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NATIONAL SECURITY COUNCIL MEETING

Date, Time and Place: Monday, July 6, 1981; 11:09 a.m. - 12:22 p.m.; The Cabinet Room

Subject: East-West Trade Controls

Participants:

The President  
The Vice President

State:  
Secretary Alexander M. Haig, Jr.  
Deputy Secretary William P. Clark  
Mr. Robert D. Hormats

JCS:  
General David C. Jones  
Lt General John S. Pustay

OSD:  
Secretary Caspar W. Weinberger  
Deputy Secretary Frank C. Carlucci

White House:  
Mr. Edwin Meese III  
Mr. James A. Baker III  
Mr. Michael K. Deaver  
Mr. Richard V. Allen  
Admiral James W. Nance  
Ms. Janet Colson  
Mr. Frank Hodsoll

Treasury:  
Secretary Donald T. Regan

The Vice President's Office:  
Admiral Daniel J. Murphy

Commerce:  
Secretary Malcolm H. Baldrige  
Mr. Lawrence J. Brady

Energy:  
Deputy Secretary W. Kenneth Davis

NSC:  
Dr. Allen J. Lenz

OMB:  
Mr. David A. Stockman  
Mr. Ed Harper

CIA:  
Mr. William J. Casey

USUN:  
Amb Jeane J. Kirkpatrick

USTR:  
Amb William E. Brock

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The President: Opened the meeting with a brief account of a letter he had recently received from a Navy man.

Mr. Allen: The items we will discuss today are of great importance. Mr. President, the decisions you make based on today's meeting or perhaps on two NSC meetings this week will set the course of our East-West Trade Policy and will be important in setting the course of our relations with the Soviet Union. Our Allies and the Soviets will both see these decisions as setting the course of our economic and strategic trade policy.

We need decisions before the Ottawa Summit, so that we can inform our Allies of our policies. The Summit countries together do more than 70 percent of the West's trade with the Soviet Union.

The issues to be discussed are complex and interrelated, ranging from our Allied (COCOM) national security export controls, through U.S. and Allied controls on Oil and Gas Equipment and Technology and U.S. policy on the Siberian Pipeline, to the U.S. decision on a specific export control case -- the export of 100 Caterpillar pipelayers to the Soviet Union.

The complexity and breadth of the issues -- heavy in both economic and security context -- required enlarging the Council for this topic.

Because of the complexity and enlarged attendance, this meeting will be introductory, with a second meeting Thursday to deal with the detailed issues in more detail.

The objectives of this meeting are to determine the basic positions of each agency and the key factors in reaching those positions, and to identify differing views for examination in the second meeting.

The papers to be discussed can be divided into two groups. The first deals with Allied Security Controls. The remaining three papers deal with various aspects of controls on Soviet energy development.

I would like to proceed as follows: In the first round each participant will have two minutes to state his position on the options concerning National Security Controls and to identify the major considerations in his decision. Following that round, the President may wish to ask some questions. Again, we will have to limit the comments to two minutes. Then, we can follow a similar procedure for the second group of papers.

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The first paper presents three options for strengthening security controls on exports to the USSR. These options would tighten COCOM security controls by varying degrees. Each would require negotiations with our COCOM allies to implement. The difficulty and length of the negotiations would, of course, probably vary with the degree of tightening of controls.

I suggest we begin with the statements of positions. Secretary Haig, would you like to begin?

Secretary Haig: Yes. It is important to know that we are dealing with a group of interrelated -- and sometimes contradictory issues; to recognize that the decisions will affect both our relations with our Allies and with the Soviets. It is also important in making our decision to balance what we want against what we can do.

Option I maintains controls on equipment and technology and would be much as the policy in recent years. Our Allies are comfortable with this policy and it will be difficult to change it.

Option II would add to the controlled items equipment and technology critical to military related industries; for example, shipbuilding and heavy equipment.

Option III would control all military relevant technology.

I believe we should elect Option II, which would significantly broaden restraints. It will be difficult to do this. For two years we have been negotiating in COCOM to make a narrow increase in militarily relevant metallurgical technology with little result. Selling Option II to our Allies will be very difficult. We should seek at the Summit meeting a subsequent high-level COCOM meeting. At the same time as we increase these controls, we should loosen up on lower level controls.

Secretary Weinberger: We must consider our Allies' position, but we must consider whether we wish to aid the Soviets or not, and we must not adopt the attitude that if we don't sell to them someone else will. This is sometimes true, but our policy should be very restrictive. Almost everything aids their military and helps their economy. We know that they will only be satisfied by world domination, and we cannot satisfy them by appeasing them.

We should not give in to the argument that "if we don't, others will." To go along with this weakens our ability to lead and to not supply them.

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While Option III is not considered feasible, following Option I should be discontinued. Option II is an improvement, but will still continue to help the Soviets. There will be slippages. We should strengthen Option II by an ad hoc examination of things under Option III. They turn against us what we provide them.

Secretary Baldrige: Mr. President, we have to have a program that works. The present program does not work. We have 5,000 applications in process. Some 2,000 are legally overdue. Our business people -- and our Allies -- do not understand our current policy.

I think we should go for Option II -- tighten controls at the top (the higher technology) -- loosening at the bottom on routine items. With fewer items to process, we can process them faster and give more attention to the more important items at the top.

For example, robots are not on the list now. We would deny some under Option II, but the simple "pick and place" robots would go.

Super alloys -- there are some 2,000 of them. We can't control all of them. We would deny the vacuum induction furnaces and technology used to make them, but not the items themselves.

We have the same kind of problem with computers. We would differentiate between the important and the not important -- allow shipments of items that can be had from electronic stores.

We believe we could update the COCOM regulations by October.

Deputy Secretary Davis: I note that restrictions on atomic energy items would be continued under any of these options. We lean to Option II. However, denial may stimulate their own research to develop capabilities in the long term they otherwise would not have if dependent on imports.

Ambassador Brock: I follow Mac (Baldrige) in his recommendations. I feel we should ship almost anything in hardware -- deny the technology. That way we can freeze them into a position five to ten years behind us.

Mr. Casey: It is a mistake to help the Soviets by exporting to them items they need. There is a greater negative impact from the exports than positive economic value to us as an export. We should be concerned not only about technology, but also about products.

We should go as close to Option III as our Allies will allow.

General Jones: We should impose the tightest possible controls. The policy should be somewhere between Options II and III.

Mr. Stockman: I prefer Option II, but would urge the tightest possible analytical framework as to the effects of the option. We need an estimate of the cost to the Soviets in terms of the impact on military investment and the linkage of our policy to their economic expansion.

Ambassador Kirkpatrick: We need to be concerned about the impact of our policies on our Allies. But we also need to be concerned about their impact on the rest of the world. Strengthening Soviet capabilities increases their power around the world and their ability to interfere. I don't believe that denying exports to them will increase their ability to innovate on their own. We should force them to divert productive capacity to developing their own technology. We should follow Option II, plus an item-by-item analysis.

Mr. Allen: Mr. President, after your questions, I would propose following the same procedures on the remaining papers.

The President: I do have a question. The Caterpillar tractors for the pipeline. Where would they fall in the options discussed?

Mr. Allen: Under Option I, the pipelayers could go.

Under Option II, they could go -- unless restricted by an ad hoc analysis.

Under Option III, they would not go.

The President: Is all this predicated on dealing with our Allies? It is not much to us economically, but, for example, the whole pipeline thing if the Soviet Union can meet its own needs, there is less need to go to the Gulf. But does Western Europe become more dependent?

Secretary Haig: The pipelayers are not related to COCOM controls. I suggest we cover that item, Mr. President, under the next discussion.

Secretary Weinberger: The question was what would happen under these rules? Under Option II, they would get it. This is the reason that Option II must be strengthened to avoid pre-automatic approval that would strengthen Soviet export capabilities.

Mr. Baker: In other words, energy would not be considered a Defense priority item?

Secretary Weinberger: It could be.

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Mr. Allen: Let's go through the arguments on the remaining papers.

Mr. Meese: This topic controls the others.

Secretary Weinberger: I continue to have concerns about Option II.

The President: One more thing. Is this unilateral, or what is the effect on the Allies?

Mr. Allen: Your decision would be a fit topic for the Summit. We all agree on the need to strengthen controls. The vehicle used (to approach the Allies) will be critical. As Al said, your decisions will have tremendous undercurrents.

Secretary Haig: We might look at the history on this. Carter decided post-Afghanistan on a tightening of the controls. We have been attempting to tighten the controls for the last year, but there are two problems. One was the lack of a coherent U.S. policy. The second is the reluctance of our Allies. It will be a strong, uphill battle to strengthen controls (even going for Option II), but it can be accomplished by strong leadership. We would all like Option III, but we can't do it.

Secretary Baldrige: But they still want to buy them from the U.S. Allowing them to have the pipelayers helps them (to solve their problems).

Mr. Allen: I suggest we go through the same routine on the remaining papers. The remaining three papers examine the U.S. and Allied positions on the export of equipment and technology that would assist the Soviets in the exploration and production of oil and gas.

However, they do not pose the question of whether it is in the interest of the U.S. and the Western Allies to assist development of Soviet energy? The major arguments on this question are:

For:

- Developing Soviet energy helps them overcome potential energy and hard currency shortages and reduces their motivation to aggression in the Persian Gulf Oil area.
- Increases the world oil supply and keeps the Soviets from purchasing on Western oil markets, reducing pressure on world oil prices.
- Maintains a cooperative relationship with the Soviet Union in an important economic area to offset the competitive relationship in the military sectors.
- Results in substantial export and employment benefits for U.S. and Allied countries.

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