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NATIONAL SECURITY COUNCIL MEETING

Date, Time and Place: Friday, October 16, 1981; 2:00 - 3:00 p.m.;
The Cabinet Room

Subject; East-West Trade Controls

Participants:

State

Secretary Alexander M. Haig, Jr.
Deputy Secretary William P. Clark

JCS

Admiral Thomas B. Hayward
Lt General Paul F. Gorman

Treasury

Secretary Donald T. Regan

White House

Mr. Edwin Meese III
Mr. James A. Baker III
Mr. Michael K. Deaver
Mr. Richard V. Allen
Adm James W. Nance
Ms. Janet Colson

OSD

Deputy Secretary Frank C. Carlucci

Commerce

Under Secretary Lionel H. Olmer
Assistant Secretary Lawrence Brady

NSC

Dr. Allen J. Lenz, Notetaker
Dr. Richard Pipes

OMB

Mr. Ed Harper

CIA

Mr. William J. Casey

USUN

Ambassador Jeane J. Kirkpatrick

USTR

Mr. Donald Dekeiffer

MINUTES

Meese: Even though everyone is not here, I believe we can accomplish some work before the President arrives: It seems to me the issues we have to discuss today can be divided into three questions. First, Do we want to impede the construction of the Siberian Pipeline? We haven't really examined this.

Carlucci: I believe we have decided to impede it.

Clark: Yes.

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Meese: A second question is to what extent can we obtain the cooperation of other countries, or impede their participation in the project, and what would the effects be of our actions? Third, what is the balance of the effects of our action on our domestic employment versus our national security?

_____:

Meese: Foreign policy and national security are the same only in State (laughter).

Enter the President and Mr. Allen

Meese: Mr. President, we had got started on this matter by posing three questions:

- o The first is whether we want to impede the construction of the Siberian Pipeline. The consensus answer to that question seems to be yes.
- o The second question is to what extent can we get others -- our Allies -- to agree?
- o To what extent do domestic considerations weigh in determining our decision?

Casey: I wonder if we could go back a bit? We have a new comprehensive analysis of what the Soviets buy from the West in technology and the effects of these purchases. It is staggering -- the things they could not do without Western assistance (technology).

Mr. Allen: Is this a new study?

Casey: Yes. The Soviets go about the acquisition of Western technology in a very organized manner. They lay out what they need and identify where to go to get it. As a result of an increased understanding of the effects of Soviet acquisitions, I see a trend to substantial broadening of COCOM rules and revised methods of control to reduce their technology acquisitions. I believe these new findings will isolate and highlight the technology transfer question as never before.

Carlucci: We want to force the Soviets into a diversified investment strategy -- to force hard choices on them. However, selling technology to them saves them investment funds and makes their choices easier.

Casey: This new information shows the value of what they are getting is greater than we had ever conceived.

The President: It seems to me this gets down to showing that if the free world had not helped them and had let their system deteriorate, we wouldn't have the problems we have today. But we (the U.S.) can't do it alone. The question is have we worked in good faith with our Allies to get their cooperation? And, if we don't get their cooperation, at what point do we (by unilateral embargo actions) simply cut off our nose to spite our face and add to our own (economic) problems by not selling -- by depriving ourselves without depriving them (the Soviets) as was the case with grain. Can we make alone a decision to hold them back?

Casey: On some things we can -- on some we can't. Non-agricultural exports are a small portion of our trade with the Soviets. I believe this new study will promote a new Allied attitude. It has not been previously recognized how important this issue is. It has never before been looked at in its totality.

Mr. Allen: Bill is also talking about the acquisition of technology by means other than purchases, such as theft.

The President: I know that. Also, what they get by buying one -- tearing it apart -- and learning how to do it.

Mr. Allen. It's called reverse engineering. Bill, what are you going to do with this new information? Are you going to make it available?

Casey: Yes.

Mr. Allen: We have some important decisions to make. Would this new information have an impact on the issue of oil and gas technology?

Casey: This is a broad decision. The Soviet economy is in trouble. The question is do we want to make it harder for them?

Haig: (who had arrived after the discussion began) I am confused. Are we talking about today's agenda?

Mr. Allen: Bill has indicated that he has a new study examining the totality of technology transfer to the Soviet Union.

Haig: Mr. President, I believe we need to remember that we had a decision to broaden COCOM from purely military applications, to cover military-industrial items. We hope for a high-level COCOM meeting in November to raise this issue. I hope we understand that we do have an agenda for dealing with this technology transfer matter.

As Amended
Sec. 1.4(c) & (d)

Meese: ?????

Haig: Why don't we put this new information into the bureaucracy and see what happens?

Mr. Allen: Yes, that's what we should do. Now, we have to deal with the oil/gas policy issue. It is urgent because we have a backlog of licenses to deal with and because our policy on this matter will affect our position on the Siberian Pipeline. We need a decision on our U.S. exports that would contribute to the construction of the pipeline.

Meese: We have arrived at four options. Would the Department of Commerce state its position on this matter?

Olmer: Secretary Baldrige, with whom I have discussed this matter today, says we continue to support Option IV. This option would allow us to sell oil and gas equipment items on which there are not national security controls. This policy is desirable because the majority of oil and gas equipment not covered by national security controls is available from other sources and unilateral U.S. controls would achieve little.

Mr. Allen: What about turbine components? We have new information from the CIA that restricting some few items would cause a pipeline delay of 18-28 months. Is this correct?

Casey: Yes. GE says if a license is not granted for shipment of U.S. components, it would take about two years for European competitors to get started producing them. How much this would delay the pipeline itself is not quite so clear, but it would delay it.

Mr. Allen: Under Secretary Olmer, how would that coincide with your position on Option III?

Olmer: There is disagreement on how long it would take the Soviets to make up the technology shortages that would result from U.S. controls. In an analysis prepared for recent testimony, we found that with very few exceptions, we do not have a U.S. monopoly. For example, GE compressors could be gotten elsewhere. Our Allies are generally unwilling to go along with restrictions. Thus, we are caught in a position of telling our companies they cannot get licenses, because our policy is to impede Soviet production, but not licensing won't impede them (the Soviets) because of availability from other sources.

Casey: I agree we don't have a unique capability. It's a matter of time needed to catch up. But the compressors the Soviets would get from other sources would be less efficient than those built by GE.

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As Amended
Sec. 1.4(c)

Haig: Aren't we getting wrapped around the axle on one facet of the problem? We have had an options paper since August. We have no decision as yet. Now, we have a basic oil/gas decision to make -- not a pipeline decision to make.

Mr. President, your earlier remarks were, I thought, on the mark. The question is whether we have the luxury of denying the Soviet Union essential equipment. Then we can get to the question of the pipeline.

_____ : ??????

Meese: I think we should hear the agency positions.

Mr. Allen: It seems to me that the agencies have spoken and that their positions have not changed.

Haig: No, let's discuss the four options and keep the pipeline out of it.

Meese: No. We need specifics to make it concrete. It's silly to discuss the issue without it (reference to the pipeline). Under Secretary Olmer has indicated Commerce's position. We should discuss what position others take. The key question is "what can we get our Allies to do?"

Haig: We should discuss our basic policy on oil/gas controls.

Olmer: I think it should be emphasized that some parts of exports for the pipeline are already covered by national security controls. Much is not, but some items are controlled for national security reasons.

Mr. Allen: The rest is under foreign policy controls. Mr. President, the options have not changed. They are stated in succinct form in the materials provided. Those recommending Option I include: Weinberger, Casey, Kirkpatrick and General Jones.

Essentially the same group also recommends Option II. Energy recommends Option III, while Option IV is recommended by Secretaries Haig, Regan and Baldrige, Under Secretary Davis (Energy), Mr. Stockman and Ambassador Brock. Simply stated, Option IV is:

Rather than attempting to impede oil and gas production and exports, our goal will be to deny exports of technology that allow the Soviets to replicate advanced Western equipment; this technology would give them an independent capability to improve oil and gas output and infrastructure. The U.S. will approve exports of end use equipment.

Mr. Allen (cont'd): Some of the end use equipment would be directly affected by your decision -- Caterpillar pipelayers, rotors, shafts, etc. All of this has implications for East-West relations and East-West trade, but requires a decision as to what our basic position should be.

Haig: Mr. President, Option IV is restricting the transfer of technology, while dealing with equipment on a case-by-case basis to see if it does violence to our position.

Option IV is preferable because, if we unilaterally deny oil and gas equipment, we will not restrict availability to the Soviets. It will be impossible to convince our Allies to join us in such restrictions. Cap has talked with the Brits. They suggested in no way would they go along with us.

Mr. Allen: This proposal involves giving our Allies some running room. It is the same policy followed by Carter.

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Haig: We are talking about holding technology back, while selling them equipment on a case-by-case basis.

Mr. Allen: It would allow shipments of equipment and continued leakage.

Carlucci: Are we discussing the subject in the context of foreign policy or that of national security? No one prefers a unilateral embargo. Options I and II would place security controls on oil and gas equipment and technology. Options III and IV would be foreign policy controls. The question is what degree of diplomacy and example we use with our Allies. We don't know what they will do until we set an example. We must send our Allies a steady signal. They are confused by our actions, such as our ending of the grain embargo. We seem to make decisions on commercial grounds.

Haig: Yes.

Carlucci: But if we don't try, we open up the floodgates.

Haig: No! We say tighten up on technology transfer! We are proposing important modifications -- new controls -- to our Allies.

Mr. Allen: No! Option IV is precisely what Carter did.

Haig: Look! There is a profound difference between what Carter did as a knee-jerk reaction and what we do in encouraging our Allies to tighten COCOM controls.

To deal with our Allies in a credible way, we have to have a credible position. Options I and II are unilateral control actions, while trying to get Allied support. We won't get it!

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Haig (cont'd): The President must be concerned about our credibility. Option IV says increased controls on technology transfer. Let's sit down and do it. On end items we decide case by case. The President and the bureaucracy are capable of doing it.

Casey: There are risks in the process.

Haig: Option I is not credible.

Carlucci: Under Options I or II, the U.S. will actively impede and use pressure. The actions would not be unilateral.

Haig: Would we permit the sale of oil and gas items during the period we are pressuring our Allies?

Carlucci: No, we would not. After a fair period of trial, we may need to regroup and change our position (if Allies do not follow us).

Meese: The President does not decide export controls on a case-by-case basis. We need clear guidelines for the bureaucracy.

??: Allowing items opens a pretty wide track. Items for the pipeline would not go on I or II. They would go on under III or IV.

Carlucci: Under Option I or II we control on the basis of national security concerns.

Meese: Would not it be useful to go around the room for an expression of views, and then to ask questions?

Mr. Allen: I believe everyone has already spoken.

Regan: I am confused between Option III and IV. I thought I understood it, but I am not sure now that I do. We need clear guidance for our customs people.

Mr. Allen: Under a strict interpretation of IV, the U.S. will approve exports of equipment. The pipelayers would go. (To Under Secretary Olmer) Without a license?

Olmer: No, they would be licensed.

Meese: If we sent 200 in July, it's hard to say they can't have them in September.

Olmer: No matter which options, I through IV, at least four areas of oil/gas equipment will be controlled -- regardless of what decision today. For example, computer controls, rig design, crew training and ??

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Mr. Allen: So these items would be controlled?

Olmer: Several thousand high technology items would be controlled under any option.

Casey: In 1979, the Soviets got 1000 items that aided in their research and development.

Mr. Allen: There are several locksteps involved in this decision. The oil/gas decision relates to East-West trade. East-West trade in turn relates to East-West relations, which relates to our long-range Soviet policy. Walking up the steps, making these decisions, gets more difficult as you get higher up on the steps.

Carlucci: Unless we select I or II, we make the pipeline decision already made more difficult to sell to our Allies. We would be willing to go from I to II, but let's not capitulate too soon.

Kirkpatrick: We don't want to help the Soviets develop their oil and gas production. There are long waiting lists for oil and gas equipment. The waits are years long. Putting them off won't cost us sales.

The President: Do you mean if Caterpillar does not sell to the Soviets, then they can sell elsewhere?

Kirkpatrick: Yes, in South America and elsewhere.

Haig: Why is International Harvester going broke then?

The President: Do you mean that Caterpillar can sell 200 pipelayers in South America? Then why is Caterpillar pressing so hard on this transaction?

Kirkpatrick: The fact that Chrysler is going broke does not mean there is no market for them in the U.S.

?? : Would the Japanese cooperate in not selling pipelayers to the Soviets?

The President: At Ottawa, Suzuki said he would look into it.

Haig: The Japanese Foreign Minister later said no (they would not withhold sales). They were very clear on it.

Harper: On oil rigs, there is a long waiting line, but on the high technology we want to protect, we need a definition of the technology issues vis-a-vis policy.

Mr. Allen: Mr. President, we need a statement of options satisfactory to you. I gather that you feel reluctant to sign off on this issue from this options paper -- that it is not yet crisp enough.

Possibly there is a problem in that we don't have an overall Soviet policy. But that wouldn't address the problem of licenses and the problem of COCOM negotiations, and the fact that licensing pipelayers before the COCOM meeting would complicate negotiations.

Olmer: It is important to have a clear statement of policy before the COCOM meeting. Even though our oil/gas decision is not a matter to be treated directly there. The Caterpillar pipelayers will be seen as a sign of our intentions.

Haig: There is an important point to be made. We are seeking a broadening of the controls in COCOM to include not just military use technology, but military-industrial equipment. If we now adopt a brittle attitude on oil and gas, it will not be consistent with our COCOM instructions. Option IV would be consistent with our COCOM negotiating position.

I hope that, in the future, no summary of the options will be prepared to go to the President.

We are smoking opium if we think we can get Allied agreement on Option I. We will begin with Option II.

Option III has terrible practical applications. Secretary Regan could not administer it. His customs people would not be able to do it.

We should look at the four options on an interdepartmental basis. The whole matter should go back to the drawing board.

Mr. Allen: This (options paper) is the same paper that went through the process earlier. It has not been changed.

The President: I'm the most confused person of anyone. Is it possible to have an options paper that says "here's what we'll stop selling -- here's where they will get it then -- here's what they can't get elsewhere?"

I'd like to know the effect on our economy and the effect on them. I'd like to know the effect on our businesses -- those that wouldn't be able to make it (because of our restrictions) -- not down to those who make shoelaces, of course.

But I would like to look and see what it would do to the Soviet Union. Is it worth it to make an economic sacrifice? It is difficult to make a decision without knowing this.

Haig: We all want to tighten up -- to give them the minimum we can. But the doctrinaires here want to cut it off (totally) and to tell our Allies to do the same. But they will tell us to go to hell.

The ?? Option is IV. Under that we tighten our technology -- go case by case on equipment. Perhaps we can tighten up on the individual cases. But let's not stick our head in the pencil sharpener. Let's have a realistic policy!

Mr. Allen: We are trying to reconstruct COCOM. To construct a realistic policy for the 80's. But what is realism for the 80's. Your concern is to get along with our Allies.

Haig: That's your interpretation of my policy. I want a policy that is credible and effective.

Meese: We must finish. We are keeping a number of people waiting to use this room. Mr. President, your suggestion was to flesh out the options with some examples.

The President: Let me give two more examples concerning the confusion on this issue. First, my understanding is that the technology that slipped through Commerce on ball bearings allowed them (the Soviets) to MIRV their missiles earlier than they otherwise would have been able to do so. We should have been able to prevent that.

Second, the grain embargo. We saw a breakdown (in the embargo) elsewhere. They (the Soviets) were getting it without our help, while our agriculture here was in a tailspin.

We have to look at those two considerations. Even though it helps them, does it help us as much or more than it helps them? If it is spelled out that way, it will help to make the decision. What is it we can cut off from them that they can't get elsewhere?

Meese: We need to talk about this again as soon as possible -- at the next NSC meeting.

The President: Can we repossess the KAMA River truck plant from them?

Mr. Allen: Mr. President, Larry Brady here is the person who is responsible for that.

End of formal meeting, followed by post-meeting exchange between Secretary Haig and Mr. Allen on the insertion of "staff bias" into options papers.