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BY LOJ, NARA, DATE 2/22/08

NATIONAL SECURITY COUNCIL MEETING

February 4, 1982

TIME AND PLACE: 3:30 p.m.-4:30 p.m., Cabinet Room
SUBJECT: Scope and Interpretation of Oil and Gas Equipment Controls

PARTICIPANTS:

President Ronald Reagan
Vice President George Bush

State
Secretary Alexander M. Haig, Jr.
Under Secretary Walter Stoessel

Treasury
Secretary Donald T. Regan

Defense
Secretary Caspar W. Weinberger
Deputy Secretary Frank Carlucci

Commerce
Secretary Malcolm Baldrige
Under Secretary Lionel Olmer

USUN
Ambassador Jeane Kirkpatrick

White House
Edwin Meese, III
Michael K. Deaver
Judge William P. Clark
Robert C. McFarlane

USTR
Ambassador William E. Brock

CIA
Director William J. Casey

JCS
General David C. Jones

OMB
William Schneider, Jr.

NSC
Dr. Norman A. Bailey
Geoffrey Kemp

Mr. Casey: By taking extraterritoriality decisions, we can delay completion of the pipeline by something close to 3 years. The significance of this is to deny them a significant amount of hard currency after 1986 when they will be running out. No oil exports after 1985. Deficit of \$15 billion in 1985 (high estimate) or \$6.5 billion (low estimate); \$18 billion by 1990.

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Review February 5, 2002
Classified and Extended by William P. Clark
Reason: NSC 1.13(f)

Secretary Haig: All of these questions ought to be viewed in the light of our Allies, our objectives, etc. The perception of the Allies is that our sanctions hurt them and not us. This is not a partnership. In Poland, the situation is deteriorating and bloodshed is a possibility. In the immediate case, the government is going to continue to squeeze. Nothing so far from the Soviets or from Jaruzelski. Probably nothing we can do will change their minds. We want to maximize our leverage without risking a confrontation, gain Allied support for strong action. If we use economic/political pressures alone, we can do little. If with allies, we can do a lot. The Soviets are unsure about the situation in Poland -- they are surprised at our unity with our Allies. Now they are united in condemning Soviets and joining slowly in sanctions. We must think of any short-term measures only in conjunction with a new package. There is no point in holding off -- but economic pressure is important only if we are united with our Allies. It should be reversible if they respond. Credits are the most important single factor of pressure. There should be a sixth option (added to the other five -- he then summarizes them). The sixth option is credit. The Allies are moving our way, slowly. We must not take new and jolting actions. By narrow decisions on extraterritoriality, we may destroy our chances to get further Allied actions. Republican Senators are opposed to a grain embargo. We should continue to try to bring our Allies along. If we fail or if the situation changes, we can look at cold turkey steps. We should hit Afghanistan, Libya, the Caribbean. We need a carrot if moderation is restored, a mini-Marshall Plan (by February 9). Polish debt -- all agencies except Defense approved the recommendation not to call Poland into default at this time. /N.B. This is not so -- the Working Group Report was approved by Defense./ (Notes from Working Group Report.) Soviet gold sales in January were very high. If we go the default route, we will lose leverage and other countries would be paid first. Thatcher thinks the economic structure of Europe would be shattered and recommends getting the bureaucracy lined up to speak with one voice.

Secretary Weinberger: Cut commercial credit to the Soviets. Extraterritoriality is absolutely the minimum approach. We would have difficulty explaining why we're not doing it. The pipeline is just as militarily significant as a plane. A total embargo would be effective -- not a selective embargo. We should be developing credible alternatives to the pipeline. We should keep open the possibility of default. We have little to gain by not doing it. The English are claiming that it's too late. We should be willing to do things ourselves. We should not be paying Polish debts ourselves.

Secretary Haig: What is our default policy?

Judge Clark: Not for the time being.

Mr. Meese: We never said we would never use it.

Secretary Baldrige: I am in complete agreement that we should try to stop the pipeline. Costs are now \$200 million. Extraterritoriality another \$200 million; 1 1/2 to 2 year delay. Technology is presently whole and intact in France. We do not slow down the pipeline for 2 years. But it will not be completed until 1987-1990 in any case. Any 18 month delay is not going to have any effect. So we lose \$500 million in exports for nothing. If the Russians don't get phosphates from Florida, they'll get them from Morocco. All the General Counsels agree we are on tenuous grounds. (Cites Freuhauf case.)

Mr. Brock: It is not simply to apply extraterritoriality. We are trying to get national treatment for our companies. This step would destroy that effort. We have to have Allied support. Otherwise, we have no possibility of success. They look at it as an assault on their sovereignty.

Secretary Regan: It is necessary to get Allied cooperation. Note that our freeze on Iranian assets would have been unsuccessful. Pipeline financing is all guaranteed credit. The guarantors are Germany and France. To cut off credit to the USSR, you have to get FRG and France to withdraw guarantees.

Ambassador Kirkpatrick: The pipeline produces interdependence between the USSR and West Europe. It is already happening. This interdependence is one-sided because the West European countries are democracies, subject to pressures. The question is whether we should help the Soviets with subsidiaries and licensees. No one wants to break the law.

Attorney General Smith: The power of the Presidency is very broad. What is the compensation that would be required?

Secretary Haig: Do we continue extraterritoriality or extend it? My view is that we do not.

Secretary Weinberger: Notes Alsthom contract with G.E. If you do that, you will not get the British to shoot at us. Phosphates -- in 15 minutes we can get Morocco not to sell the phosphates. We give G.E. a lot of money in defense contracts made necessary by what we've lost to the Soviets.

Secretary Haig: Extend to credit controls.

Mr. Meese: Goes into CCC Polish case. A briefing on this case is necessary.

Secretary Haig: We need a detailed explanation.

Secretary Regan: Either way the government has to pay up.

The President: We were keeping control of the timing on this matter.

Secretary Weinberger: This is not a final decision.

Secretary Haig: Kirkland is threatening actions. He says he can get European support.

The President: A grain embargo would be no use.

Secretary Regan: Have a year's stock already.

The President: Farmers always hurt first in recessions. Charge the USSR with violation of the Yalta Agreement. They would have to defend themselves on the issue.

Ambassador Kirkpatrick. This would never pass at the UN.

Notetaker's comment: The final decision of this NSC meeting was to send a high-level mission to Europe to try to get the European countries involved (England, France, Germany and Italy) to prevent themselves the export of oil and gas equipment by U.S. subsidiaries and licensees on their territory as well as to negotiate with them concerning a mutually-agreed restriction on official and officially-guaranteed credits to the Soviet Union. This was subsequently embodied in NSDD-24.]

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