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NATIONAL SECURITY COUNCIL

WASHINGTON, D.C. 20506

Meeting of the National Security Council

DATE: August 6, 1990  
LOCATION: Cabinet Room  
TIME: 5:05 - 6:00 pm

SUBJECT: Minutes of NSC Meeting on Iraqi Invasion of Kuwait (S)

PARTICIPANTS:

State

Secretary Baker

OMB

Director Darman

Treasury

Secretary Brady

DOE

Deputy Secretary Moore

DOD

Deputy Secretary Atwood

White House

Governor Sununu

Brent Scowcroft

Michael Boskin

Justice

Attorney General Thornburgh

CIA

Director Webster

NSC

Richard Haass

JCS

General Powell

The President. What I wanted to do was get a quick update and then talk about economic implications. (C)

General Scowcroft. Before we begin, I want everyone to look at today's headline in the Washington Post (Note: headline refers to covert action options allegedly under consideration). If leaking continues, it will force us to limit the decisionmaking circle. (C)

The President. What this does is risk something very serious and undermines our efforts. (C)

Director Webster. In the last 24 hours, the situation has stabilized. There is no real increase in preparations at the Saudi border. Iraq still has not withdrawn any significant forces from Kuwait and may be augmenting them with units taken from its border with Iran. There are some worrisome developments

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that suggest Saddam may be preparing for major war: reserve call-ups, base preparations near the Saudi border. But we have not yet seen their Republican Guard units reforming for attack. (S)

The President. Between now and yesterday, what are the developments? (C)

Director Webster. There are no significant troop movements. Iraq is shutting down one of its principal pipelines through Turkey. (S)

Henson Moore. We may succeed in reducing the flow of Kuwaiti and Iraqi oil to the market. If that oil (4.5 MB/D) goes off market and is not replaced by surge production (of which 4 MB/D exits), it would result in a price increase of \$10 - \$30 a barrel. We recommend you give serious consideration to allowing us to prepare the SPR. There is an IEA meeting in Paris this Thursday, an occasion that provides an opportunity to discuss drawdowns with the Germans and the Japanese. There are three options when it comes to the SPR: work with IEA, the U.S. alone, or doing nothing. We are already beginning to see some disruptions in the market. (C)

Governor Sununu. I see some inconsistencies in your numbers. (U)

General Scowcroft. The Federal Reserve has a similar study. The price of oil could go up to \$36 a barrel. But the price would fall \$4 a barrel with each million barrels added. (C)

The President. What does getting the SPR ready mean? (U)

Henson Moore. The law requires a presidential declaration. We would also talk with others. (U)

General Scowcroft. Another critical question is the surplus capacity of others. (C)

Henson Moore. We figure there is a surplus of 4 MB/D. 2.5 MB/D is in the Gulf; 1.5 MB/D comes from outside. An additional source of supply is Saudi ability to expand capacity. They could increase it by some .5 - .75 MB/D in three months. (C)

Secretary Brady. The financial markets are down badly. The price of oil is rising. The effect of petroleum and home heating oil price increases is already .5% in the CPI, or .6 - .7% of GNP. This would bring our growth down toward zero. It would also have a big effect on our import bill. As for sanctions, almost every major financial center has acted to freeze Kuwaiti assets. Regarding Iraqi assets, which matter less, the U.S., Britain,

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France and EC have acted. With the U.S., EC and Japan onboard, the embargo of oil products from Iraq and Kuwait is already 60-70%. Although the U.S. and Japan have embargoed trade, others are needed if it is to be effective. On credits, the U.S., Japan and Germany have cut them. (C)

The President. How long can Iraq withstand the pain of this economic isolation? All this military preparation must be expensive for them. This is a question for the intelligence community. (C)

Attorney General Thornburgh. Do we have a prediction of how much of Iraq's oil will get out? (C)

Henson Moore. This would be the second largest disruption involving oil in history, second only to the Iranian revolution. History suggests they will lower their price until they can sell. (C)

General Scowcroft. Iraq oil will only get into the market if they are physically able to do so. (C)

Henson Moore. That is correct. We need to distinguish between an embargo and a blockade. (C)

Secretary Baker. We also need to discuss cheating. The Central Bank of Jordan is allowing Iraq to use Jordanian accounts. We called in the Jordanian ambassador and warned him. (S)

Secretary Brady. I agree. Jordan is our biggest problem. (C)

Secretary Baker. Also, Mark Rich is offering storage for Iraqi crude with the help of Swiss banks. (C)

The President. Now, with international law on our side, we should lean on them. (C)

General Scowcroft. We also ought to think about publicizing what they are doing. (C)

Director Darman. With time, cheating will go up. If things work, the value of cheating will go up. Unless the Saudis increase production, the effect on us will be a recession. The SPR is not a perfect substitute, as it is a depletable resource. In fact, depleting the SPR will increase prices given the influence of market expectations. Democracies and market-oriented economies are less prepared to wage this kind of battle than non-market economies, especially given that modern communications will affect us more than it will them. We need to assess not simply the change in Iraq's welfare, but what it takes to starve them. We will be more responsive to ordinary pain than

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they will. The key will be giving them extraordinary pain. We will therefore need to target their key vulnerabilities. (C)

Secretary Baker. But food will be exempt. (U)

Richard Haass. No. Under the Security Council resolution, we can block food shipments except those that can be shown to be for humanitarian purposes. (U)

General Scowcroft. Part of what is driving up the price of gas is uncertainty. If following the UN resolution we can get increased production and some oil from the SPR, we can minimize the advantage of cheating. (C)

Director Darman. I am not arguing against tough action. A blockade makes sense. My personal opinion is that it won't be enough without using the SPR, increased Saudi production, and a willingness to tolerate recession given the current weakness of the economy. (C)

Michael Boskin. The economy is weaker overall. Inflation is lower than it was in 1979, though, which gives us more latitude. Previous shocks were larger than what is contemplated here. We should consider the worse possible case, which would be cementing the cartel power of OPEC rather than a few months of economic dislocation. (C)

Governor Sununu. One thing missing from this analysis is the ability to absorb the loss by changing use patterns. DOE's models ignore the fact that the import loss would be a smaller share of imports than the historical parallels. (U)

Director Darman. What about conservation? Fuel-switching? (U)

Governor Sununu. I agree. I am concerned about the use of rote models. (U)

Director Darman. Either way, you have to get this guy out of there. (S)

The President. Yes -- that is the bottom line. (S)

Director Darman. The bottom line is that Saddam with Kuwait is a long-term problem. (C)

General Scowcroft. That is the reason for the President's policy. (C)

The President. Darman is making a point I agree with, that all will not be tranquil until Saddam Hussein is history. (S)

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Governor Sununu. The key is food. (C)

Director Darman. It is essential that Saudi Arabia increase production up to capacity. If we succeed we will punish Iraq more than we will suffer. We will also need the SPR and the willingness to accept a small recession. (C)

Secretary Brady. The market is assuming that Saddam Hussein will keep Kuwait and the U.S. will defend Saudi Arabia. (C)

General Powell. I assume Saudi Arabia has to increase its production in order for us to make our policy comprehensible to the American people. (C)

Director Darman. If they do this, there will be no recession. (U)

Governor Sununu. 3.5 MB/D equals 7% of free world oil. If the Saudis increase production there will only be a 3% loss. 3% can be swallowed with international discipline. (C)

Michael Boskin. We need to avoid price controls. (U)

Governor Sununu. We also need to avoid overly pessimistic studies. Economic policy can create a Cassandra mentality that will prove self fulfilling. (U)

Henson Moore. A 1 MB/D drawdown of the SPR is a rate that we can sustain for 20 months. (U)

The President. What should we do now with the SPR? (U)

Henson Moore. You ought to consider allowing us to discuss drawing it down. (C)

The President. Yes. (U)

Director Darman. This would be O.K. if others do the same. (U)

General Scowcroft. SPR drawdown can also demonstrate U.S. determination. (C)

The President. There will be costs in this, both budget and military. We are going to move some military forces. Please keep this to yourselves. Getting to this point has taken a great deal of effort. When will all this be public? (C)

General Powell. Some time tomorrow. (U)

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General Scowcroft. But there is a difference between rumors and official sources. (U)

Director Webster. Premature leaks could cause preemption. (C)

The President. It is one thing to defend and quite another to liberate. (C)

END OF MEETING

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