustained period.

A basic constraint on Western use of economic leverage is that the economic interdependence resulting from the growth of East-West trade during the 70s makes it economically very painful for certain Western countries to disrupt their trade with the Warsaw Pact countries. With over 300,000 jobs directly or indirectly related to exports to CMEA, and with 1.48 percent of its GNP generated by these exports, the FRG would suffer most from a cut-off of East-West trade.

dependence

Italy and France, with .80 percent of their GNPs coming from exports to EE/USSR would also be more heavily affected than the U.S. with a comparable figure of only about .18 percent.

Even these data, however, do not accurately reflect the relatively greater difficulties a trade clamp down would cause U.S. Allies, since it would be much easier for the U.S. to adjust to a loss of its exports that are primarily agricultural products, than for our allies to adjust to loss of exports by several manufactured goods sectors which rely very heavily on EE/Soviet markets. Lost agricultural product export opportunities translate to lower farm

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incomes, but not directly to unemployment; lost manufactured goods exports translate very promotly to lost jobs.

Western Europe and Japan also find trade with CMEA particularly desirable since, to a large extent, the Eastern countries import manufactured goods from the West and pay with exports of raw materials and semi-finished goods that are inputs to, rather than competition for, Western production.

Western European countries already draw significant energy supplies from the Soviets--7.8 percent of total 1979 FRG petroleum imports came from the U.S.S.R.; 6.8 percent for Italy, 5.1 percent for France. Gas dependencies will grow sharply if the West Siberian pipeline project is completed. Although the U.S. may be concerned about these dependencies, our allies will see advantages in buying still more energy from the U.S.S.R., a country with massive requirements for Western goods that can be exchanged for energy without incurring the huge deficits that are typically generated by purchases from OPEC countries with limited capacities for imports of Western goods.

Outstanding Western loans to CMEA of about $74 billion dollars also will inhibit Western economic sanctions that might result in a Eastern inability to service its debts or provoke non-payment as a retaliatory action.

These factors, together with the difficulties inherent in developing and maintaining a coordinated Western response by a dozen or more industrialized Western democracies that would bear differing costs from economic sanctions, and have differing views on the suitability and effectiveness of economic and trade sanctions, lead to the conclusion that stiff, unified Western restrictions on trade with the CMEA countries will be difficult to initiate and implement. Moreover, even if a political event is serious enough to provoke an initially united and potentially effective economic response, it will likely collapse relatively quickly, with Western governments finding rational arguments to justify avoiding or breaking early with policies that call for trade restrictions which carry significant economic costs for them.

Left with an inability to mount concerted trade restrictions, unilateral U.S. restrictions not only are ineffective but have a perverse long term effect on future U.S. ability to mount united Western political and economic policies because they increase the trade of our allies with the East and deepen their dependency on EE-Soviet markets and sources of supply.

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SOME CONSTRAINTS ON WESTERN USE OF ECONOMIC SANCTIONS AGAINST THE SOVIET UNION AND EASTERN EUROPE

Background and Purpose of Paper

In recent years the United States has frequently attempted to use trade and economic policies to influence or "leverage" the political or military behavior of other countries, especially the Soviet Union. In fact, however, there are now only a very few items in which the U.S. technology or supply monopoly is so strong that unilateral U.S. trade actions can significantly affect a target country. Thus, U.S. efforts to use economic policy leverage, which have usually been unilaterally imposed with minimal or no support from other Western countries, have not been very successful.

The U.S. inability to get a greater degree of cooperation from its NATO allies in imposing restrictions on the Soviet Union in reciprocity for the invasion of Afghanistan is sometimes attributed to U.S. failure to consult with its allies before taking action. Presumably learning from the Afghanistan experience, the U.S. has recently consulted with its NATO allies concerning actions that would be taken in the event of a Soviet intervention in Poland. These consultations have produced some fairly strong, though understandably vague warnings concerning the negative effects on East-West economic relations that would result from a Soviet invasion.

The thesis of this paper, however, is that there are strong, growing, and perhaps, inexorable forces that will inevitably make it very questionable--probably unlikely--that significant economic pressure can be exerted by a unified Western alliance on the Soviet Union and other Warsaw Pact members for a sustained period.

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Economic Interdependency--A Two Edged Sword

In the early '70s it was theorized that an expansion of East-West trade and other economic exchanges would create a web of economic inter-relationships that would give the U.S.S.R. a vested interest to restrain its political and military actions because, through misbehavior, it would suffer significant economic costs by disrupting its economic relations with the West. Unfortunately, however, although trade with the U.S.S.R. and its CMEA partners has grown rapidly during the 1970s, the Western countries have not yet been able to coordinate their trade policies in a manner that would be necessary to effectively use economic leverage to significantly influence Soviet behavior.

A Western inability to mount concerted trade and economic policies against the Soviet Union and other CMEA countries stems not only from differing views among the Western allies on the suitability and effectiveness of economic and trade sanctions, but from the differing national economic costs that application of the sanctions would entail.

What is perhaps not understood widely in the U.S. is that the volume of East-West trade and the economic interdependency with the Warsaw Pact countries is now such that a disruption of East-West trade would have major economic costs and disruptive effects for certain Western countries. U.S. policy makers should not underrate the importance of these Western economic problems in shaping the attitudes of our allies and their willingness to follow a U.S. lead in applying economic sanctions against the Soviet Union and Eastern Europe.

The following sections describe some of the benefits of East-West trade to our Western European Allies and Japan and,

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hence, the opportunity costs they would incur by trade sanctions aimed at the Soviets and their Eastern European partners. Amplifying statistical data and other information are provided in an "Overview" appendix and in a series of appendices that survey the trade relationships of individual Western countries with Eastern Europe and the U.S.S.R.

Economic Benefits to Western Countries of Exports to EE/USSR

The benefits of East-West trade to several of our allies in terms of job creating exports and balance of payments assistance are significant. The largest benefits undoubtedly go to West Germany. A study by a West German institute estimated that, in 1975, some 320,000 jobs, or about 1.2 percent of the labor force were directly or indirectly dependent on exports to Eastern Europe and the Soviet Union. Thus, with 7.2 percent of its total annual exports going to EE/USSR over the 1974-79 period and with 1.48 percent of its 1979 GNP resulting from exports to these countries, the FRG cannot lightly adopt economic sanctions against the Eastern countries or implement policies that would sharply reduce exports that reached $11.3 billion in 1979. Lesser, but important GNP and balance of payment benefits exist for other Western countries, e.g., Italy, .81 percent of GNP from exports to EE/USSR; France, .80 percent; U.K., .52 percent.

Even these figures, however, do not convey the dependency of some industries on Eastern markets; e.g., 20.4 percent of FRG and 17.8 percent of Italy's iron and steel (SITC 67) product exports to EE/USSR; over 10 percent of FRG exports of non-electric machinery (SITC 71) and chemical elements and compounds (SITC 51) to the Eastern countries, etc.

The great bulk (87 percent) of West German exports to the East have been intermediate goods (SITC 5 and 6) and manufactured goods (SITC 7 and 8), outputs of German heavy industry. Eastern markets for these products tend to be relatively stable and not tied to Western business cycles, providing the exporters a kind of "cushion" in periods of Western recessions. Given current economic conditions in the West, EE/Soviet markets cannot be quickly replaced. Indeed, it may not be possible to replace them, even over the longer term. Thus, without Eastern markets, some basic West German industries would have to markedly slow production and lower employment, a sensitive issue in the social welfare oriented West German society. Similar problems, though to varying lesser degrees, would result for other Western allies from a Western trade embargo.

This scenario of economic difficulties contrasts somewhat with the penalties that sharp trade restrictions would impose on the United States. With 1.48 percent of West Germany's 1979 GNP coming from exports to EE/USSR, compared with a .23 percent U.S. figure, a Western trade embargo on the CMEA bloc would appear to have 6 or 7 times more economic impact on the FRG than on the United States. But 1979 U.S. exports to the Eastern bloc were swelled by record grain shipments to the U.S.S.R. Over the six year 1974-1979 period U.S. exports to EE/USSR averaged about .18 percent of GNP, about one-twelfth of West Germany's 1.48 percent of 1979 GNP figure. In fact, however, the economic effects of a disruption of trade with the East on the F.R.G. and other U.S. allies would probably be even greater compared to effects on the U.S. than the relative contributions to GNP from exports would indicate. This conclusion stems from the fact that the great bulk of U.S. exports to the Eastern countries has been in agricultural products (74 percent of 1979 total, principally grains), with only 17.2 percent of the total in intermediate products (SITC 5 and 6) and manufactured goods (SITC 7 and 8). Even though an embargo on grain shipments to EE/USSR would create economic costs and political difficulties in the United States, it would not translate as promptly and visibly to unemployment and balance of payments problems as would a comparable reduction in industrial exports.

To begin, because grain is a fungible product traded on a world market, an air-tight world wide embargo on shipments to the EE/USSR seems unlikely. Given this fact, a partial embargo would mean some degree of reallocation of markets, with some of our grain exporter competitors switching to supply EE/USSR customers and U.S. suppliers taking over some of our competitors' markets. Additionally, to the extent that a grain embargo is successful, grain prices will decline, expanding U.S. exports to other markets and tending to equate the demand for U.S. grain to our supply. In short, the immediate penalty suffered by the United States from a cut of exports to the CMEA bloc would be primarily in terms of lower farm incomes, rather than in an immediate, direct increase in U.S. unemployment.

It is also noteworthy that long term trends seem to indicate that world demand for grain may increase more rapidly than supply over the next few years. If so, lost agricultural markets may be somewhat more domestically tolerable than foregone markets for industrial goods. Moreover, if U.S. grain exports are significantly affected by governmental restrictions, the effects can be mitigated by tested mechanisms, since various government programs have been employed over the years to buttress farm income when supply exceeds demand. These programs keep farmers out of unemployment lines and are less visible and a politically less sensitive means of handling underemployment than various forms of aid to stricken manufacturing industries that some other Western nations might have to undertake in the event of a disruption of trade with the East.

<u>Economic Benefits to Western Countries in Imports from EE/USSR</u>

In many respects the EE/Soviet group offers a highly desirable, if not ideal, trading partner relationship for Japan and the industrialized democracies of Western Europe. To a large extent these Eastern countries import from the West manufactured goods and some agricultural commodities that are surplus in the West and pay for these imports with exports to the West of raw/ materials an semi-finished goods that are used as inputs to Western production. In general, CMEA exports to the West tend to aid Western production rather than to compete with it. While there are, of course, instances in which Eastern exports compete with domestic production in Western countries or in third country markets, this generalization is valid and is particularly true of the U.S.S.R., with over 76 percent of its 1979 exports to the I.W. consisting of primary product (SITC 0-4) exports, compared with Eastern Europe's 43 percent.

Additionally, while the Soviet Union is already the world's largest producer of many raw materials, and a major supplier to Western European countries and Japan for many of these items, our allies tend to see the U.S.S.R., with its vast underdeveloped natural resources, as an even greater future source of raw materials, some of which are already in short supply. In addition to huge deposits of coal, oil and gas, Soviet reserves of timber, diamonds, iron ore, copper, platinum, chrome and other non-ferrous metals are very large, a fact that makes those Industrialized Western countries that are natural resource poor more hesitant to impede the long term growth of commercial relations with the U.S.S.R. than is the United States, with its lesser dependence on imported raw materials.

This kind of trade pattern--Western exports of manufactured goods with high value added ratios, in exchange for imports of raw materials and semi-finished goods--is attractive to Western European countries and Japan, all of whom need both export markets and raw material sources to keep their labor forces and industrial plants employed at high levels.

Each of the Eastern countries has huge unsatisfied domestic capital investment and consumer needs. Exports to the West are constrained by supply shortfalls and domestic needs, while imports from the West are restrained primarily by hard currency shortages. For the communist countries, exports are simply a means to buy essential imports and not a means of utilizing capital and labor that would otherwise be unemployed. For the forseeable future, they will export only as a means to finance needed imports, rather than to solve domestic unemployment problems. Thus, the EE/Soviet group is a particularly desirable trading partner in that increased imports from these countries are likely to translate directly to increased exports to them, an important consideration for Western countries that do have idle capital and labor resources.

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A Western Interest in Increased Soviet Energy Production

U.S. efforts to impede Soviet production of oil and gas are likely to face strong opposition from our allies. In addition to the macro-economic argument that it is in Western interests to increase world energy supplies in order to hold down prices, our allies have a more direct stake in increasing Soviet energy production.

In recent years, not only have Soviet oil exports to Eastern Europe played a key role in keeping East European economies viable, but about 50 percent of Soviet hard currency export income has come from oil exports. If this income source dries up, both Soviet and East European purchases in the West will have to be sharply reduced, with economic repercussions on Western exports.

Additionally, Soviet oil has become an important input to Western industry-- 7.8 percent of total 1979 FRG imports of petroleum and petroleum products-- came from the U.S.S.R.; 6.8 percent for Italy, 5.1 percent for France --one that West Europeans may wish to increase, not decrease. SITC 33

While the U.S. may see a future political-military threat in increased West European/Japanese energy dependency on the Soviets, our allies are likely to see it differently on both political and economic grounds.

From a political standpoint, they see any diversification as being advantageous, compared to dependency primarily on insecure Middle Eastern supplies.

From an economic viewpoint, however, the Soviet Union has clear and significant advantages as a source of supply, compared to dealing with the Middle Eastern countries. Energy purchases from the Middle Eastern countries, which have small populations

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and limited abilities to absorb Western manufactured goods, result in huge surpluses for them--huge deficits for the Western countries, which must pay for their oil imports by generating export surpluses on trade with other partners. The Middle Eastern oil exporting countries deposit their trade surpluses in Western banks which "recycle" them to various borrowers, with large amounts going to LDCs, many with questionable long-term ability to make good on their mounting debts. As a result of this recycling, Western banks, not the Middle Eastern oil exporters, bear the loan risks.

By way of contrast, however, the Soviet Union has a vast territory requiring huge capital imports for its development and a large population with unsatisfied needs. Its East European partners are also large potential markets for Western goods. In both instances, the ability to pay for Western imports has been the primary factor restraining increased Eastern purchases. Thus, Western energy purchases from the Soviet Union tend to increase EE/Soviet ability to buy from the West, and are likely to translate to increased Eastern purchases in the West, rather than to Eastern trade surpluses, thus providing the Western countries the means to pay for their energy and raw material imports without accruing huge trade deficits. The huge revenue flows that prospective new exports of natural gas to the West would generate --as much as $8 billion annually at 1980 prices--are therefore unlikely to be seen as disadvantageous by the West European countries.

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West Europeans counter American concerns about the increased dependency that will result from the Siberian gas pipeline to Western Europe by citing the Soviet need for the hard currency income the gas sales will produce. However, it is difficult to escape the conclusion that the Soviets will generate very significant "reverse leverage" on Western European countries through the gas export project. Western technology, equipment and credit will flow eastward for several years during a long gestation period before a return flow of gas can begin, heightening the reluctance of those Western countries involved in the transaction to apply economic leverage against the Soviets during that period. Subsequently, when gas flows begin Soviet leverage will be even greater, since they are likely to be more able and/or willing to suffer interruptions in inflows of hard currency than the Western countries will be able or willing to suffer interruptions in gas supplies.

East-West Financial Interdependency

The rapid growth of East-West commerce not only has resulted in sizable trade interdependencies between East and West, but substantial financial interdependencies as well.

Eastern countries, having a limited ability to pay, borrowed heavily--especially in the early to mid-70s--to pay for desired imports from the West. Western governments and banks, sensing a profitable new loan market, seeking to aid job-creating export industries, and assuming that detente had become a permanent feature of international relations, have been willing--and at times eager--to provide the CMEA countries with needed funds. After a decade of trade deficits supported by Western lending, today the Eastern Europe countries owe Western governmental and private creditors about $56 billion and the U.S.S.R. another $15.4 billion for a total of some $71.4 billion, with about 80% of the debt held by the West European creditors.

One result of Eastern indebtedness to the West is that the financial health of the CMEA countries has become of no small importance to European bankers and, one could argue, to the smooth functioning of the international financial system.

It follows from the above that, in an economic cost-benefit calculus of multilateral trade sanctions on the CMEA countries, West European nations will not only be reluctant to forego the direct benefits of merchandise trade with these countries, but will also be fearful of any economic measures which might de-stabilize the delicate East-West financial equilibrium. West European governments will correctly recognize the significant possibility that a successful, sustained trade embargo could force the bloc--and especially the smaller EE countries--into severe financial difficulties that could result in large-scale, involuntary reschedulings and/or defaults on Western loans. This, as has been noted, would not only have consequences for Western European bankers and official export credit agencies, but might also prove disruptive to world financial markets, even though Western governments would undoubtedly take actions to minimize damage to individual banks and the international financial system as a whole.

In addition to fearing Western economic sanctions that would force involuntary defaults, West European governments will likely also be loathe to take any provocative steps on the trade or financial fronts which have even a remote probability of evoking purposeful financial retaliation by the Eastern bloc--i.e., a flat refusal to pay outstanding loans until trade sanctions are lifted.

Difficulties in Coordination of Western Trade Restrictions

The United States has been criticized by its Western Allies for a failure to consult adequately with them before imposing various trade restrictions on the Soviet Union following its intervention in Afghanistan, implying that prior consultation would have resulted in a stronger Western response. Given the economic factors at work, however, we doubt that "consultations" would have yielded an effective, coordinated Western response. Rather, the time required for inter-allied discussions would more likely have delayed the U.S. response, producing in the end only ineffective, lowest common denominator multilateral measures that would have made even more evident than is already the case existing differences in Western attitudes toward the use of economic measures.

The Afghanistan episode and other experiences also make it apparent that whatever trade measures are initially agreed upon are subject to rapid deterioration once the trigger event crisis has passed. With more than a dozen major competitors for export sales to the Eastern bloc, it is likely to be sooner, rather than later, that one Western country violates, or is perceived by others to violate, what must inevitably be rather ill-defined codes of Western behavior. Once the agreement is seen as having been broached, or appears to be ineffective by reason of actions of an ally or a party outside the agreement, the remaining parties to the agreement will rationalize breaking ranks on grounds that they cannot afford to let competitors gain the economic benefits of the trade while they suffer economic losses by sticking with ineffective restrictive actions.

The Perverse Effect of Unilateral U.S. Restrictive Actions

In several instances the U.S. has persevered in restrictions on its trade with the Eastern bloc countries, notwithstanding aggressive pursuit of these markets by European competitors. Examples include not only the Post-Afghanistan trade restrictions, but other longstanding unilateral export controls and the Jackson-Vanik restrictions on MFN and export credits for the Soviet Union and other communist countries.

These restrictions have imposed substantial economic costs on the U.S. in terms of foregone exports. But in diverting these export opportunities to Japan and Western Europe we have also made those economies more dependent on trade with the communist countries and increased the costs to them of imposing trade restrictions.

Soviet natural gas exports to the West provide a classic example of the perverse effects of U.S. restrictive actions. In the early 70's, giant U.S.-Soviet projects were discussed under which U.S. exports of equipment and technology would have made possible development of Siberian gas fields and shipment of large quantities of liquified natural gas to the United States. The projects, which would have provided significant hard currency income to the Soviets, were intermittently discussed during most of the 70's, but never progressed for a variety of reasons.

Given recent gas discoveries in the United States, LNG imports from the U.S.S.R. may well not have been the best economic alternative for supplying U.S. gas needs. Probably more important, however, in a U.S. hesitancy to enter into these transactions with the Soviets were basic U.S. concerns that large gas purchases from the Soviets would strengthen their economy and, secondly, worries about developing a U.S. dependency on Soviet gas.

Now, however, as an alternative to the U.S. transaction the Soviets are proposing construction of a massive gas transmission line from Siberia to Western Europe. The end result will be huge gas sales to Western Europe and not only an increased West European dependency on Soviet energy that will be relatively much greater than the U.S. dependency would have been, but also generation of very large amounts of hard currency income for the Soviets that they will use largely to make purchases from those countries importing Soviet gas. These purchases will further increase the economic stake of West European countries in trade with the U.S.S.R. and decrease their future willingness to follow a U.S. lead in imposing trade sanctions.

In retrospect then, it might have been preferable to accept a minor U.S. dependency on Soviet gas and the economic benefits of increased sales to the U.S.S.R., than to be faced with significantly increased European energy and trade dependence that will result from the alternative transaction. Additionally, a U.S.-Soviet transaction would have given the U.S. leverage potential inherent in an ability to unilaterally terminate equipment and spare parts sales to the Soviets.

Summary and Conclusions: Why Successful Multilateral Trade Sanctions are Unlikely

The growth of East-West economic relationships has created significant "interdependencies"; i.e., both sides gain from the relationship and have become, to some degree, dependent on one another. Thus both sides will "lose" from an interruption or termination of their economic relationship.

In a situation where both sides will lose by stopping their economic exchanges, both may choose to continue the relationships, despite political differences. Alternatively, the side that feels it has the least to lose per an economic calculus may break the relationship, hoping to penalize the opponent more than itself by the action. Or, the stronger willed party may break the relationship, disregarding the results of the economic calculus and making the decision on other grounds.

Most U.S. policy makers see East-West trade as benefiting the Warsaw Pact countries more than the West and are thus ready to use trade sanctions as a foreign policy tool in dealing with the U.S.S.R. They tend to assume that, in the event of Soviet misbehavior, the U.S. should be able to muster a united Western front in invoking economic sanctions against the U.S.S.R.

However, given their much larger benefits from and dependencies on East-West trade, some U.S. allies are generally unimpressed by arguments that the East benefits more from the trade than does the West. They see the trade as "mutually beneficial" and tend to focus on the short-term economic benefits to them. These benefits are both more immediate and more tangible than the benefits that may accrue to the West from restrictions on the trade, which have never been clearly defined in the context of a consistent, long range strategy for dealing with EE/USSR.

The problemsin achieving a united Western response are well stated by Walter Laquer of the Georgetown Center for Strategic and International Studies:1/

> "In democratic societies a national consensus is usually achieved for any length of time only in war or when facing a threat of similar magnitude. A war constitutes a clear and visible danger, whereas in an economic, social, or political crisis, there is hardly ever the same overriding sense of urgency, the same dramatic feeling of the need to act together for the common good or for survival. Creeping crises produce no great tensions and generate no great passions; there is always the hope that the threat may suddenly go away. There is nothing more difficult than mobilizing a democratic society for an all-out effort in the absence of a demonstrative effect comparable to a war. It has been said that nothing clears the mind of a person as wonderfully as the certainty that he will be hanged within a day or a week. But if a person or a collective faces a fate of this kind only in a perspective of a year or a decade, and if, furthermore, the catastrophe is not absolutely certain but only highly probable, the result is not concentration of mind, but on the contrary, confusion."

The problems of achieving consensus in a group of democracies are doubtless even greater than those of gaining a consensus in a single democracy.

Now will it be easy for the U.S. to pressure unwilling allies into a united stand on comprehensive sanctions. Italy and the FRG both have trade volumes with the EE/USSR group ten percent larger than their trade with the U.S.; French exports to the group are not far behind exports to the U.S.; and a long standing tradition of trade between Eastern and Western Europe will resist significant disruptions.

1/ Georgetown Magazine, Center for Strategic and International Studies, July/August 1980, p. 14.

The willingness of Western countries to unite in imposing trade sanctions on the Soviet Union and other Warsaw Pact countries will, of course, depend on the Soviet actions which provoke the sanctions. Circumstances may make possible some limited expansion of existing restrictions--e.g., a tightening of COCOM controls, although even this limited action is likely to encounter strong resistance from the countries whose export markets would be affected. This paper, however, argues that even the most provocative Soviet action short of war against the West--e.g., an invasion of Poland that met stiff Polish resistance and resulted in widespread destruction and a large number of casualties--would be unlikely to produce a strong, united, sustained Western response in the form of trade sanctions with a broad impact on East-West trade. We argue that, while the initial response might appear significant and unified, it would probably deteriorate rather quickly after a relatively brief "wake".

This pessimistic--perhaps cynical--assessment is based on an analysis of various economic factors and a conclusion that economic costs and benefits will be important forces in shaping trade and other East-West policies.

These factors can be summarized as follows:

1. There are significant economic benefits to Western countries in exporting to EE/USSR. These benefits, and hence the costs of trade restrictions, are relatively much greater for some other Western countries than for the United States.

2. There are significant economic benefits to Western countries in imports from EE/USSR, which consist largely of primary products and raw and semi-finished materials that serve as inputs to Western industry, rather than competing directly with it.

3. West European countries have an interest in increasing Soviet energy production, not only to increase supplies available to them, but to develop a source of supply that itself has large import needs, so that Western manufactured goods can be exchanged for Soviet energy without Western trade deficits.

4. Existing financial East-West interdependencies, principally the more than $71.4 billion Eastern debt to the West will give pause to Western actions that would make it impossible for the Eastern countries to meet their debt obligations or motivate them to refuse to pay in response to Western trade restrictions.

Thus, given the lack of a clearly defined role of Western trade policy in East-West relations, and the significant economic costs of trade restrictions to some Western countries we conclude that:

1. A nation's willingness to apply economic sanctions will be inversely related to the cost of applying such sanctions. A high economic cost of trade restriction measures to a nation will tend to make it create rationales and attitudes that argue against trade restrictions on non-economic grounds and subtly, but significantly, may affect other policies and attitudes as well.

2. Stiff, unified economic sanctions will be difficult to implement. However, even if a political event is serious enough to provoke an initially united and potentially effective economic response, that response will collapse relatively quickly, with Western governments finding rational arguments to avoid or break with policies that call for trade restrictions which carry significant economic costs for them.

3. Because they deepen the dependency of other Western countries on EE-Soviet markets and sources of supply, unilateral U.S. restrictions have a perverse long term effect on a U.S. ability to mount united Western political and economic policies.

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Appendix A

OVERVIEW OF WESTERN TRADE WITH THE SOVIET UNION AND EASTERN EUROPE

Trade Volumes and Shares

Two-way trade between 17 Industrialized Western countries 1/ and the European CMEA countries 2/ grew from a modest $13 billion in 1970 to over 74 billion in 1979.

As shown in Table 1, just over half ($20.7 billion, 53.4%) of 1979 I.W. exports of $38.8 billion went to East European destinations; just under half ($18.1 billion, 46.6%) went to the Soviet Union.

Poland was the I.W.'s largest East European export market ($5.7 billion, 14.7 percent of total I.W. exports to CMEA), followed by the GDR ($4.9 billion, 7.4 percent of total). These patterns do not differ markedly from those of 1970, except that I.W. exports to the U.S.S.R. have grown relatively more rapidly than to Eastern Europe, with Eastern Europe's share declining from nearly 63 percent in 1970 to 53 percent in 1979.

At $22.6 billion, European Community exports to the CMEA group were over 58 percent of the I.W. total (see tables 2 and 3). The largest individual country exporter to the CMEA group was the FRG ($11.3 billion, 29 percent of total), with the United States second ($5.7 billion, 14.6 percent of total) based on unusually large 1979 grain shipments to the U.S.S.R., and France third ranking ($4 billion, 10.4 percent of total), while Japan ranked a relatively weak fourth ($3.3 billion, 8.4 percent) with a large Soviet market share (13.6 percent of the I.W. total) offset by a much poorer showing in exporting to Eastern Europe (3.9 percent of total).

1 / For purposesof this paper, the 17 Industrialized Western countries are: Belgium-Luxembourg, Denmark, the Federal Republic of Germany, France Ireland, Italy, Netherlands, United Kingdom, Austria, Canada, Finland, Japan, Norway, Sweden, Switzerland, and the United States.

2/ The European CMEA countries are the USSR, and six East European countries, the German Democratic Republic, Poland, Hungary, Czechoslovakia, and Romania.

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I.W. imports from the Soviet/EE group totalled $35.8 billion in 1979, up from only $7.3 billion in 1970. Just under half ($17.3 billion, 48.3% of total) originated in Eastern Europe and just over half ($18.5 billion, 51.7%) came from the U.S.S.R. As shown in Table 1, Poland was the largest 1979 East European supplier to the I.W. ($4.8 billion, 13.3% of total), followed by the GDR ($4.0 billion, 11.2% of total).

The European Community countries took 75% of East European exports to the I.W. and 61% of Soviet exports to the I.W. (table 2). The FRG was the CMEA group's largest market, taking 29.3% of their exports to the I.W., with Italy taking 10.4% and France 9.2%. The United States took $1.4 billion of Soviet/EE exports, 4.0 percent of the I.W. total.1/ Over the 6 year 1974-79 period, the 17 I.W. accumulated a surplus of $___billion on trade with the European CMA countries. In rank order the balances of the Western countries covered by this study for the 1974-79 period are:

	1974-79 Balance on EE/USSR Trade (Billions of dollars)
United States	$13.6
Federal Republic of Germany	11.4
Japan	5.9
France	3.6
Italy	(2.1)
United Kingdom	(3.6)

Composition of I.W. Trade with USSR-EE

The composition of I.W. exports to the CMEA group is summarized in table 5.2/ About 40 percent ($15.9 billion) of all 1979 I.W. exports, were intermediate goods (SITC 5-6), while machinery and transport equipment (SITC 7) alone accounted for $11.9 billion, nearly 1/3 of all shipments.

The composition of I.W. imports from the CMEA group is also provided in table 5. Over one-fourth ($4.8 billion, 27.9% of total) of Eastern Europe's exports to the West were manufactured goods (SITC 7-8) and a similar amount was intermediate goods (SITC 5-6). By contrast, $11.4

1/ Bilateral trade volume and shares data for 1970 and 1979 are provided in tables 3 and 4. 2/ The composition of individual CMEA country exports and imports is detailed in tables 6 and 7.

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billion of Soviet exports to the West, 61.5 percent of the total, was in the mineral fuels category (SITC 3) principally crude oil, refined products, natural gas, etc.), with other raw materials making up the bulk of the remainder. Intermediate goods totalled only $4.4 billion, 14.9 percent of total, and manufactured goods only $889 million, less than 5 percent of the total.

Relative Importance of Soviet-EE Trade to Selected Western Countries

Table 8 shows U.S. and selected Western country trade with the Soviet/EE group as a percentage of each country's trade with the world. Over the 1974-1979 period, European Community exports to the Eastern group averaged 4.4 percent of total EC exports; EC imports from the group averaged 3.8 percent of annual total EC imports. For the FRG, however, exports to the CMEA group averaged 7.0 percent of its total. Similar average exports as a percent of total exports for other Western countries were France 4.3 percent; Italy, 4.8 percent; U.K. 2.5 percent; Japan, 2.6 percent and the United States 2.6 percent.

Since virtually all of the Industrialized Western democracies have balance of payments and unemployment problems, all are increasingly export oriented and the above measures of the portion of total exports absorbed by the Soviet/EE group are useful indicators of the importance of these Eastern markets to the Western countries. However, because the importance of trade and exports varies widely between individual Western countries, expressing each Western country's exports to the Soviet/EE bloc as a portion of its GNP provides a far more valid and revealing indicator of the importance of these communist country markets to individual Western countries.

Table 9 presents the percentage of their Gross National Products generated by the exports of selected Western countries to the Soviet Union and Eastern Europe.1/ Using this measure, the FRG is by far the

1/ The standard formulation for calculation of GNP is GNP = Consumption (C) plus Investment (I) plus Government (G) plus Exports (X) minus Imports (M).

most dependent on the Eastern countries, with 1979 exports to the Soviet Union and Eastern Europe equivalent to 1.48 percent of that year's GNP. Italy, with .81 percent of its 1979 GNP stemming from exports to the Warsaw Pact countries ranks second by this measure, followed by France (.70 percent) and the U.K. (.52 percent). Japan's exports contribute only .31 percent of its GNP, with more than three-fourths of that total coming from exports to the U.S.S.R.

At .23 percent of GNP, U.S. exports to the Soviet/EE group in 1979 were less than one-sixth as important a contributor to GNP as those of the FRG. Additionally, 1979 U.S. exports to the Eastern countries were abnormally high, based on record grain shipments to the U.S.S.R. More typically, U.S. exports to the group would average .17 to .19 percent of U.S. GNP.

These measures make it evident that all of our major allies, especially the FRG, Italy, France and the U.K. have relatively much more than the United States to lose in an economic sense, from a cut-off or sharp reduction in Western trade with the CMEA countries. Even these, measures, however, do not make evident some other important dependencies that are revealed in a sector by sector analysis of each Western country's import and export patterns in trade with the Soviet/EE bloc.

Table 10 displays Western country exports of certain commodities ~~to~~ the U.S.S.R./EE as a percent of total 1974-79 exports to the world. It shows that, while total exports of all commodities by the FRG to the Soviet/EE group were 7.0 percent of total FRG exports to the world, the Soviet EE group absorbed a much higher percentage of FRG exports of certain commodities. For example, they took 20.4 percent of the FRG's exports of iron and steel (SITC 67) and over 10 percent of its exports of both chemical elements and compounds (SITC 51) and non-electric machinery (SITC 71).

France and Italy also have some sectors with important dependencies on EE/USSR export markets.

The Soviet Union has also become important to EC countries as an energy supplier. As indicated by table 10, in 1979 EC countries took 6.26 percent of their total petroleum (SITC 33) imports from the U.S.S.R., with the FRG drawing 7.82 percent of its oil from the Soviets.

About 15 percent of the FRG's natural gas is now supplied by the Soviet Union, with Italy taking 46.9 percent of its 1979 imports from the Soviets. If the proposed pipeline from Siberia is completed, the late 1980s will see the FRG dependent on the Soviet Union for about 25% of its natural gas, the existing Italian dependency will increase, and new dependencies for France, Belgium and other West European countries will be created.

The volume of trade by selected Western countries with the United States and the EE/USSR group is compared in Table 12. Japanese and British trading volumes with the United States dwarf their trade with the EE/USSR group. However, the FRG's trade in 1979 with these countries was larger than its trade with the United States. FRG exports to the East at $11.3 billion were only slightly higher than $11 billion that went to the United States. At $10.5 billion, however, FRG imports from the Eastern countries were $2.0 billion higher than the total from the United States. The Eastern countries are almost as important as the United States as an export market for France. French exports in 1979 to the CMEA countries reached $4.9 billion, compared with a $4.8 billion to the United States. At $5.6 billion, French imports from the United States were significantly larger than the $3.3 billion from EE/USSR.

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Italian imports of $7.6 billion from the EE/USSR group far surpassed the $4.4 billion from the United States, but the United States was a significantly larger market for Italian exports than EE/USSR.

CONTROLLED BY Allen J. Lenz
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Table 1
CMEA Destination and Origins in Trade
with the I.W., 1979 and 1970
(Millions of Dollars)

CMEA Destination/ Origin:	I.W. Exports				I.W. Imports			
	1979		1970		1979		1970	
	$	%	$	%	$	%	$	%
Bulgaria	1136	2.9	301	4.5	708	2.0	215	3.4
Czech	2592	6.7	737	11.0	2547	7.1	674	10.7
GDR	4852	12.5	1062	15.9	4008	11.2	927	14.7
Hungary	2873	7.4	584	8.8	2385	6.7	507	8.1
Poland	5726	14.7	827	12.4	4759	13.3	996	15.8
Romania	3545	9.1	672	10.1	2914	8.1	514	8.2
EE total	20724	53.4	4183	62.7	17322	48.4	3883	61.0
USSR	18114	46.6	2491	37.3	18503	51.6	2453	39.0
USSR/EE	38838	100.0	6674	100.0	35825	100.0	6286	100.0

Table 2

1979 I.W. Market Shares in Trade with USSR/EE

($Millions)

Country	I. W. EXPORTS						I. W. IMPORTS					
	EE		USSR		EE/USSR		EE		USSR		EE+USSR	
	$	%	$	%	$	%	$	%	$	%	$	%
Bel-Lux	590.5	2.8	467.5	2.6	1058.0	2.7	467.2	2.7	593.0	3.2	1060.2	3.0
Denmark	259.7	1.3	94.5	0.5	354,2	0.9	332.6	1.9	420.0	2.3	752.6	2.1
FRG	7644.4	36.9	3618.6	20.0	11263.0	29.0	6596.6	38.1	3883.1	21.0	10479.7	29.3
France	2024.2	9.8	2007.5	11.1	4031.7	10.4	1502.1	8.7	1790.4	9.7	3292.5	9.2
Ireland	25.7	0.0	45.9	0.3	71.6	0.2	106.1	0.6	86.6	0.5	192.7	0.5
Italy	1417.7	6.8	1219.9	6.7	2637.6	6.8	1807.7	10.4	1902.0	10.3	3709.7	10.4
Netherlands	841.0	4.1	304.3	1.7	1145.3	2.9	966.4	5.6	845.9	4.6	1812.3	5.1
UK	1168.4	5.6	891.1	4.9	2059.5	5.3	1206.4	6.9	1760.0	9.5	2966.4	8.3
EC Subtotal	13971.8	(67.4)	8649.3	(47.7)	22621.1	(58.2)	12984.9	(75.0)	11281.0	(61.0)	24265.9	(67.7)
Austria	1486.3	7.2	513.1	2.8	1999.4	5.1	1008.1	5.8	759.8	4.1	1767.9	4.9
Canada	337.5	1.6	653.9	3.6	991.4	2.6	202.5	1.2	49.4	0.3	251.9	0.7
Finland	270.1	1.3	1540.9	8.5	1811.0	4.7	410.2	2.4	2206.5	11.9	2616.7	7.3
Japan	803.3	3.9	2461.5	13.6	3264.8	8.4	323.1	1.9	1869.1	10.1	2192.2	6.1
Norway	158.6	0.8	87.5	0.5	246.1	6.3	250.8	1.4	146.4	0.8	397.2	1.1
Sweden	837.3	4.0	339.3	1.9	1176.6	3.0	709.5	4.1	1059.9	5.7	1769.4	4.9
Switzerland	803.4	3.9	265.6	1.5	1069.0	2.8	353.8	2.0	780.1	9.2	1133.9	3.2
U. S.	2056.2	10.0	3604.1	19.9	5660.3	14.6	1078.9	6.2	351.1	1.9	1430.0	4.0
Total	20724.4	100.0	18114.3	100.0	38838.7	100.0	17321.8	100.0	18503.5	100.0	35825.3	100.0

TABLE 3

Shares of I.W. Trade With CMEA, 1970 and 1979, Exports
(Millions of $)

1979	I.W. Exports	Bulgaria	Czech.	GDR	Hungary	Poland	Romania	EE	% of EE Total	U.S.S.R.	% of USSR	EE + USSR	% of EE-USSR
	Bel-Lux	43.8	74.5	95.9	76.2	174.9	125.2	590.5	2.8	467.5	2.6	1058.0	2.7
	Denmark	6.9	24.8	69.9	39.7	97.6	20.8	259.7	1.3	94.5	.5	354.2	0.9
	FRG	395.3	1086.9	2570.3	1168.0	1348.4	1075.5	7644.4	36.9	3618.6	20.0	11263.0	29.0
	France	141.7	151.4	361.7	210.4	605.7	553.3	2024.2	9.8	2007.5	11.1	4031.7	10.4
	Ireland	5.9	1.8	2.9	3.7	7.3	4.1	25.7	0.0	45.9	.3	71.6	0.2
	Italy	135.8	154.3	160.4	248.8	385.7	332.7	1417.7	6.8	1219.9	6.7	2637.6	6.8
	Netherlands	36.0	102.3	206.8	147.9	224.9	123.1	841.0	4.1	304.3	1.7	1145.3	2.9
	United Kingdom	58.1	156.9	123.7	129.5	550.5	149.7	1168.4	5.6	891.1	4.9	2059.5	5.3
	EC Subtotal	823.5	1752.9	3591.6	2024.2	3395.2	2384.4	13971.8	(67.4)	8649.3	(47.7)	22621.1	(58.2)
	Austria	95.1	216.8	169.3	353.9	435.9	215.3	1486.3	7.2	512.1	2.8	1999.4	5.1
	Canada	8.0	30.9	30.7	11.9	228.4	27.6	337.5	1.6	653.9	3.6	991.4	2.6
	Finland	16.4	31.1	91.7	58.1	50.1	22.7	270.1	1.3	1540.9	8.5	1811.6	4.7
	Japan	45.0	38.6	268.4	49.1	221.1	181.1	803.3	3.9	2461.5	13.6	3264.8	8.4
	Norway	5.2	19.2	26.3	11.3	89.0	7.6	158.6	0.8	87.5	.5	246.1	6.3
	Sweden	25.9	96.3	173.9	114.9	327.2	99.1	837.3	4.0	339.3	1.9	1176.6	3.0
	Switzerland	60.5	124.9	146.1	171.7	193.0	107.2	803.4	3.9	265.6	1.5	1069.0	2.8
	United States	56.2	281.1	354.5	77.6	786.3	500.5	2056.2	10.0	3604.1	19.9	5660.3	14.6
	Total	1136.0	2591.8	4852.5	2872.8	5726.0	3545.3	20724.4	100.0	18114.3	100.0	38838.7	100.0
	% Total	2.9%	6.7%	12.5%	7.4%	14.7%	9.1%	53.4%		46.6%			
1970													
	Bel-Lux	9.8	21.3	15.9	19.4	26.4	23.9	116.7	2.8	53.9	2.2	170.6	2.6
	Denmark	2.5	14.6	16.9	11.2	37.7	5.0	87.9	2.1	26.5	1.1	114.4	1.7
	FRG	65.6	289.9	660.0	142.5	179.7	197.2	1534.0	36.7	422.4	17.0	1956.4	29.3
	France	47.8	57.0	59.6	46.6	81.2	82.0	374.2	8.9	273.2	11.0	647.4	9.7
	Ireland	-	.8	.1	1.7	5.1	.1	7.8	0.2	-	-	7.8	0.0
	Italy	49.5	74.7	26.5	92.1	72.1	78.9	393.8	9.4	307.9	12.4	701.7	10.5
	Netherland	7.5	32.3	39.1	35.5	28.8	21.7	164.9	3.9	45.5	1.8	210.4	3.2
	United Kingdom	26.0	47.9	40.2	44.8	135.1	68.1	362.1	8.7	233.7	9.4	595.8	8.9
	EC Subtotal	208.8	536.7	858.3	393.8	566.2	447.0	3010.8	(72.0)	1363.2	(54.7)	4374.0	(65.5)
	Austria	26.6	61.8	26.2	80.4	44.6	46.8	286.4	6.8	82.1	3.3	368.5	5.5
	Canada	3.3	6.7	.4	6.7	14.5	3.4	35.0	0.8	97.7	3.9	132.7	2.0
	Finland	3.9	13.3	18.9	10.0	27.5	5.3	78.9	1.9	282.5	11.3	361.4	5.4
	Japan	20.8	10.1	14.7	11.7	22.4	26.2	105.9	2.5	341.0	13.7	446.9	6.7
	Norway	1.0	7.0	7.4	5.3	14.6	.5	35.8	0.9	24.8	1.0	60.6	0.9
	Sweden	8.9	36.0	77.5	24.2	39.2	20.5	206.3	4.9	131.4	5.3	337.7	5.1
	Switzerland	12.4	43.3	25.7	24.2	28.0	26.3	159.9	3.8	49.9	2.0	209.8	3.1
	United States	15.3	21.9	32.5	28.1	69.8	66.3	233.9	5.6	118.2	4.7	352.1	5.3
	Total	300.8	736.6	1061.6	584.4	827.0	672.3	4182.8	100.0	2490.8	100.0	6673.6	100.0
	% Total	4.5%	11.0%	15.9%	8.8%	12.4%	10.1%	62.7%		37.3%			

TABLE 4

Shares of I.W. Trade With CMEA, 1970 and 1979, Imports
(Millions of $)

	I.W. Imports	Bulgaria	Czech.	GDR	Hungary	Poland	Romania	EE	% of EE Total	U.S.S.R.	% of USSR	EE + USSR	% of EE+USSR
1979													
	Bel-Lux	25.2	66.5	133.4	36.2	157.3	48.6	467.2	2.7	593.0	3.2	1060.2	3.0
	Denmark	8.0	55.5	70.9	41.8	143.2	13.2	332.6	1.9	420.0	2.3	752.6	2.1
	FRG	194.6	876.5	2502.6	923.0	1206.0	893.9	6596.6	38.1	3883.1	21.0	10479.7	29.3
	France	68.8	167.1	216.0	153.6	551.9	344.7	1502.1	8.7	1790.4	9.7	3292.5	9.2
	Ireland	1.3	15.9	13.7	4.8	67.0	3.4	106.1	0.6	86.6	0.5	192.7	0.5
	Italy	210.6	233.6	161.9	339.4	493.0	369.2	1807.7	10.4	1902.0	10.3	3709.7	10.4
	Netherlands	27.0	145.5	134.6	114.9	154.5	390.0	966.4	5.6	845.9	4.6	1812.3	5.1
	United Kingdom	25.7	205.4	237.6	110.1	487.4	140.2	1206.4	6.9	1760.0	9.5	2966.4	8.3
	EC Subtotal	561.1	1765.9	3470.7	1723.6	3260.3	2203.4	12984.9	(75.0)	11281.0	(61.0)	24265.9	(67.7)
	Austria	40.2	321.5	118.5	240.3	202.4	85.2	1008.1	5.8	759.8	4.1	1767.9	4.9
	Canada	5.4	57.7	8.3	26.7	70.7	33.7	202.5	1.2	49.4	.3	251.9	0.7
	Finland	9.8	56.2	64.2	48.6	217.0	14.4	410.2	2.4	2206.5	11.9	2616.7	7.3
	Japan	24.5	59.9	27.8	23.2	72.9	114.8	323.1	1.9	1869.1	10.1	2192.2	6.1
	Norway	1.9	36.4	43.1	19.7	143.5	6.2	250.8	1.4	146.4	.8	397.2	1.1
	Sweden	14.2	93.5	201.7	90.4	243.5	66.2	709.5	4.1	1059.9	5.7	1769.4	4.9
	Switzerland	13.6	99.9	34.0	90.8	83.0	32.5	353.8	2.0	780.1	4.2	1133.9	3.2
	United States	37.0	56.5	39.8	121.9	466.1	357.6	1078.9	6.2	351.1	1.9	1430.0	4.0
	Total	707.7	2547.5	4008.1	2385.1	4759.4	2914.0	17321.8	100.0	18503.5	100.0	35825.3	100.0
	% Total	2.0%	7.1%	11.2%	6.7%	13.3%	8.1%	48.3%		51.7%			
1970													
	Bel-Lux	5.0	19.4	32.3	10.4	24.0	8.0	99.1	2.6	77.1	3.1	176.2	2.8
	Denmark	2.1	24.8	21.9	13.6	44.8	4.5	111.7	2.9	35.6	1.5	147.3	2.3
	FRG	64.7	198.7	545.9	133.9	203.3	158.5	1305.0	34.0	341.6	13.9	1646.6	26.2
	France	18.9	39.7	42.3	27.1	68.0	53.3	249.3	6.5	203.5	8.3	452.8	7.2
	Ireland	.7	3.3	1.6	.7	18.2	1.9	26.4	0.7	3.8	.2	30.2	0.5
	Italy	54.3	75.4	35.3	121.8	120.8	135.0	542.6	14.2	281.5	11.5	824.1	13.1
	Netherland	9.0	34.8	45.6	23.4	28.7	14.4	155.9	4.1	58.1	2.4	214.0	3.4
	United Kingdom	19.6	52.4	38.0	25.4	151.3	55.6	342.3	9.0	266.1	10.8	608.4	9.7
	EC Subtotal	174.5	448.5	762.9	356.2	659.0	431.4	2832.5	(73.9)	1267.3	(51.7)	4099.8	(65.2)
	Austria	11.0	67.4	27.8	59.6	57.9	28.8	257.5	6.6	79.5	3.2	332.0	5.3
	Canada	1.0	26.3	3.5	8.8	11.3	4.9	56.0	1.5	8.7	.4	64.7	1.0
	Finland	5.6	12.8	16.9	11.1	39.3	8.3	94.0	2.5	331.3	13.5	425.3	6.8
	Japan	9.3	15.2	38.7	4.2	39.6	4.3	111.3	2.9	481.1	19.6	592.4	9.4
	Norway	2.8	14.9	8.0	5.9	17.8	2.1	51.5	1.3	30.8	1.3	82.3	1.3
	Sweden	3.8	31.9	46.8	23.0	57.5	11.9	174.9	4.6	155.7	6.3	330.6	5.3
	Switzerland	4.1	33.0	13.6	32.2	15.8	8.8	107.5	2.8	26.8	1.1	134.3	2.1
	United States	2.4	23.9	9.4	6.2	97.9	13.4	153.2	4.0	72.3	2.9	225.5	3.6
	Total	214.7	674.0	927.5	507.2	996.3	513.8	3833.5	100.0	2453.4	100.0	6286.9	100.0
	% Total	3.4%	10.7%	14.7%	8.1%	15.8%	8.2%	61.0%		39.0%			

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Table 5
Composition of I.W. Trade with
European CMEA 1970 and 1979
(Millions of U.S. dollars)

I.W. Exports

SITC	Descriptor	1970 EE ($)	1970 EE (%)	1970 USSR ($)	1970 USSR (%)	1979 EE ($)	1979 EE (%)	1979 USSR ($)	1979 USSR (%)
0	Food & Live Animals	394	9.4	143	5.7	2539	12.2	3257	18.0
1	Beverages & Tobacco	25	0.6	5	0.2	143	0.6	31	0.2
2	Crude Materials	339	8.1	108	4.3	1346	6.5	877	4.8
3	Mineral Fuels & Lubricants	103	2.5	5	0.2	685	3.3	100	0.6
4	Animal & Veg. Oils & Fats	38	0.9	---	---	157	0.8	95	0.5
5	Chemicals	572	13.7	255	10.2	3426	16.5	1927	10.6
6	Mfgrs. by Chief Material	1153	27.6	713	28.6	5105	24.6	5411	29.9
7	Machinery & Transport Equip.	1349	32.3	1028	41.3	6282	30.3	5654	31.2
8	Misc. Manufactures	176	4.2	217	8.7	838	4.0	650	3.6
9	Items & Transactions n.e.s.	32	0.8	19	0.8	204	1.0	112	0.6
	Total	4183	100.0	2490	100.0	20725	100.0	18114	100.0
0-4	Primary Products	899	21.5	261	10.4	4870	23.4	4360	24.1
5-6	Intermediate Products	1725	41.3	968	38.8	8531	41.1	7338	40.5
7-8	Manufactured Goods	1525	36.5	1245	50.0	7120	34.3	6304	34.8
	I. W. Imports								
0	Food & Live Animals	947	24.7	130	5.3	2199	12.7	203	1.1
1	Beverages & Tobacco	40	1.1	4	0.2	174	1.0	36	0.2
2	Crude Materials	466	12.2	823	33.5	1384	8.0	2456	13.3
3	Mineral Fuels & Lubricants	408	10.6	822	33.5	3636	21.0	11387	61.5
4	Animal & Veg. Oils & Fats	55	1.4	40	1.6	98	0.6	12	0.1
4	Chemicals	243	6.3	75	3.0	1134	6.5	1384	7.5
6	Mfgrs. by Chief Material	831	21.7	449	18.3	3710	21.4	2136	11.5
7	Machinery & Transport Equip.	366	9.6	71	2.9	1910	11.0	629	3.4
8	Misc. Manufactures	443	11.6	16	0.7	2935	16.9	131	0.7
9	Items & Transactions n.e.s.	32	0.8	24	1.0	142	0.8	128	0.7
	Total	3833	100.0	2453	100.0	17322	100.0	18503	100.0
0-4	Primary Products	1916	50.0	1819	74.1	7491	43.3	14094	76.2
5-6	Intermediate Products	1074	28.0	524	21.4	4844	27.9	3520	19.0
7-8	Manufactured Goods	809	21.2	87	3.6	4845	27.9	760	4.1

Table 6

Composition of I.W. Trade With CMEA, 1979 and 1970, I.W. Exports
(Millions of U.S. Dollars)

	I.W. Exports	Bulg.	Chech.	GDR	Hungary	Poland	Rom.	Total EE	% of Total EE	USSR	% USSR	Total EE USSR	% of EE/USSR
1979													
0	Food & Live Animals	82.2	305.7	655.0	109.9	1087.6	298.3	2538.7	12.2	3257.2	18.0	5795.9	14.9
1	Beverages & Tobacco	17.3	10.8	70.5	9.0	29.7	5.6	142.9	0.6	30.8	0.2	173.7	0.4
2	Crude Materials	61.3	200.5	209.1	155.7	421.4	298.5	1346.5	6.5	876.7	9.8	2223.2	5.7
3	Mineral Fuels	5.3	34.3	363.5	29.8	41.9	209.9	684.7	3.3	100.0	0.6	784.7	2.0
4	Animal & Veg Oils & Fats	1.9	9.1	63.8	10.8	58.8	13.1	157.5	0.8	95.3	0.5	252.8	0.7
5	Chemicals	214.7	525.8	752.8	643.9	848.4	440.3	3425.9	16.5	1927.0	10.6	5352.9	13.8
6	Mfrs By Chief Material	372.2	444.7	1170.0	775.5	1401.4	941.3	5105.1	24.6	5411.2	29.9	10516.3	27.1
7	Mach & Transport Equip.	316.0	897.0	1323.4	930.3	1612.5	1202.8	6282.0	30.3	5653.7	31.2	11935.7	30.7
8	Misc Manufactures	49.8	138.9	198.2	169.5	165.5	115.8	837.7	4.0	650.5	3.6	1488.2	3.8
9	NES	15.3	25.3	46.2	38.4	58.8	19.7	203.7	1.0	111.6	0.6	315.3	0.8
	Total	1136.0	2592.1	4852.5	2872.8	5726.0	3545.3	20724.7	100.0	18114.3	100.0	38839.0	100.0
	% of Total	2.9	6.7	12.5	7.4	14.7	9.1	53.4	-	46.6	-	100.0	-
	% Growth 70-79	277%	252%	357%	393%	592%	428%	395%		627%			
1970													
0	Food & Live Animals	18.8	82.1	97.2	64.0	102.1	30.3	394.5	9.4	142.7	5.7	537.2	8.0
1	Beverages & Tobacco	0.9	3.9	14.0	1.2	3.7	1.0	24.7	0.6	4.6	0.2	29.3	0.4
2	Crude Materials	13.1	61.0	88.7	44.4	88.3	43.4	338.9	8.1	107.6	4.3	446.5	6.7
3	Mineral Fuels	11.4	3.6	45.6	3.0	9.8	29.8	103.2	2.5	4.8	0.2	108.0	1.6
4	Animal & Veg Oils & Fats	0.2	3.9	9.1	3.2	19.4	2.6	38.4	0.9	0.1	0.0	38.5	0.6
5	Chemicals	40.6	115.7	125.9	113.2	113.9	62.9	572.1	13.7	254.7	10.2	826.8	12.4
6	Mfrs By Chief Material	102.3	127.4	320.0	179.5	211.4	212.8	1153.4	27.6	713.0	28.6	1866.4	28.0
7	Mach & Transport Equip.	101.4	283.6	320.4	139.5	239.8	264.5	1349.2	32.3	1027.7	41.3	2376.9	35.6
8	Misc Manufactures	10.2	50.1	31.7	31.9	30.1	21.9	175.9	4.2	217.0	8.7	392.9	5.9
9	NES	1.9	5.4	8.8	4.4	8.5	3.3	32.3	0.8	18.7	0.8	51.0	0.8
	Total	300.8	736.7	1061.4	584.3	827.0	672.4	4182.6	100.0	2490.9	100.0	6673.5	100.0
	% of Total	4.5	11.0	15.9	8.8	12.4	10.1	62.7		37.3			

Table 7

Composition of I.W. Trade With CMEA, 1979 and 1970, I.W.
(Millions of U.S. Dollars)

1979	I.W.	Bulg.	Czech.	GDR	Hungary	Poland	Rom.	Total EE	% of Total EE	USSR	% USSR	Total EE USSR	% of EE/USSR
0	Food & Live Animals	139.8	176.8	372.7	550.7	749.5	209.3	2198.8	12.7	203.0	1.1	2401.8	6.7
1	Beverages & Tobacco	68.4	9.4	19.6	35.9	22.6	18.1	174.0	1.0	36.0	0.2	210.0	0.6
2	Crude Materials	53.0	353.1	201.8	209.7	443.1	122.9	1383.6	8.0	2456.0	13.3	3839.6	10.7
3	Mineral Fuels	120.3	326.8	799.6	134.5	1250.7	1004.5	3636.4	21.0	11387.0	61.5	15023.4	41.9
4	Animal & Veg Oils & Fats	4.4	6.9	8.5	24.2	16.0	37.7	97.7	0.6	12.3	0.1	110.0	0.3
5	Chemicals	37.9	195.0	425.0	211.5	181.8	82.6	1133.8	6.5	1384.5	7.5	2518.3	7.0
6	Mfrs By Chief Material	148.3	751.9	917.6	439.6	904.3	548.7	3710.4	21.4	2135.9	11.5	5846.3	16.3
7	Mach & Transport Equip.	47.9	336.6	449.1	268.8	629.6	178.3	1910.3	11.0	629.5	3.4	2539.8	7.1
8	Misc Manufactures	79.8	335.3	783.1	483.5	529.9	703.3	2934.9	16.9	131.0	0.7	3065.9	8.6
9	NES	7.8	35.7	31.1	26.7	31.9	8.5	141.7	0.8	128.3	0.7	270.0	0.8
	Total	707.7	2547.4	4008.1	2385.1	4759.4	2913.9	17321.6	100.0	18503.5	100.0	35825.1	100.0
	% of Total	2.0	8.1	11.1	6.7	13.3	8.1	48.4		51.6		100.0	
	% Growth 70-79	229%	278%	332%	370%	378%	467%	352%		654%		469%	
1970													
0	Food & Live Animals	77.4	73.8	144.9	204.1	310.7	136.3	947.2	24.7	129.8	5.3	1077.0	17.1
1	Beverages & Tobacco	15.8	2.7	3.5	6.9	8.1	3.3	40.3	1.1	3.8	0.2	44.1	0.7
2	Crude Materials	28.3	90.1	54.1	58.1	134.9	101.0	466.5	12.2	822.7	33.5	1289.2	20.5
3	Mineral Fuels	0.9	51.8	70.5	13.4	221.9	49.7	408.2	10.6	821.9	33.5	1230.1	19.6
4	Animal & Veg Oils & Fats	10.5	1.5	8.7	6.8	4.8	22.5	54.8	1.4	40.1	1.6	94.9	1.5
5	Chemicals	11.5	44.1	85.6	25.0	46.1	30.7	243.0	6.3	74.7	3.0	317.7	5.1
6	Mfrs By Chief Material	38.4	202.4	223.0	99.7	173.4	94.2	831.1	21.7	449.1	18.3	1280.2	20.4
7	Mach & Transport Equip.	11.6	118.5	153.7	29.9	34.4	18.0	366.1	9.6	71.3	2.9	437.4	7.0
8	Misc Manufactures	18.6	80.5	177.9	57.8	53.7	54.9	443.4	11.6	16.0	0.7	459.4	7.3
9	NES	1.8	8.5	5.5	5.0	8.2	3.3	32.3	0.8	24.0	1.0	56.3	9.0
	Total	214.8	673.9	927.4	506.7	996.2	513.9	3832.9	100.0	2453.4	100.0	6286.3	100.0
	% of Total	3.4%	10.7%	14.7%	8.1%	15.8%	8.2%	61.0%		39.0%			

Table 8

I.W. Trade With CMEA Countries
As A Percent of Total Trade

	% of Total			
	1974	1977	1979	Average 1974 thru 1979
European Community				
Exports to EE	2.8%	2.7%	2.4%	2.7%
USSR	1.4%	1.8%	1.5%	1.7%
Total USSR/EE	4.2%	4.5%	3.9%	4.4%
Imports From EE	1.8%	2.2%	2.2%	2.1%
USSR	1.4%	1.8%	1.9%	1.7%
Total USSR/EE	3.2%	4.0%	4.1%	3.8%
France				
Exports to EE	2.1%	2.0%	2.1%	2.3%
USSR	1.5%	2.4%	2.0%	2.0%
Total USSR/EE	3.6%	4.4%	4.1%	4.3%
Imports From EE	1.4%	1.5%	1.4%	1.5%
USSR	1.1%	1.6%	1.7%	1.5%
Total USSR/EE	2.5%	3.1%	3.1%	3.0%
FRG				
Exports to EE	4.2%	4.9%	4.5%	4.6%
USSR	2.1%	2.4%	2.1%	2.4%
Total USSR/EE	6.3%	7.3%	6.6%	7.0%
Imports From EE	2.6%	4.3%	4.2%	3.9%
USSR	1.8%	1.8%	2.5%	2.0%
Total USSR/EE	4.4%	6.1%	6.7%	5.9%
Italy				
Exports to EE	3.4%	2.3%	2.0%	2.5%
USSR	2.0%	2.7%	1.7%	2.3%
Total USSR/EE	5.4%	5.0%	3.7%	4.8%
Imports From EE	2.7%	2.4%	2.3%	2.5%
USSR	2.0%	3.1%	2.5%	2.6%
Total USSR/EE	4.7%	5.5%	4.8%	5.1%
Japan				
Exports to EE	1.0%	0.9%	0.8%	0.9%
USSR	2.0%	2.4%	2.4%	2.6%
Total USSR/EE	3.0%	3.1%	3.2%	3.5%
Imports From EE	0.4%	0.3%	0.3%	0.3%
USSR	2.3%	2.0%	1.7%	1.9%
Total USSR/EE	2.7%	2.3%	2.0%	2.2%
U.K.				
Exports to EE	1.9%	1.5%	1.3%	1.3%
USSR	0.7%	1.1%	1.0%	1.0%
Total USSR/EE	2.6%	2.6%	2.3%	2.5%
Imports From EE	1.2%	1.3%	1.2%	1.2%
USSR	1.7%	2.1%	1.7%	1.8%
Total USSR/EE	2.9%	3.4%	2.9%	3.0%
United States				
Exports to EE	0.8%	0.8%	2.8%	1.0%
USSR	0.6%	1.4%	2.1%	1.6%
Total USSR/EE	1.4%	2.2%	4.9%	2.6%
Imports From EE	0.5%	0.5%	0.5%	0.5%
USSR	0.3%	0.2%	0.2%	0.2%
Total USSR/EE	0.8%	0.7%	0.7%	0.7%

TABLE 9

EXPORTS TO CMEA COUNTRIES AS A PERCENT OF GNP

	$ Billions of Exports			Exports as a Percent of GNP		
	World	EE	USSR	EE	USSR	TOTAL
France	570	2.0	2.0	0.35%	0.35%	.70
FRG	760	7.654	3.618	1.0	0.48	1.48
Italy	319	1.4	1.2	0.43	0.38	0.81
Japan	1030	0.8	2.46	0.07	0.24	0.31
U.K.	394	1.168	0.891	0.30	0.23	0.52
U.S.	2369	2.1	3.6	0.08	0.15	0.23
EC	2390	13.980	8.649	0.58	0.36	0.94

Table 10
1974-79 Exports to USSR/EE By Selected
Western Countries as a Percent of Exports to the World

	Total All Commodities	Chemical Elements & Compounds SITC 51	Textile yarn, fabric, etc SITC 65	Iron & Steel SITC 67	Metal Mfrs. SITC 69	Machinery, non-electric SITC 71	Electrical Machinery SITC 72	SITC 73
EC	4.4%	6.9%	5.1%	12.6%	3.6%	7.4%	3.4%	1.4%
France	4.3%	9.3%	5.9%	8.4%	5.0%	9.0%	4.7%	
FRG	7.0%	10.3%	8.6%	20.4%	5.5%	10.2%	4.5%	
Italy	4.8%	9.7%	5.4%	17.8%	4.9%	8.9%	4.4%	
U.K.	2.5%	6.3%	4.2%	4.8%	2.1%	3.7%	2.2%	
Japan	3.5%	5.1%	4.9%	7.7%	3.1%	6.8%	1.7%	
U.S.	2.6%							

TABLE 11: Value and Share of Total Imports of Petroleum and Petroleum Products (SITC 33) by Selected Western Countries from the USSR
(Millions of US dollars)

Importing Country		1974	1975	1976	1977	1978	1979	1974-79
EC 1/	USSR:	1815.6	2047.5	3037.0	3325.4	3681.0	5621.9	19518.4
	Total:	55125.1	51919.5	59872.1	62251.4	64143.0	89821.7	383132.8
	% USSR:	3.3%	3.9%	5.1%	5.3%	5.7%	6.3%	5.1%
FRG:	USSR:	725.6	682.1	877.5	833.2	1041.0	2081.0	6240.2
	Total	12478.8	11733.0	14002.6	14842.0	16115.0	26629.0	84569.4
	% USSR:	5.8%	5.8%	6.3%	5.6%	6.5%	7.8%	7.4%
France:	USSR:	115.5	246.7	331.7	472.8	541.0	1001.0	2708.8
	Total	10720.8	10503.9	12513.1	12861.1	13304.0	19466.0	79368.9
	% USSR:	1.1%	2.4%	2.7%	3.7%	4.1%	5.1%	3.4%
Italy:	USSR:	541.9	519.0	919.9	887.0	852.0	973.0	4692.7
	Total:	10236.2	9183.2	9989.8	10860.3	11995.0	16723.0	68987.3
	% USSR:	5.3%	5.7%	9.2%	8.2%	7.1%	5.8%	6.8%
Neth.	USSR:	159.3	215.6	253.4	236.7	339.0	695.0	1899.1
	Total:	5635.0	5834 2	7361.9	7950.9	7684.0	12696.0	47162.0
	% USSR:	2.8%	3.7%	3.4%	3.0%	4.4%	5.5%	4.0%
U.K.	USSR:	68.6	151.4	389.6	479.7	502.0	509.0	2100.3
	Total	10612.8	9240.6	9897.2	8831.9	8690.0	11101.0	58373.4
	% USSR:	6.5%	1.6%	3.9%	5.4%	5.8%	4.6%	3.6%
Austria	USSR:	134.0	102.8	148.9	190.8	205.0	256.6	1038.1
	Total	841.0	806.5	986.8	1020.8	1179.3	1844.0	6678.3
	% USSR:	15.9%	12.8%	15.1%	18.7%	17.4%	13.9%	15.5%
Finland	USSR:	871.1	757.4	888.1	1040.9	992.7	1674.1	6224.4
	Total	1236.1	1144.7	1305.9	1484.8	1394.7	2584.0	9150.2
	% USSR:	70.5%	66.2%	68.0%	70.1%	71.2%	64.8%	68.0%
Sweden	USSR:	285.4	345.8	316.1	340.0	427.2	817.0	2531.5
	Total	2586.5	2842.9	3092.0	3307.2	3178.0	5963.2	20969.7
	% USSR	11.0%	12.2%	10.2%	10.3%	13.4%	13.7%	12.1%

1/ EC figures do not include Ireland in 1978 and 1979 or Belgium-Luxembourg in 1979.
Source: Statistics of Foreign Trade, Tsade by Commodities, 1974-79, OECD.

Table 12
U.S. and EE/USSR Trade
With Selected I.W. Countries, 1974-79
(Billions of U.S. Dollars)

Exports By	To U.S.	1974	1975	1976	1977	1978	1979
EC	U.S.	19.0	16.6	17.8	22.2	29.0	33.3
	EE/USSR	11.7	14.5	15.7	16.9	19.3	22.6
FRG	U.S.	6.3	5.4	5.6	7.2	10.0	11.0
	EE/USSR	5.6	6.5	7.9	8.5	10.0	11.3
France	U.S.	2.3	2.1	2.5	3.0	4.1	4.8
	EE/USSR	1.6	2.6	2.7	2.8	2.9	4.0
Italy	U.S.	2.6	2.4	2.5	3.0	4.1	4.9
	EE/USSR	1.6	2.2	2.0	2.3	2.4	2.6
Japan	U.S.	12.3	11.3	15.5	18.6	24.5	26.2
	EE/USSR	1.7	2.2	2.8	2.7	3.2	3.3
U.K.	U.S.	4.1	3.8	4.3	5.1	6.5	8.0
	EE/USSR	1.0	1.3	1.2	1.5	1.9	2.1

Imports By	From	1974	1975	1976	1977	1978	1979
EC	U.S.	22.1	22.9	25.4	27.1	32.0	42.6
	EE/USSR	9.5	10.4	14.1	15.5	17.9	24.3
FRG	U.S.	5.0	5.2	5.7	6.0	7.0	8.5
	EE/USSR	3.0	3.2	5.6	6.2	7.6	10.5
France	U.S.	2.9	3.0	3.4	3.5	4.2	5.6
	EE/USSR	1.3	1.7	2.0	2.2	2.5	3.3
Italy	U.S.	2.8	2.9	3.1	2.8	3.4	4.4
	EE/USSR	4.1	3.8	4.3	4.7	5.5	7.6
Japan	U.S.	10.7	9.6	10.2	10.5	12.9	17.6
	EE/USSR	1.7	1.4	1.4	1.6	1.6	2.2
U.K.	U.S.	4.6	4.5	4.8	6.0	7.1	10.6
	EE/USSR	.9	.9	1.2	1.4	1.3	1.8

US-USSR

SYSTEM II

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MEMORANDUM

NATIONAL SECURITY COUNCIL

~~SECRET~~

December 24, 1981

INFORMATION

MEMORANDUM FOR JAMES W. NANCE

FROM: RICHARD PIPES

SUBJECT: Measures to be Taken Against the Soviet Union

As a refinement of Bailey's memorandum to you of December 23 on measures to be taken against the Soviet Union, I believe that the measures proposed under Phase I should be listed in order of descending importance, as follows:

1. Reduce Soviet diplomatic and consular representation in the U.S.

2. The export of all oil and gas equipment and technology to the Soviet Union, to be placed under national security controls.

3. Cancel all cultural, scientific and academic agreements with the Soviet Union.

4. Escalate radio broadcasting and anti-jamming activities toward the Soviet Union.

5. Expel all Soviet commercial representatives, close their offices and close our commercial offices in the USSR.

6. Invoke the "exceptional circumstances" clause of the 1980 agreement on the rescheduling of the Polish official debt.

7. Promote the condemnation of Soviet involvement in the Polish situation in international organizations.

8. Ban Soviet fishing in U.S. waters. ~~(S)~~

Norm Bailey concurs.

~~SECRET~~
Review December 24, 1987.

DECLASSIFIED
NLRR F06-114/10 #11318
BY CN NARA DATE 1/2/08

SECRET

PIPES

MEMORANDUM

SYSTEM II 44

NATIONAL SECURITY COUNCIL

December 23, 1981

~~SECRET~~

INFORMATION

anti-P. measures.

MEMORANDUM FOR JAMES W. NANCE

FROM: NORMAN A. BAILEY NB

SUBJECT: Measures to be taken Against the Soviet Union

Pursuant to the National Security Council decisions of December 22, 1981, depending upon the response to the President's letters to General Jaruzelski and Mr. Brezhnev, the following measures will be taken against the Soviet Union:

Phase I (Measures to be taken immediately upon receipt of an unsatisfactory reply to the President's letters or evidence of increased repression.)

5 1. Expel all Soviet commercial representatives, close their offices and close our commercial offices in the USSR.

2. 8 Ban Soviet fishing in U.S. waters.

6 3. Pressure U.S. banks to suspend all credits to the Soviet Union.

1 ~~4~~. Reduce Soviet diplomatic and consular representation in the U.S.

7 5. Promote the condemnation of Soviet involvement in the Polish situation in international organizations.

3 6. Cancel all cultural, scientific and academic agreements with the Soviet Union.

4 7. Escalate radio broadcasting and anti-jamming activities towards the Soviet Union.

2 ~~8~~. Halt the export of all oil and gas equipment and technology to the Soviet Union, to be placed under National Security controls.

Phase II (To be triggered by increased repression, but at the latest by January 15, 1982, given the scheduled meeting of Secretary Haig and Mr. Gromyko January 26-28.)

~~SECRET~~
Review December 23, 1987

~~SECRET~~

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NLRR F06-114/10 #11320
BY CN NARA DATE 8/7/08

1. Suspend Aeroflot service.

2. Refuse to renegotiate the Soviet/American Maritime Agreement.

3. Recall our Ambassador.

4. Cancel the Haig/Gromyko meeting.

5. Walk out of the CSCE in Madrid after denouncing the Soviets.

6. Rescind the International Harvester export license.

7. Impose an embargo on exports of all high technology items to the Soviet Union.

Phase III (Triggered by increased repression or Soviet direct or indirect intervention, but in any case not later than February 18, 1982.)

1. Impose a total trade embargo with the Soviet Union.

2. Pull out of the MBFR negotiations.

3. Denounce the Helsinki Final Act.

A copy of State's paper is at Tab I. Defense's paper is at Tab II.

cc: Richard Pipes
Allen Lenz
Paula Dobriansky
Chris Shoemaker
Carnes Lord
Dennis Blair

Attachments
Tab I State Paper entitled "Poland: Possible Actions Against the USSR"
Tab II Defense Paper entitled "Economic Sanctions"

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POLAND: POSSIBLE ACTIONS AGAINST THE USSR

I. Actions to Date

Thus far since the imposition of martial law in Poland, we have taken no concrete steps against the Soviet Union. Our diplomatic representations have been confined to Under Secretary Stoessel's December 13 meeting with Soviet Charge' Bessmertnykh, during which we handed over the text of Secretary Haig's 4:00 p.m. Brussels statement, and stressed the necessity for non-interference and a return to a process of negotiation and compromise in Poland. Stoessel also underscored our concern over the Polish situation in an informal encounter with Soviet Ambassador Dobrynin on December 18. In addition, at the INF negotiations Paul Nitze put the Soviets on notice that Polish developments could not but affect the future of the talks. We are presently planning a Presidential letter to Brezhnev warning against Soviet intervention and making clear we hold the Soviets responsible. Publicly, the President's December 17 statement put the Soviets on notice that we hold them responsible for the Polish crackdown, and we have placed increasing emphasis on the Soviet role in our public statements since then.

II. Possible Unilateral U.S. Actions

The following are possible actions which we could take unilaterally against the Soviets, if the Polish crisis reaches the point that we want either (1) to seek to deter the Soviets from bringing about a major escalation in repressive action against the Polish people, or (2) to impose punitive sanctions against Moscow following direct Soviet intervention. In some instances, these actions would have a substantial impact on the Soviets regardless of whether the Allies took parallel action; in other cases lack of Allied support would make their effects largely symbolic.

In considering the possible options, we should keep in mind the need to avoid a split among Western nations of the kind that occurred after the Soviet invasion of Afghanistan (and we can count on the Soviets to work hard to this end). At the same time, we should remember that any unilateral action could bring Soviet retaliation in kind against us.

A. Broad policy initiatives:

1. Call for an emergency U.N. Security Council meeting and, if appropriate, a meeting of the General Assembly to condemn Soviet or Soviet-sponsored repression in Poland. This could be part of a general political offensive aimed at highlighting the Soviet role in the Polish crackdown.

Pros: -- Focusing international attention on Soviet/Polish behavior could have an important deterrent effect.

Cons: -- Soviets can block UNSC action; UNGA debate could be counterproductive if it only demonstrated traditional U.N. cleavages.

2. <u>Play the China Card: (a) High-visibility consultations with the Chinese; (b) sell high-technology weapons systems to Beijing</u>

<u>Pros</u>: -- Signals high international costs of Soviet involvement in Poland.

<u>Cons</u>: -- Would touch such a raw nerve with the Soviets that it could remove the disincentives to massive Soviet intervention in Poland.

-- Chinese may attempt to extract a price with respect to Taiwan, resist political manipulation.

-- Chinese may be unable to pay for the weapons.

3. <u>Seek to isolate the USSR economically: (a) impose total trade embargo, encompassing both agricultural and industrial exports; (b) expel all Soviet commercial representatives; (c) ban Soviet fishing in U.S. waters; (d) discourage tourist travel to the USSR; (e) suspend Aeroflot service to the U.S. and end Soviet maritime access to U.S. ports; (f) suspend negotiations on economic matters; (g) pressure U.S. banks to curtail credits</u>.

<u>Pros</u>: -- Would be strong signal of end to business-as-usual.

-- Curtailing our major agricultural as well as industrial trade is a prerequisite to getting Europeans to impose across-the-board trade restrictions of their own.

-- Would cause immediate short-term economic dislocations for Soviets.

<u>Cons</u>: -- Economic impact would be severely diluted without Allied imposition of corresponding measures.

-- Economic warfare could cause Soviets and Poles to repudiate over $40 billion in debts to the West.

-- Allies highly unlikely to go along except in case of all-out Soviet intervention; even then, measures not likely to remain in effect for very long.

-- Allies will resist specific aspects of trade embargo, e.g. export of oil/gas extraction technologies, given divergence of view on desirability of assisting Soviet energy sector.

-- Domestic economic interests will resist, particularly if embargo not supported by Allies.

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-- Would require spending $3-5 billion to support grain prices.

4. Seek to isolate the USSR politically: (a) sharply reduce levels of diplomatic representation in Moscow and Washington; (b) seek condemnation of USSR in international organizations, e.g. UN, ILO, CSCE; (c) cancel all remaining cultural, scientific, and academic exchange agreements, and discourage private exchanges; (d) escalate radio broadcasting/ anti-jamming efforts directed toward the Soviet audience (consider direct-broadcast satellites); (e) request Ambassador Dobrynin's recall, withdraw Ambassador Hartman.

Pros: -- Would be dramatic political slap-in-face for Soviets, symbolizing end to business-as-usual.

-- Conveys high and lasting cost of Soviet-sponsored repression in Poland.

Cons: -- Allies would criticize reduction in US-Soviet dialogue at time of crisis.

-- Could remove disincentives to massive Soviet intervention in Poland.

-- Could precipitate greater Soviet risk-taking in third world.

5. Propose a large-scale international assistance program for Poland (a new Marshall Plan).

Pros: -- Would put U.S. on propaganda high ground.

-- Could provide inducement for bringing about end to martial law.

-- If implemented, would increase Western influence over Poland at Soviets' expense.

Cons: -- Difficult to keep program from becoming bail-out of Polish economy, relieving Soviets of their share of the burden.

-- Would require huge USG budgetary outlays; international financial backing also doubtful.

-- Soviets likely to veto Polish acceptance.

B. Special Cases:

1a. Postpone or cancel the January 26-28 Haig/Gromyko meetings (variant: inform Soviets that U.S. agreement to meetings is "under review") in light of Polish developments.

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Pros: -- Will indicate to Soviets that cooperative side of relationship is in jeopardy.

-- "Under review" formula would leave us option to go ahead with meetings if Polish situation improved.

Cons: -- Allies would criticize cut-off of East/West dialogue at moment of crisis.

-- Haig/Gromyko would be useful forum to register our concerns about Poland at Politburo level.

-- Cancelling meetings would impede our efforts to pursue resolution of other regional problems, e.g. Afghanistan, Cuba.

1b. Request early Haig/Gromyko meeting to discuss Polish crisis.

Pros: -- Would provide early forum to drive home to Soviet leadership the consequences of their actions in Poland.

-- Would be applauded by Allies as appropriate enhancement of East-West dialogue in crisis period.

Cons: -- Soviets would likely demand Moscow as venue, which would cast us in role of supplicant.

-- Meeting likely to be unproductive, with Gromyko taking hard line on U.S. "interference" in Polish internal affair.

~~2. Postpone resumption of INF negotiations (variant: make resumption contingent on developments in Poland).~~

~~Pros: -- Denies Soviets high-priority arms control forum.~~

~~-- Casts Soviets as responsible for breakdown in INF process.~~

~~Cons: -- Allies likely to object absent overt Soviet involvement in Poland, particularly if U.S. move rekindles peace movement.~~

3. Announce U.S. refusal to set a date for the start of START negotiations.

?

Pros: -- Would deny Soviets their much-sought resumption of the SALT process.

Cons: -- Soviets could react by ending their informal observance of the SALT II limits.

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-- Could raise objections on the part of the Allies.

-- Later initiation of START could entwine talks in 1984 electoral politics.

4. ~~Abrogate~~ Suspend the Helsinki Final Act

Pros: -- Would dramatize Soviets' flagrant violation of CSCE principles in their dealings with Poland, as well as on human rights.

-- Would signal that we do not accept the Soviet view that the post-war division of Europe gives them special rights to intervene in Eastern Europe.

Cons: -- This idea was proposed by President Carter after Afghanistan, and then dropped. As then, the Allies are likely to oppose on principle, and to object strongly to U.S. unilateral action without consultation.

-- Undermines the legitimacy of challenging the Soviets on human rights abuses/emigration, based on the Soviets' own adherence to the Final Act,

5. Pull out of the MBFR Negotiations

Pros: -- Would emphasize how Soviet actions in Poland make a mockery of the notion of force reductions and confidence-building measures in central Europe.

-- Little cost, since talks stalemated anyway.

Cons: -- Allies, especially Germans, may resist.

-- If done unilaterally, would create strains in Alliance about failure to consult.

III. Actions we would want to take in concert with the Allies .

The Allies have expressed outrage over events in Poland individually, as well as through NATO and the EC-10, but with nuances. Like the US, France has been tough on the Soviets. Others -- the FRG, Canada, Scandinavians,, and the Benelux among them -- have held off direct criticism of the USSR, focusing instead on repression within Poland, although the Allies may be increasingly willing to follow our lead on a robust line toward the Soviets. Italy and the FRG are both reluctant to use major sanctions now on the Soviets, arguing that we should save such ammunition for later, and many others would likely agree. France, toughly anti-Soviet, is consistently reluctant to join in sanctions that hurt French economic interests and often plays a blocking role on COCOM consensus.

On balance, we can expect fair to good support on symbolic and political measures, including tough ones like warning the Soviets on CSCE or INF. But, if we push now for economic measures with teeth, we will face strong resistance and the argument that we are prematurely using up our deterrence.

Possible Allied measures, apart from the NATO-agreed "menu," include:

1. Suspend fulfillment of existing contracts (the NATO-agreed package would only embargo new contracts)

Pros: -- Would increase economic costs to Soviets

Cons: -- Allies will resist since it would cause a major immediate shock to their weak economies.

-- Bad precedent in broader international context.

-- Would bankrupt some individual firms.

2. Call for emergency CSCE meeting on Poland.

Pros: -- Would highlight unacceptability of Polish/Soviet actions in context of Helsinki Final Act, and could act as deterrent.

-- Even if Soviets and friends refused to participate, thereby preventing consensus necessary for convening meeting, just the call for it would be effective in putting Soviets on notice.

Cons: -- Since CSCE procedures require consensus, results of the meeting are likely to be minimal.

3. Measures parallel to U.S. steps to isolate Soviets politically (see item 4 on page 3, above):

Pros: -- Would reinforce political message if Allies joined with us

Cons: -- Across-the-board reduction in East-West contacts will meet stiff Allied resistance.

IV. Assessment

Poland obviously represents a vital interest for the USSR, and the Soviets will intervene no matter what actions we take if they perceive a clear threat to Poland's status as a member of the Warsaw Pact, or a fundamental change in Poland's political orientation. Drastic actions on our part, in addition to being ineffective, seem certain to strain the Alliance to the breaking point, and to preclude or make it immensely difficult for us to capitalize on the Polish

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crackdown, as well as to strengthen Allied support for important NATO programs. At the same time, the Polish crisis cannot be short-lived: even a highly repressive martial law regime will not resolve Poland's massive economic problems, which in turn can cause social disorder and prompt Soviet intervention.

Against this somber backdrop, the modalities of applying bold measures against the Soviets become vitally important. Rash actions would undoubtedly divide NATO and prematurely deplete our ammunition; even more moderate actions taken late could make us look foolish and ineffective, even if they have a long-term punitive effect.

On timing, we should apply bold measures only when we see a high probability of irreversible Soviet actions that would throw Poland back to its pre-August, 1980 status. Apart from Soviet military intervention, this could involve such actions within Poland as the trial and imprisonment of Walesa, or widespread and prolonged use of brutality in suppressing human freedoms.

The method of application could be fine-tuned as follows: we would first make clear threats, which convey to Moscow exactly what we expect of the Soviets, and when, and specify what will follow from us if the Soviets refuse to go along. This should be done in diplomatic channels, both in Washington and in Moscow. We could also divide our major actions into two categories: those that do not destroy the core of the relationship, and those that directly affect the core, e.g., INF, START, CSCE Final Act. We would use first category actions in an initial salvo, reserving the second for follow-up action as subsequent events make necessary.

If we wish to pursue a course of this severity, we must be prepared to carry through our threats effectively. The worst possible outcome would be robust words followed by flabby actions. We should immediately commence intensive preparations within the Administration, as well as intensive consultations with our Allies and friends abroad.

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Economic Sanctions

1. Cancel the Caterpillar pipelayer license.

2. Cancel the International Harvester license for the U.S.S.R.

3. Halt export of oil and gas equipment to the Soviet Union. Place equipment and technology under national security controls.

   -- This action will send a powerful signal to the Soviets that the West will not support a major growth industry while the Soviets are, directly and indirectly, using force to crush Solidarity.

4. Suspend negotiations on new maritime agreement and impose strict port access requirements when the present agreement expires on 31 December.

5. Delay or refuse to set new dates for talks on the "long term grain agreement."

   -- This will support the drive by the Trade Unions who may not load Soviet ships with grain in support of Solidarity.

6. Terminate the 1976 fisheries agreement with the U.S.S.R. and deny Soviets entry into U.S. fishing zones as permitted under that agreement.

   -- This will bring economic harm to the Soviets.

7. Suspend all validated export licenses to the U.S.S.R. for electronics, computers, and other high technology categories.

8. Halt exports of equipment and technology for the West Siberian pipeline and call upon allies to cancel credit arrangements for the pipeline project.

   -- The West Siberian pipeline will become the most significant hard currency earner for the U.S.S.R. Its cancellation would be a powerful blow against Soviet economic and political ambitions in Western Europe.

9. Embrago Grain Shipments to the U.S.S.R.

   -- At this time of year, suspension of grain shipments will impose severe burdens on the Soviet Union. Even without allied cooperation, the Soviets will have serious problems filling their requirements during the remainder of the winter.

10 - ~~Helsinki null and void~~ -

Pipes

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DEPARTMENT OF STATE

1981 DEC 23 PM 6 4

SITE B

S/S #

81 DEC 23 P 6: 45

DX MESSAGE NO. 001031 CLASSIFICATION ~~SECRET~~ SIT ROOM No. Pages 1

FROM: HARRY KOPP (Officer name) EB/TDC (Office symbol) 22532 (Extension) 3831A (Room number)

MESSAGE DESCRIPTION Note on Soviet Economic Measures

DX TO: (Agency)	DELIVER TO:	Extension	Room No.
NSC	Norman Bailey	395-4985	373

Catherine Bailey

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81 DEC 23 P 6: 47

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Pipes

Lenz

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Department of State Guidelines, July 21, 1997
By CNS NARA, Date 8/5/12

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DEPARTMENT OF STATE

Washington, D.C. 20520

SECRET

December 23, 1981

TO: NSC - Mr. Bailey

Norm -

Here is a quick estimate of costs on some of the items on the list:

-- Ban Soviet fishing: Soviet fishing was banned after Afghanistan and has not been allowed to resume. Soviet factory ships operate in U.S. waters to process U.S.-caught fish in a U.S.-Soviet joint venture based in Bellingham, Washington. Soviet purchases of U.S. fish under this arrangement were $4 million in 1980. Loss of those sales would be borne by Pacific Coast fishing interests. There would be no cost to the USG. Pacific Coast Congressmen have strongly supported the joint venture, which was exempted from action after Afghanistan. Soviet permits to operate in U.S. waters expire December 31. (The National Marine Fisheries Service (NMFS) has been asked not to renew the permits without further instruction.)

-- Let the Maritime Agreement lapse: The agreement expires December 31. Its expiry would impose no costs on the USG and negligible costs on the U.S. economy.

-- Suspend Aeroflot landing rights: No costs to USG. Pan Am (which dropped service to Moscow in 1978) would probably lose valuable overflight rights. Two U.S. firms (Gen Air and Capitol) that are seeking authority to serve Moscow would see their prospects disappear.

HK

Harry Kopp
State/EB/TDC

~~SECRET~~
RDS-2 12/23/2001

MEMORANDUM

Sanctions

4105

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NATIONAL SECURITY COUNCIL

Versailles

INFORMATION

June 11, 1982

MEMORANDUM FOR WILLIAM P. CLARK

FROM: HENRY R. NAU HRN

SUBJECT: Versailles Summit: East-West Export Credits

I have written up for your benefit and for colleagues on the NSC staff, the attached account and assessment of the Summit events relating to the East-West credit issue.

What we achieved and what we need to do to follow up on this issue are discussed, beginning the middle of page 3. In my view, our follow-up must be vigorous, patient and persistent. The worst course of action would be to back off or drop this issue, especially after the intense discussion that took place at the heads of government level. The Europeans and Japanese would simply read this as another case of the U.S. waxing hot and cold on an issue. They would redouble their determination to resist us the next time we raise a disagreeable issue, knowing that if they resist long enough, the United States will cool off.

I have provided a version of this paper which begins with the fourth paragraph on page 2, to State, Treasury, Commerce and Defense.

cc: N. Bailey
R. Robinson
W. Martin
D. Gregg
R. Pipes
J. Rentschler
D. Blair

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REPORT ON THE EAST-WEST CREDIT ISSUE

AT THE VERSAILLES SUMMIT

The opening shots on this issue were fired already on Thursday before the Summit. Cheysson backgrounded the American press that France was prepared to accept the OECD credit arrangement. Be billed this decision as a major French concession and implied that no one should expect more from the French on the East-West credit question. As we had anticipated, the French tried to confuse the press on the distinction between OECD credit arrangement on one hand and the Buckley East-West credit issue on the other.

When we inquired from the French whether they indeed accepted the OECD credit arrangement, we received no answer.

On Thursday afternoon, Haig briefed the President and argued for flexibility on the sanctions issue as a means for inducing the Summit allies toward a favorable decision on credits. At the time, be believed that we would achieve little more than language calling for limits on East-West credits. Hormats and Leland drafted a paragraph for the communique which used the word "limit" with respect to export credits.

I pointed out to Judge Clark that the issue was being badly confused, that the President had agreed not to extend the sanctions extra-territorially if he obtained a satisfactory credit agreement, but that he had never implied that he would lift existing sanctions. On my own initiative, I sat down and drafted talking points which related the sanctions issue back to the Polish situation and to the President's objective of a credit arrangement at the Summit which "restricted" credits and provided for a follow-up "mechanism." The credit arrangement envisioned in these talking points was clearly more than an arrangement merely to limit credits. It was only in the context of such an agreement going beyond limits that the last talking point concerning flexibility on the sanctions issue was added.

Judge Clark read and liked the talking points and showed them to the President, who also indicated that they conformed to his position. The talking points became the basis for the President's bilateral with Suzuki in which he responded to the Sakhalin issue by emphasizing the relationship of the sanctions to the Polish situation and to his desire for a credit agreement at the Summit which had real teeth (the President mentioned the word "restricting" credits in his response to Suzuki). At the end of his response, he did indicate that if the Polish situation changed or a satisfactory credit agreement were reached, he would try to be flexible on sanctions.

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NLRR F06-114/10 #1325

BY CN NARA DATE 1/2/08

All day Friday and Saturday, Haig's efforts were directed towards securing the agreement of other Summit countries to the language calling for limits. Rick Burt participated in the working groups on this issue. As of Saturday night, Burt reported that there was absolutely no acceptance by the others of the term "limits."

On Sunday morning, Clark received the McFarlane memo commenting on the President's talking points. He instructed me to be sure that both the talking points and the McFarlane memo were placed before the President in the plenary session on Sunday morning. I was the notetaker in that session and put the two papers before the President with a note scratched in the margin of the talking point paper alongside the last tick (dealing with flexibility) which read, "Judge Clark does not believe that you want to go this far." I then explained to the President that the reasons for not going that far were indicated in the McFarlane memo.

Hormats relieved me as notetaker before the East-West subject was raised. I returned as notetaker only after the President's intervention and in the early stages of the discussion of the communique language on East-West issues (to my knowledge, therefore, there was no discussion in the plenary session that referred to the sanctions issue).

The discussion on communique language for the East-West issue lasted almost three hours. It began about 11:15 with two alternatives on the table -- one calling for limits which had been proposed by Prime Minister Thatcher, and the other calling for managing credits proposed, I believe, by the Canadians. There was clearly no agreement on the matter. Mitterrand proposed that they put the East-West issue aside and continue with the rest of the communique. There were short interventions on the North-South language in the communique before the President intervened to ask whether or not the leaders intended to agree at this point on the North-South language. He stated that he felt he needed more wording. The President asked if the session might adjourn for lunch, during which time he could give the North-South language further thought (it was now about 12:15 and the session was scheduled to conclude at 12:00). Mitterrand said that he could, of course, accept the President's suggestion, but that if they adjourned for lunch, the whole world would know about their differences. Mitterrand proposed instead a 20-minute break. The President replied that he did not require a 20-minute break. He simply noted that there were two issues to be decided -- East-West and North-South -- and he wanted to know how the group intended to proceed.

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After a few minutes of buzzing around, Mitterrand returned the discussion to the East-West language. For the next two hours the participants slugged it out. At the outset, three leaders adamantly opposed the word "limiting" -- Trudeau, Schmidt and Mitterrand. Reagan and Thatcher strongly supported this language, while Spadolini and Suzuki leaned quietly toward the Reagan-Thatcher position. As the conversation evolved, it became apparent that the leaders opposing the word "limiting" were losing the battle. Mitterrand tried on several occasions to confuse the issue by calling for the limiting of public and private export credits and by including exports as well as export credits under the application of the word "limit." These were rejected and eventually Trudeau indicated that he could accept the language as long as it did not imply arbitrary cutbacks in credit. After a couple more interventions, Schmidt indicated that he too could go along with the language. At this point the language read "the need for limiting export credits in light of commercial prudence." Mitterrand was now isolated. Spadolini intervened to suggest a cosmetic face-saving amendment. He suggested that the words "in light of commercial prudence" be struck and the phrase be reworded: "the need for commercial prudence in limiting export credits." By removing "limiting" from the action part of the sentence, the Spadolini suggestion provided Mitterrand with just enough of a face-saver to cause him to agree immediately.

The issue was closed, the last of the communique was approved within 10 minutes, and the session adjourned a little after 2:30, more than 2 1/2 hours late.

The plenary discussion suggests, as nothing else can, the extreme difficulty of this issue. The US obtained agreement to the word "limiting" only after a long and tough discussion among the heads of government and state and only after Mitterrand was completely isolated by his colleagues. We should therefore not underestimate what we achieved by obtaining this agreement on the word "limiting." We must exploit this agreement to the fullest possible extent and retain the patience and the persistence to press this issue forward toward the next significant objective, even if it requires another year and another Summit to achieve.

The communique language is an important foot in the door. It does three things:

-- It requires governments to exercise commercial prudence in providing export credits. We should interpret commercial prudence to mean economic or market standards i.e. no subsidization of credits provided by governments (or official credits).

-- Secondly, the commitment to exercise commercial prudence does not exist in a vacuum, but is linked with the objective of limiting export credits. Now limiting does nto necessarily mean reducing, but it does imply some ceilings on increasing the levels of export credits. No numerical ceilings have been defined at this point, but the word "limiting" implies such ceilings and our next effort should be directed toward defining these ceilings.

-- Thirdly, the communique language calls for periodic ex-post review of the development of economic and financial relations with the East. This is the handle for perpetuating the existence of the Buckley group. Some will argue that this ex-post review should be conducted in the OECD which is mentioned earlier in the same paragraph. We should insist that, coming as it does after the commitment limiting export credits, the ex-post review was intended to be carried out by a separate group. This group's purpose should be to review recent trends in the supply of export credits and, where these credits are now increasing, to ask for explanations in light of the above commitment by the Summit heads of ggovernment and State.

We should lose no time in following up these gains, however slight they may appear to be. They constitute important steps forward and have to be exploited aggressively and expeditiously if we have any prospect of making further significant progress on this very difficult issue by the time of the next Summit.

Finally, we should not underestimate the psychological and political benefits of a statement by Summit leaders which, for the first time, acknowledges the need to limit economic activity with the Soviet Union and Eastern Europe. Moreover, this limitation, while justified on economic rather than political grounds ("commercial prudence"), follows indirectly from the first sentence of the East-West language in the communique which calls for "a prudent and diversified economic approach to the USSR and Eastern Europe, <u>consistent with our political and security interests</u>." (emphasis added) The use of such language by heads of Government can have a discouraging effect over time on East-West trade, not unlike the encouraging effect detente language had in the 1970s.

Prepared by: Henry R. Nau
6/9/82

CONFIDENTIAL

Sanctions 61

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BRUSSELS ALSO FOR USEEC, PARIS ALSO FOR USOECD
E.O. 12065: GDS 6/18/88 (EAGLEBURGER, L.)
TAGS: ENRG
SUBJECT: SANCTIONS ON OIL AND GAS EQUIPMENT EXPORTS

1. AT AN NSC MEETING JUNE 18, THE PRESIDENT REVIEWED THE SANCTIONS ON THE EXPORT OF OIL AND GAS EQUIPMENT TO THE SOVIET UNION IMPOSED ON DECEMBER 30, 1981 AND DECIDED TO EXTEND THESE SANCTIONS THROUGH ADOPTION OF NEW REGULATIONS TO INCLUDE EQUIPMENT PRODUCED BY SUBSIDIARIES OF U.S. COMPANIES ABROAD AS WELL AS EQUIPMENT PRODUCED ABROAD UNDER LICENSES ISSUED BY U.S. COMPANIES. IN ADDITION, THE PRESIDENT DECIDED NOT TO LIFT THE SANCTIONS ON OIL AND GAS EQUIPMENT EXPORTS TO THE USSR GOVERNED BY EXISTING CONTRACTS, NOR TO APPROVE EXPORT LICENSES FOR THE SAKHALIN PROJECT.

2. THE PRESIDENT'S STATEMENT TO THE PRESS NOTES THAT: QUOTE THE OBJECTIVE OF THE UNITED STATES, IN IMPOSING THE SANCTIONS HAS BEEN AND CONTINUES TO BE TO ADVANCE RECONCILIATION IN POLAND. SINCE DECEMBER 30, 1981, LITTLE HAS CHANGED CONCERNING THE SITUATION IN POLAND; THERE HAS BEEN NO MOVEMENT THAT WOULD ENABLE US TO UNDERTAKE POSITIVE RECIPROCAL MEASURES. THE DECISION TAKEN TODAY WILL, WE BELIEVE, ADVANCE OUR OBJECTIVE OF RECONCILIATION IN POLAND. UNQUOTE.

3. ACTING SECRETARY EAGLEBURGER HAS INFORMED THE E;BASSIES OF FRANCE, THE FEDERAL REPUBLIC OF GERMANY, THE UNITED KINGDOM, ITALY, BELGIUM, AND JAPAN OF THE PRESIDENT'S DECISION. ALL EMBASSY REPRESENTATIVES EXPRESSED CONCERN AND DISAPPOINTMENT WITH THE DECISION. THE FRG CHARGE ASKED WHETHER THE EXTENSION INCLUDED AEG KANIS (EAGLEBURGER CONFIRMED THAT IT DID) AND WHETHER THE EXTENSION MIGHT BE REVOKED (EAGLEBURGER SAID ANY SUCH DECISION WOULD PROBABLY BE LINKED TO CHANGES IN THE POLISH SITUATION). UK AMBASSADOR HENDERSON ASKED WHETHER THE EXTENSION APPLIES TO EXISTING CONTRACTS (EAGLEBURGER CONFIRMED THAT IT DID). HE ASKED WHY THE DECISION DID NOT APPLY TO USA GRAIN EXPORTS TO THE USSR AND INDICATED THAT THERE IS A "PROBLEM OF LOGIC" IN THE US DECISION. HENDERSON OBSERVED THAT THE DECISION WOULD NOT AFFECT THE POLISH SITUATION OR DELAY CONSTRUCTION OF THE YAMAL GAS PIPELINE AS MUCH AS WOULD SOVIET INEFFICIENCY. HE ADDED THAT THIS DECISION WOULD RAISE TENSIONS ALREADY HEIGHTENED BY US MOVES ON STEEL AND US-EC AGRICULTURAL DIFFERENCES, A POINT ECHOED BY BELGIAN AMBASSADOR SCHOUMAKER, WEARING HIS EC PRESIDENCY HAT. THE FRENCH AMBASSADOR NOTED THAT THE DECISION WOULD "CREATE MAGNIFICENT LEGAL PROBLEMS." THE ITALIAN CHARGE SAID THE ANNOUNCEMENT COMBINES WITH THE TOUGH TONE OF THE PRESIDENT'S SPEECH IN NEW YORK TO SEND A SIGNAL TO THE USSR AND INDICATES THAT THE US WAS DISSATISFIED WITH THE RESULTS OF THE VERSAILLES SUMMIT ON EAST-WEST ECONOMIC RELATIONS. (SEPTEL FOLLOWS ON THE MEETING WITH JAPANESE AMBASSADOR .)

4. EMBASSIES IN COUNTRIES DIRECTLY AFFECTED BY THE PRESIDENT'S DECISION ARE REQUESTED TO INFORM HOST GOVERNMENTS. EAGLEBURGER
BT

CONFIDENTIAL

Sanctions

Pipes:

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National Security Council
The White House

Package # 4524

	SEQUENCE TO	HAS SEEN	ACTION
John Poindexter	1		
Bud McFarlane	2	M	
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COMMENTS

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MEMORANDUM

NATIONAL SECURITY COUNCIL

June 22, 1982

~~SECRET~~

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NLRR F06-114/10 #11327
BY CJ NARA DATE 1/2/08

INFORMATION

MEMORANDUM FOR WILLIAM P. CLARK

FROM: ROGER W. ROBINSON RWR

SUBJECT: Reciprocal U.S. Gesture for Positive Development in Poland

We need to address the question of what the United Stats would be prepared to do should the Poles take a meaningful step toward reconciliation, i.e. release Walesa and some other prisoners. I chose not to provide a plausible scenario for the Preisdent's talking points as any hypothetical discussion with Mrs. Thatcher would inevitably be construed as a commitment. For your front office information only, my thought is to announce our willingness to participate in the Paris Club discussions on a 1982 debt rescheduling for Poland in the event of the release of Walesa and a number of other prisoners. This particular step is squarely in the U.S. interest as it avoids external accusations that a politically-inspired USG decision (not to move on sanctions) threw Poland into default. There is a good chance Poland will go into default anyway this year, but it is crucial that the Soviets, Polish authorities and European allies not be able to point at the USG as having caused the default. They would use this as an excuse to "circle the wagons," strike their own rescheduling deal and cut out U.S. commercial banks and the USG from any further payments of principal or interest. Such a reciprocal gesture on our part would be warmly received by the Polish authorities and the allies and initiate the "carrot approach" to furthering progress toward reconciliation described by the President in Friday's meeting. I would be interested in discussing this further as such an "in principle" decision on our side could actually induce the release of Walesa if communicated through discreet channels to the Poles and be a victory for the President.

let's move out on this idea —
WPC

~~SECRET~~
Review June 22, 1988

SECRET

Po Brionsky 64

System II
90413
PRES. STATEMENTS
(Polish sanctions)

THE WHITE HOUSE

WASHINGTON

UNCLASSIFIED

June 22, 1982

MEMORANDUM FOR THE VICE PRESIDENT
THE SECRETARY OF STATE
THE SECRETARY OF THE TREASURY
THE SECRETARY OF DEFENSE
THE ATTORNEY GENERAL
THE SECRETARY OF COMMERCE
THE SECRETARY OF ENERGY
THE DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET
THE DIRECTOR OF CENTRAL INTELLIGENCE
THE UNITED STATES REPRESENTATIVE TO THE UNITED NATIONS
THE UNITED STATES TRADE REPRESENTATIVE
THE CHAIRMAN, JOINT CHIEFS OF STAFF

SUBJECT: December 30, 1981 Sanctions on Oil and Gas Equipment Exports to the Soviet Union

The President has approved the attached National Security Decision Directive on the December 30, 1981 sanctions on oil and gas equipment exports to the Soviet Union.

FOR THE PRESIDENT:

William Clark

William P. Clark

Attachment NSDD-41

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SYSTEM II
90413

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THE WHITE HOUSE

WASHINGTON

June 22, 1982

NATIONAL SECURITY DECISION
DIRECTIVE NUMBER 41

DECEMBER 30, 1981 SANCTIONS ON OIL AND GAS EQUIPMENT EXPORTS TO THE SOVIET UNION

I have reviewed the sanctions on the export of oil and gas equipment to the Soviet Union imposed on December 30, 1981, and have decided to extend these sanctions through adoption of new regulations to include equipment produced by subsidiaries of U.S. companies abroad as well as equipment produced abroad under licenses issued by U.S. companies.

The objective of the United States in imposing the sanctions has been and continues to be to advance reconciliation in Poland. Since December 30, 1981, little has changed concerning the situation in Poland; there has been no movement that would enable us to undertake positive reciprocal measures.

The decision taken will, we believe, advance our objective of reconciliation in Poland.

Ronald Reagan

4767/Comment Sanctions general

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MEMORANDUM

NATIONAL SECURITY COUNCIL

~~CONFIDENTIAL~~

July 8, 1982

INFORMATION

MEMORANDUM FOR ROGER W. ROBINSON

FROM: RICHARD PIPES RP

SUBJECT: Sanctions

You should be extremely careful not to say anything publicly that may be construed in Moscow and Warsaw as a weakening of our resolve on sanctions. Your RFE interview almost sounds (and will probably be interpreted in this light over there) as if we were looking to Russia and Poland to give us a face-saving device with which to get rid of the sanctions that have caused us trouble with the Allies. (~~C~~)

cc: Norman Bailey
Robert Sims

~~CONFIDENTIAL~~
Review July 8, 1988.

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Sanctions

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NODIS
E. O. 12Ø65: XGDS-1 7/9/12 (STREATOR, E. J.) OR-M
TAGS: ETRD, UK
SUBJECT: US/EUROPEAN TRADE RELATIONS: HMG CONCERN MOUNTS OVER SOVIET PIPELINE SANCTIDNS

1. CONFIDENTIAL - ENTIRE TEXT.

2. SUMMARY:
HMG OFFICIALS ARE CONCERNED OVER APPARENT U. S. "MISUNDER-STANDING" OF THE IMPACT OF SANCTIONS ON JOHN BROWN LTD., AND SEEM TAKEN ABACK BY THE PRESIDENT'S RECENT LETTER TO PM THATCHER. STRESSING THAT THE FIRM IS NOW LIVING ON BORROWED TIME, WITH UP TO 2,ØØØ JOBS AND A $2ØØ MILLION CONTRACT AT STAKE, THEY IMPLIED FURTHER UK GOVERNMENT ACTION "SOONER RATHER THAN LATER." CHARACTERIZZNG THE U. S. DECISION AS "INTENSELY DEPRESSING" AND OUR EXTENDED EXTRATERRITORIALITY DISCUSSIONS AS "A DIALOGUE OF THE DEAF," THEY WARNED OF A SPILL OVER INTO OTHER AREAS OF OUR BILATERAL RELATIONSHIP, SUCH AS COCOM.
END SUMMARY.

3. ECONCOUNS AND EMBOFF MET JULY 6 WITH DEPARTMENT OF TRADE (DOT) UNDER SECRETARY RUSSELL SUNDERLAND (NORTH AMERICA AND EXTRATERRITORIALITY ISSUES) AND ASSISTANT SECRETARY JOHN POWNALL (EAST/WEST TRADE) TO REVIEW HMG THINKING ON OUR EXPANDED SOVIET SANCTIONS. SUNDERLAND REFERRED TO A SERIOUS MISUNDERSTANDING BETWEEN THE US AND THE UK ON THE IMPACT OF US SANCTIONS ON JOHN BROWN ENGINEERING LTD. AND QUESTIONED HOW SUCH A SITUATION COULD HAVE ARISEN. HE SAID HMG HAD CAREFULLY REVIEWED THE COMPANY'S SITUATION AND REACHED CERTAIN CONCLUSIONS WHICH BECAME THE BASIS FOR REPRESENTATIONS FROM THE PRIME MINISTER TO THE PRESIDENT. HE EXPRESSED CONCERN THAT THE U. S. SOMEHOW HAD CONCLUDED THE IMPACT WAS MANAGEABLE AND SEEMED PARTICULARLY OFFENDED THAT HMG'S WORD WAS NOT ACCEPTED. HE REVIEWED THE CORRESPONDENCE BETWEEN THE PRESIDENT AND PM THATCHER, ABOUT WHICH EMBASSY IS AWARE BUT HAS NOT SEEN. HE SAID THAT HMG WAS TAKEN ABACK BY THE PRESIDENT'S LETTER OF ABOUT JULY 5. HE CHARACTERIZED THE LETTER AS ACKNOWLEDGING US/UK DIFFERENCES OF VIEWS REGARDING THE IMPACT OF SANCTIONS ON JOHN BROWN WHILE OFFERING TO PROVIDE HMG WITH DATA SUPPORTING OUR POSITION.

4. SUNDERLAND SAID THAT JOHN BROWN WAS TRULY "ON THE HOOK," THAT THE IMPACT WAS SERIOUS, AND THAT THE COMPANY

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NATIONAL SECURITY COUNCIL MESSAGE CENTER

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WAS IN AN EXPOSED POSITION. HE NOTED THAT "ESCAPE FOR JOHN BROWN WAS NEITHER CERTAIN NOR SIMPLE," BUT THAT COMPANY REPRESENTATIVES COULD NOT OVERDRAMATIZE THEIR SITUATION SINCE THEIR STOCK IS PUBLICLY QUOTED. WE EXPRESSED UNDERSTANDING AND SYMPATHY FOR JOHN BROWN'S POSITION, BUT NOTED THAT US COMPANIES SUCH AS CATERPILLAR, WHICH ALSO FACED FINANCIAL DIFFICULTIES, ARE MAKING SIMILAR SACRIFICES. POWNALL RESPONDED THAT "WE DON'T MIND YOU DRIVING YOUR COMPANIES OUT OF BUSINESS, BUT DO MIND WHEN YOU DO OURS."

You don't say!

5. REGARDING THE CURRENT POSITION OF JOHN BROWN ENGINEERING LTD., POWNALL SAID THAT JULY 2 WAS THE FIRST SHIPMENT DATE FOR TURBINES TO THE SOVIETS. CONSEQUENTLY, THE COMPANY IS LIVING "ON BORROWED TIME" AWAITING ONLY THE TWO FINAL CONTRACTUAL REQUIREMENTS FOR SHIPMENT: SOVIET INSPECTION OF THE GOODS; AND NOTIFICATION BY THE SOVIETS THAT A SHIP IS AVAILABLE FOR FOB DELIVERY. SO FAR THE SOVIETS HAVE NOT FOLLOWED UP ON THESE TWO CONDITIONS, BUT THIS SUSPENDED STATE CAN LAST AT MOST FOR A FEW WEEKS.

6. SUNDERLAND STRESSED THAT THESE CIRCUMSTANCES MAKE THE JOHN BROWN CONTRACT A MORE PRESSING PROBLEM FOR HMG THAN DO THE AEG AND NUOVO PIGNONE CONTRACTS FOR FRG AND ITALIAN AUTHORITIES. ACTUAL DELIVERY DATES FOR THESE FIRMS ARE FURTHER IN THE FUTURE. THE DEPARTMENT OF TRADE HAS EXAMINED JOHN BROWN'S CONTRACTS WITH THE SOVIETS. THERE ARE A SERIES OF LATE DELIVERY PENALTIES AFTER WHICH NON-SHIPMENT WILL INVOKE FURTHER LIABILITIES FOR NON-FULFILMENT. THE SOVIETS THEN HAVE THE RIGHT TO CANCEL AND SUE FOR DAMAGES. WHILE THE SOVIETS HAVE NOT SERVED NOTICE THAT THEY WILL TAKE SUCH A STEP, THERE IS REASON TO BELIEVE THEY WILL. ALTERNATIVELY, SUNDERLAND EXPECTS THAT THE SOVIETS WILL PUT PRESSURE ON EC COMPANIES TO PROPOSE AN ALTERNATE SOLUTION, JUST SHORT OF INVOKING THE PENALTY. (SEPTEL WILL REPORT ON MEETING WITH JOHN BROWN EXECUTIVES AND THEIR JULY 2 MEETING WITH THE SOVIETS.)

7. SUNDERLAND WAS ELUSIVE ON STEPS THAT HMG MAY TAKE NEXT UNDER THE PROTECTION OF TRADING INTERESTS ACT (PTI), INVOKED ON JUNE 3Ø TO BLOCK OUR JUNE 18 EXPORT RESTRICTIONS. WHILE
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NODIS
THE PTI CAN REQUIRE AFFECTED FIRMS TO NOTIFY THE DEPARTMENT OF TRADE AND PERMITS THE SECRETARY OF STATE FOR TRADE TO PROHIBIT UK COMPANIES (INCLUDING SUBSIDIARIES OF US FIRMS) FROM COMPLYING WITH US SANCTIONS, DOT OFFICIALS ADMITTED THAT THEY DO NOT HAVE THE POWER TO ORDER A FIRM TO CONSUMMATE AN EXPORT.
BRITISH LAW WOULD NOT PREVENT JOHN BRROWN FROM MEETING CONTRACTED OBLIGATIONS WITH THE SOVIETS, BLOCKING USE OF A FORCE MAJEURE DEFENSE IN UK COURTS. POWNALL NOTED THAT US FIRMS, IN CONTRAST, COULD READILY CITE THE EXPORT ADMINISTRATION ACT AS A LEGAL DEFENSE FOR BREACH OF CONTRACT.

8. POWNALL STRESSED THAT IF JOHN BROWN ENGINEERING LTD. LOSES THE SOVIET CONTRACT AND IS SQUEEZED TO THE LIMIT, IT ALMOST CERTAINLY WILL HAVE TO CLOSE. EMPLOYMENT LOSSES BY THE FIRM WOULD TOTAL APPROXIMATELY 1,7ØØ PEOPLE, IF JOHN BROWN COULD SHIP THE PRE - DECEMBER 31, 1981 ROTORS NOW IN STOCK, THE JOB LOSS WOULD BE SMALLER, PERHAPS 25Ø. THE IMPACT ON SUB-CONTRACTORS AND OTHER FIRMS DEALING WITH JOHN BROWN WOULD PERHAPS BE 2ØØ-3ØØ JOBS, IN TURN DEPENDING ON THE FINANCIAL POSITION OF THESE OUTSIDE FIRMS.

9. ON THE IMPACT OF OUR ACTION ON UK SUBSIDIARIES OF US FIRMS AND UK LICENSEES, THE DEPARTMENT OF TRADE PRESENTLY IS CONDUCTING A SURVEY AND HAS NO DATA YET. SINCE INVOCATION OF THE PTI, FIRMS ONLY NOW ARE REPORTING THEIR POSITION TO THE DEPARTMENT OF TRADE. SUNDERLAND GUESSED THAT, AT A MINIMUM, OUR DECISION MAY AFFECT CONTRACTS WORTH SEVERAL TENS OF MILLIONS OF POUNDS. AGAIN, SOME OF THESE SUBSIDIARIES AND LICENSEE HOLDERS MAY FACE LIQUIDATION. (NOTE: THIS EMBASSY ALSO IS UNAWARE OF THE IMPACT ON US-CONTROLLED SUBSIDIARIES. CALLS FROM SUBSIDIARIES AND UK SOLICITORS INDICATE CONTRACTS IN VARIOUS STAGES, RANGING FROM ONE TO FOUR HUNDRED AND FIFTY MILLION DOLLARS.)

1Ø. SUNDERLAND CANDIDLY EXPRESSED HMG'S BELIEF THAT IT WAS MISLED IN THIS ISSUE, PERHAPS BECAUSE THEY DID NOT BELIEVE EUROPEAN CONCERNS WOULD BE DISREGARDED AND THAT SANCTIDNS WOULD BE EXTENDED IN THE SAME OIL AND GAS AREAS (READ AS OPPOSED TO A GRAIN EMBARGO).

11. HE SAID HAD THE BRITISH GOVERNMENT A CLEARER IDEA IN EARLY JANUARY OF OUR LATER SANCTIONS, THE IMMEDIATE DECISIONS OF HMG AND JOHN BROWN ENGINEERING LTD. MIGHT

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HAVE BEEN DIFFERENT -- THOUGH UK OBJECTION NO LESS VIGOROUS. SUNDERLAND SAID HMG FIRMLY BELIEVED THE PROSPECT FOR SOMERESOLUTIDN OF THIS DISAGREEMENT HAD SEEMED LIKELY WITH ADVANCES ON RESTRICTING SOVIET CREDITS AND THE DISCUSSIONS AT VERSAILLES. HMG FULLY EXPECTED SOME QUID PRO QUO FROM THE US FOR THIS PROGRESS. HE SAID THE NEW SANCTIONS NOW HAVE LEFT HMG WITH NO ROOM FOR MANEUVER.

12. CHARACTERIZING US ACTIONS AS "INTENSELY DEPRESSING," HE NOTED THAT THE CONSIDERABLE EFFORTS OF HIGH LEVEL HMG OFFICIALS IN BILATERAL DISCUSSIONS WITH THE USG ON EXTRATERRITORIALITY OVER THE LAST YEAR APPEAR NOW "TO HAVE BEEN NDTHING MORE THAN A DIALOGUE OF THE DEAF." HE SAID HMG FINDS US CONTROLS PARTICULARLY OBJECTIONABLE IN TWO AREAS: THE RETROACTIVE ELEMENT DF THE REGULATIONS AS THEY RELATE TO EXISTING CDNTRACTS AND LICENSING AGREEMENTS; AND THE INTERFERENCE WITH UK COMPANIES WHICH ARE SUBSIDIARIES OF US FIRMS. HE STRESSED THAT OUR BILATERAL DISAGREEMENT NOW IS ON A VERY FAST TIME TRACK AND "FURTHER HMG ACTIONS WILL HAVE TO OCCUR SODNER RATHER THAN LATER." POWNALL NOTED THAT THIS DISPUTE CANNOT BUT SPILL OVER INTO OTHER ASPECTS OF OUR RELATIONSHIP, PARTICULARLY IF JOHN BROWN GOES UNDER, HE CITED, AS BUT ONE EXAMPLE, THE UPCOMING COCOM REVIEW WHICH "SOME EUROPEANS EASILY COULD MUDDLE UP." LOUIS
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Sanctions

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NODIS
E. O. 12Ø65: GDS 7/9/88 (STREATOR, E. J.) OR-M
TAGS: EEWT, UK, UR
SUBJECT: US/EUROPEAN TRADE RELATIONS: MEETING WITH JOHN BROWN REPRESENTATIVES

1. ~~C~~ - ENTIRE TEXT.

2. SUMMARY:
JOHN BROWN'S CHAIRMAN CLAIMS THAT BROADENED US SANCTIONS WILL FORØE THE ENGINEERING DIVISION TO SHUT DOWN WITH THE LOSS OF 17ØØ JOBS AND 1Ø4 MILLION POUNDS STERLING IN SALES. HE ASSERTED THAT US ACTIONS AND BRITISH INVOCATION OF THE PROTECTION OF TRADING INTERESTS (PTI) ACT HAVE PLACED JOHN BROWN IN AN UNTENABLE POSITION WITH ITS FUTURE IN JEOPARDY WHETHER IT OBEYS US OR BRITISH LAW. JOHN BROWN EXPECTS THAT THE SOVIETS WILL COLLECT SUBSTANTIAL HARD CURRENCY RECEIPTS IN PERFORMANCE BONDS POSTED BY US AND EUROPEAN BANKS FOLLOWING CONTRACT DEFAULTS, THE SOVIETS HAVE GIVEN THE FIRM A TEMPORARY EXTENSION ON THE JULY 2 DELIVERY DATE FOR SIX TURBINES ALREADY MANUFACTURED AND READY FOR SHIPMENT.
END SUMMARY'

3. ECONCOUNS AND CG EDINBURGH MET ON JULY 7 WITH SIR JOHN MAYHEW-SANDERS, CHAIRMAN, JOHN BROWN AND CO. LTD., TO REVIEW JOHN BROWN'S SITUATION IN LIGHT OF JUNE 18 DECISION TO BROADEN RESTRICTIONS ON SALE OF OIL AND GAS EQUIPMENT TO USSR.

4. MAYHEW-SANDERS SAID HE WAS FAMILIAR WITH EXCHANGE OF CORRESPONDENCE BETWEEN PRESIDENT AND PRIME MINISTER AND HAD, IN FACT, SUPPLIED DATA ON POTENTIAL JOB LOSSES AND ECONOMIC IMPACT TO PM'S OFFICE. IF ANYTHING, HE BELIEVED THE PM WAS OVERLY CAUTIOUS IN DESCRIBING JOHN BROWN'S SITUATION, HE DID NDT UNDERSTAND HOW ALLEGED DIFFERENCES BETWEEN US AND UK OVER THE IMPACT OF US ACTIONS ON THE FIRM COULD HAVE ARISEN.

5. HE DESCRIBED JOHN BROWN'S SITUATION AS "VERY SERIOUS." IF THE SANCTIONS ARE NOT LIFTED, THERE IS A HIGH PROBABILITY THAT JOHN BROWN ENGINEERING IN CLYDEBANK (NEAR GLASGOW) WOULD CLOSE WITH A LOSS OF 17ØØ JOBS AND 1Ø4 MILLION POUNDS STERLING IN TURBINE ORDERS WITH THE USSR, MAYHEW-SANDERS FEARED THAT EVEN THOUGH JOHN BROWN HAS TWO

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YEARS' OF ORDERS ON THE BOOKS, THEIR CUSTOMERS WOULD TURN TO OTHER SOURCES IF THE SOVIET SALE COLLAPSES BECAUSE OF UNCERTAINTY ABOUT JOHN BROWN'S RELIABILITY AS A SUPPLIER AND ITS DEPENDENCY ON US COMPONENTS. (THE ECONOMIST FOR JULY 1Ø REPORTS THAT THE FIRM HAS OUTSTANDING ORDERS IN ABU DHABI, OMAN, AND PAPUA NEW GUINEA.)

6. HE SAID US ACTION AND THE SUBSEQUENT BRITISH DECISION TO INVOKE THE PTI PUT JOHN BROWN IN AN UNTENABLE POSITION IF IT ABIDES BY US EXPORT CONTROL REGULATIONS AND DOES NOT EXPORT THE TURBINES TO THE USSR, IT WILL LOSE SUBSTANTIAL SALES AND FUTURE CUSTOMERS, AND BECOME LIABLE FOR SIZEABLE PENALTIES FOR NON-COMPLIANCE UNDER THE CONTRACT. THE SOVIETS COULD ALSO CALL IN PERFORMANCE BONDS HELD BY US AND EUROOEAN BANKS WHICH, IN EEFECT, WOULD MEAN THAT THE SOVIETS GET THE HARD CURRENCY, IF NOT THE EQUIPMENT. ON THE OTHER HAND, IF HMG ISSUES AN ORDER UNDER THE PTI WHICH PROHIBITS JOHN BBOWN FROM COMPLYING WITH US EXPORT CONTROLS, THE US DEPARTMENT OF COMMERCE WILL BLACKLIST JOHN BROWN, AND THE ENGINEERING DIVISION WILL GO OUT OF BUSINESS SINCE IT RELIES EXCLUSIVELY ON GE FOR MAJOR TURBINE PARTS.

7. MAYHEW-SANDERS THOUGHT THAT JOHN BROWN HAD A GOOD LEGAL CASE AND MIGHT WIN IN US COURTS ON THE RETROACTIVE NATURE OF US SANCTIONS, BUT LEGAL RELIEF PROBABLY WOULD NOT COME SOON ENOUGH TQ SAVE THE ENGINEERING DIVISION,

8. HE PREDICTED THAT THE POLITICAL FALLOUT FROM THE BROADENED US SANCTIONS COULD BE SUBSTANTIAL, PARTICULARLY IN SCOTLAND WITH ITS HIGH UNEMPLOYMENT.
9' WE ASKED MAYHEW-SANDERS WHETHER JOHN BROWN HAD PAID ANY PENALTIES YET FOR NON-DELIVERY, SINCE JULY 2, REPORTEDLY THE OUTSIDE DATE, HAD COME AND PASSED. HE SAID IN STRICTEST CONFIDENCE THAT ON HIS TRIP LAST WEEK TO THE USSR THE SOVIETS HAD GIVEN JOHN BROWN AN INDEFINITE EXTENSION, BUT THAT WAS FOR A PERIOD OF DAYS, NOT WEEKS.
1Ø. COMMENT: THROUGHOUT THE DISCUSSION, MAYHEW-SANDERS

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MAINTAINED A DEMEANOR OF CONTROLLED RAGE. HE SEEMED PARTICULAALY UPSET ABOUT THE ALLEGED MISUNDERSTANDING BETWEEN THE TWO GOVERNMENTS OVER THE IMPACT OF US SANCTIONS ON HIS FIRM. WE DO NOT KNOW HIM PERSONALLY, BUT BELIEVE HE SPOKE FRANKLY AND HONESTLY ABOUT JOHN BROWN'S POSITION.
END CCMMENT. LOUIS
BT