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CENTRAL INTELLIGENCE AGENCY  
WASHINGTON, D.C. 20505

27 October 1981

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

SUBJECT: Possible Allied Response to US Strategy on  
the Pipeline

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

[Redacted Signature]

Thomas B. Cormack  
Executive Secretary

Attachment:  
As stated

E.O. 12958  
As Amended  
Sec. 1.4(c), (d), (e)

DECLASSIFIED IN PART  
NLS M1255 #21  
By [Signature] NARA, Date 10/22/04

E.O. 12958  
As Amended  
Sec. 1.4(c), (d), (e)

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~~SECRET~~NLS M03-1283 #19Possible Allied Responses to US Strategy BY the Yamal Pipeline ~~BY the Yamal Pipeline~~ ~~DATE 9/22/84~~

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

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

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

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

Convincing the Allies to halt pipeline-related equipment and technology sales would require several carrots or sticks, or some combination of the two. These incentives could be used directly or indirectly. In other words, the potential benefits to the

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major Allies outlined above must be attacked or offset directly, or an indirect cost must be imposed that is perceived to be greater than the potential benefits. (S)

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

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

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

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

with Western Europe -- to the tune of around \$25 billion last year -- the US probably would be the ultimate loser in economic terms. (S)

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

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

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

West Germany's commitment to the pipeline project -- and to "Ostpolitik" generally -- is firm and Bonn views the two as closely linked. Although West Germany's future gas needs are not as pressing as those of France or Italy, the project for Bonn has become an important symbol of the benefits of East-West economic cooperation. Cancellation of the pipeline deal thus would be

seen as a severe blow to Ostpolitik and would undermine Bonn's fundamental national policy -- reconciliation with East Germany. Because the US is perceived to endorse this reconciliation, US action against the pipeline would be seen as a betrayal of German interests. Given the current political climate in West Germany, no government in Bonn could survive if it gave in to US pressure. Even if the more conservative opposition came to power, it would defend West German interests in similar terms. (S)

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

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

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

very high risk of undoing what progress Washington has made in opening Japan's market to US goods and encouraging the Japanese to increase their defense efforts. (S)

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

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