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THE SECRETARY OF STATE

BY amf, NARA, DATE 12/14/04

WASHINGTON

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July 8, 1981

MEMORANDUM FOR: THE PRESIDENT

From: Alexander M. Haig, Jr. *CP*

Subject: Controls on Exports to the Soviet Union

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

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

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

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

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- 2 -

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

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

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

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

Attachment:

Tab A - The Issues

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- 1 -

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

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

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

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- 2 -

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

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

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