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THE SECRETARY OF DEFENSE

WASHINGTON, THE DISTRICT OF COLUMBIA



July 8, 1981

MEMORANDUM FOR THE ASSISTANT TO THE PRESIDENT FOR NATIONAL
SECURITY AFFAIRS

SUBJECT: West Siberian Pipeline

Attached are our responses to the questions you posed to me in your memorandum of July 6. While the responses are more lengthy than perhaps you desired, and do not completely track your questions, I believe that the information you required and our positions are here. If you need further information, please call me.

A handwritten signature in black ink, appearing to read "Sey".

Attachment
a/s

~~SECRET~~BY and NARA, DATE 12/14/84 US Policy on the West Siberian Pipeline(S) OBJECTIVES

The US should oppose the West Siberian pipeline project, consistent with our goals in overall East-West relations, as an essential part of the effort to impede the growth of Soviet political and military power and economic leverage. We must recognize that the earnings flowing from the development of Soviet oil and gas for export to the West will add significantly to the U.S. defense burden.

Our strategy is aimed at limiting Soviet economic leverage over the West, including the manipulation of Western markets, the acquisition of Western technology, and the acquisition of large amounts of hard currency. We wish to sharpen the dilemma confronting the Soviets in choosing between military and civilian investment, as a means of diminishing Soviet ability to increase further their military capabilities.

Secondarily, we believe it important to block a pipeline which can help the Soviets increase their ability to resupply their units internally.

Our tactics in stopping development of the pipeline (or scaling it down to insignificance if we cannot stop it completely) should be a mix of leadership, incentives, pressures, and argument.

The US position is, and must be seen to be, intellectually clear, coherent and persuasive enough to evoke (however grudgingly) sufficient Allied agreement on the security and economic problems stemming from this and similar projects that is the essence of leadership. If we fail to try, because we fear we cannot get allied support, we will simply guarantee that the Soviets will achieve their objectives of dividing and weakening the alliance.

Of course the US position should avoid the appearance of policy dictation to our allies, so that they do not appear to be less than full partners with the US internationally and before their domestic constituencies. President Reagan's full endorsement of our policy will of course be needed to accomplish these goals. In this regard, the already marginal economics of the pipeline, as evidenced by the reluctance of the European financial community to commit to it, should ease the way toward its failure.

(S) TACTICS: Leadership, Incentives, Pressures, and Argument

A fourfold approach should be adopted:

(A) Leadership: The US should adopt an export control posture that gives credibility and authority to our policy in the eyes of our allies. Thus, we must invoke national security controls on the export of US equipment and technology for the development of Soviet oil and natural gas in order to demonstrate our seriousness and convince the Europeans and Japanese that our policy grows out of strategic considerations and not from unilateral economic motivations.

(B) Incentives: We should identify commercially attractive alternatives to the Siberian gas pipeline in cooperation with the Europeans and the Japanese (see "Alternatives" below). This incentive package could be

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developed by a standing group of the consuming countries led by a US interagency group presided over by the NSC. Among the measures the group may wish to consider are guaranteed Western access on favorable terms to US coal and uranium resources and the appropriate accompanying US energy technology. We may also wish to develop, perhaps with the aid of private industry, means of speeding the development of European and Japanese energy infrastructure in order to wean them from Eastern sources.

We will need to examine the possibilities inherent in alternative energy sources such as North Sea petroleum, more effective coal utilization, and the expansion of nuclear power in the OECD. The US private sector might be particularly useful here, once the economic impact of the pipeline project on their business interests is better understood.

C) The prudent use of leverage should be employed to discourage Western participation in the pipeline project. The export control laws should be pushed as far as possible to capture the overseas transfer of US technology and equipment by licensees and subsidiaries. Technological cooperation in non-energy fields should be used as incentives and disincentives, as appropriate. We should focus our efforts on those Western energy technologies that are most critical to the pipeline's development, such as compressors, pipelayers and large diameter pipe. (Specific suggestions with regard to these items are found below.) There are a number of areas where US technology is highly desired by other Western countries for both commercial reasons and for their military industries. These points of leverage could be skillfully exploited.

D) A well-coordinated diplomatic offensive should be launched to persuade our allies of the dangerous long-term consequences of the pipeline project. Initially, rather general approaches could be made at Ottawa. On the margins of the Ottawa Summit, the President could request a six-month moratorium on Allied decisions concerning the pipeline and increased purchases of Soviet energy. Since the heads of state will not be prepared to respond directly, the President could suggest that responses be made through diplomatic channels within a defined time--perhaps a month.

However, I think it best for us to state clearly now that our policy will be to recognize that one of the best ways of meeting the Soviet threat is to deny them access to Western technology.

yes

(S) SEQUENCING

The cooperation of Japan and the UK is probably the key to derailing the pipeline in terms of technology controls. The Germans, French, and Italians are already slowing down negotiations on the pipeline themselves because of concern over the financing, delivered gas price, and their own strategic concerns (especially France). Diplomatic resistance will probably be greatest in West Germany (because of the Ospolitik policy and left wing pressure on Schmidt) and France (sensitivity to responding to US pressure). In dealing with the allies, characterizing the pipeline as security threat to the West may help to reduce resistance to the US point of view, but economic and political arguments will also be important. In any event our entire foreign policy cannot be determined by the fear of offending Chancellor Schmidt.

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Our initial approaches to the Allies in Ottawa should be to buy time to explore the implications of the security threat and the possible alternatives to the project. We should strongly urge the creation of the working group of Summit countries mentioned under Tactic B to work out the details of alternate energy sources.

TIME

After Ottawa we should approach the allies individually and in private. Japan and the UK, having the lowest stake in the project, may be the easiest to line up, and they may be able to control equipment that is critical to the pipeline's success. DIA believes that denial of US equipment plus Japanese pipelayers and UK compressors could set the pipeline project back 3-4 years.

The Japanese firm of Komatsu is the only non-US firm capable of manufacturing large pipelayers such as those needed for the pipeline. Recent information from the US embassy in Toyko indicates that if the US opposes the pipeline project and does not sell similar equipment itself, the Japanese government might deny the official export credits on which such a sale would depend. Other leverage exists with Japan. The US has approved the sale to Japan of oil and gas exploration equipment for a joint Soviet-Japanese energy project on Sakhalin. Among other Japanese firms, Komatsu has a lot to gain in the future if this project goes forward. This project hinges on certain specialized US-origin exploration gear, which the US could control. Also, Komatsu would like to compete in selling equipment for the construction of the Alaska natural gas pipeline. Should Komatsu be criticized for participating in projects the US regards as harmful to its security, Komatsu's competitive opportunities in the Alaskan pipeline may be limited.

In the case of the UK, ideological compatibility and the relatively low cost of cooperation will help. The only major item the UK will be selling will be Rolls Royce compressors--the size, dependability, reliability, and simplicity of these compressors, however, make them critical for the pipeline. Three Soviet turbines are needed to replace one such Western compressor. Getting the UK to oppose the deal would have enormous technical and political impact on the project as a whole.

The West Germans will be reluctant to proceed with the pipeline deal in the face of a mounting consensus opposing it. Despite the importance of the deal to the West German energy plan and to the West German steel industry, the Germans cannot go it alone. Indeed, the dependence of Germany's steel industry on exports to the USSR is a major security concern of ours.

France, which was growing increasingly cool to the pipeline deal under the previous government, may be even more concerned about its strategic aspects under Mitterand. Financial problems in France may further diminish Paris' enthusiasm for investment in Soviet oil and gas development. Any help we can get from the French will be very effective in turning the Germans around.

One point we will want to make with all our interlocutors is the magnitude of the economic transfers the Yamal pipeline deal will presage for the Soviet Union. The Soviets have 3 to 6 56-inch pipelines scheduled in their 1985-90 plan and 8 to 10 in their 1990 to 2000 plan.

Some of these may be dedicated to exports that may increase the size of Soviet exports by a multiple of the Yamal deal. Soviet hard currency earnings, assuming only the Yamal deal goes through, are estimated by DIA to be at the minimal level indicated below.

Soviet Hard Currency

Earnings in \$ billions
(estimated in 1985 dollars)

Year	Gas	Oil	Yearly Total
1985	10	11	21
1990	13	13	26
2000	18.6	13	31

(8) ALTERNATIVES

To our knowledge, no serious European studies of alternatives to the West Siberian pipeline exist. We believe that economically viable alternatives are worth exploring with the Europeans. These alternatives need not be on the massive scale of the West Siberian pipeline, nor do they have to be confined to natural gas.

Alternatives available in a time-period similar to realistic projections of Siberian pipeline completion could be more attractive than Soviet gas, especially if an expensive "safety net" is factored into the cost of Siberian gas. Gas itself has problems. It is a relatively inflexible fuel and implies long-term commitments and large infrastructure investments.

Therefore, the pursuit of alternatives should focus on helping find supplies for those most in need, eliminating the stimulation by governments of an enlarged role for strategically-sensitive gas, and refusing to concede the supplies of a West Siberian pipeline as a necessary standard for planners.

Specific alternatives include:

1. Eliminate U.S. government regulatory support for long-haul, high-cost LNG from Europe's natural suppliers (e.g., Algeria, Nigeria, Cameroon, Qatar, and potentially, the Canadian Arctic) caused by regulatory policy. Senior Domestic Council staff are sensitive to the Alliance energy security dimension of this problem.
2. Consider allowing export of Alaskan crude oil to nearby Japan, at least in one-to-one swaps; and, if the Alaskan natural gas project's technical risks and economic costs are too great for the U.S. market, consider export to Japan. The result of both actions would reduce Japanese demand in the Persian Gulf, weakening the exporters' position vis-a-vis European buyers.

3. Encourage additional investment in U.S. port facilities for long-haul colliers, and the readiness of the U.S. coal industry for a significantly boosted export role. Move quickly to cut red tape.
4. Confer with the Europeans over the recent criticism of the IEA coal advisory board of European fulfillment of commitments to use coal. Take up German protectionist restrictions on coal imports.
5. Encourage Norway to increase production of gas, at the expense of oil if necessary, in the context of their long-term hydrocarbon development plan for the 1990s. Europe has advocated U.S. help in persuading Norway to consider these options and would be grateful for U.S. help. While some believe that Norwegian conservation interests are a very difficult barrier to increased production, Norway has approved several major projects recently, including an 843 km pipeline to Germany to be completed by 1986 and which may feed 7 billion cubic meters/year into existing lines. Norway's interest in long-term gas contracts may be stimulated by the current softness in the world oil market.
6. Encourage the Netherlands to meet the needs of European suppliers during the late 1980s or early 1990s by offering short-term contracts above currently projected export levels. The Dutch may need the export earnings in any case, so this option may well be viable.
7. Press the Dutch to accelerate offshore exploration and commit further offshore reserves to the export market as soon as discoveries are made. The Dutch may have lagged in exploration efforts because they were fairly confident that significant additional reserves would be discovered and so that they could hold out for higher prices for both onshore and undiscovered offshore gas. Whether or not this is the case, the offshore areas involved are considered quite promising, and by justifying the accelerated exploitation of onshore reserves, the lead time for benefiting from new discoveries may be reduced to almost nothing.
8. Help restore the domestic credibility and viability of the nuclear power option in Germany.
9. If Europe is willing to invest \$13-15 billion in Siberia, it might consider investing equivalent funds in other gas or energy development projects. Nigeria represents an obvious opportunity for such a policy because the government there may delay the Bonny LNG project due to funding problems, and Bonny would probably come onstream before the Siberian project if work now proceeded at full pace.