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NATIONAL SECURITY COUNCIL MEETING

Friday, February 26, 1982

TIME AND PLACE: 1:00 - 1:37 p.m., Cabinet Room

SUBJECT: Terms of Reference for High-Level USG Mission  
to Europe on Soviet Sanctions

PARTICIPANTS:

President Ronald Reagan

State

Secretary Alexander M. Haig, Jr.  
Under Secretary William A. Buckley

Treasury

Deputy Secretary Timothy R. McNamar  
Marc Leland

Defense

Secretary Caspar W. Weinberger  
Deputy Secretary Frank Carlucci

Justice

Attorney General William French Smith

Commerce

Secretary Malcolm Baldrige  
Under Secretary Lionel Olmer

USTR

Ambassador William E. Brock

CIA

Director William J. Casey

USUN

Ambassador Jeane J. Kirkpatrick

White House

Edwin Meese, III  
Judge William P. Clark  
Robert C. McFarlane  
John M. Poindexter

JCS

Chairman, General David C. Jones  
Lt. General Paul F. Gorman

Vice President's Office

Admiral Daniel J. Murphy

OMB

William Schneider, Jr.

NSC

Staff Secretary Michael O. Wheeler  
Dr. Norman A. Bailey  
Richard Pipes (Notetaker)

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Review March 1, 1988.

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Judge Clark: Mr. President, you will have to decide on an interpretation of the sanctions announced on December 29, 1981. It was not decided at the time whether the embargoed commodities also included products manufactured by foreign subsidiaries and licensees of U.S. firms. This has created a certain amount of confusion, especially in England and France where component parts for the pipeline are being manufactured. The Department of Commerce has had some difficulty with this confusion. Our agenda today calls for discussing the question of including subsidiaries and licensees of U.S. firms and, secondly, the issue of the so-called Buckley Mission to Europe.

Secretary Haig: As is frequently the case when decisions have to be made quickly -- and speed was unavoidable in this case -- the decision was clear, but its implications were not. The sanctions on the transfer of technology and the fulfillment of contracts connected with the technology has created a situation where U.S. corporations stand to lose \$265 million, but the loss to Europe would be \$874 million. The question before us is threefold:

1. Are contracts already signed to be included in the sanctions?
2. Will the principle of extraterritoriality be enforced?
3. Will we insist on applying retroactively those restraints which will cause further financial loss to our Allies?

The issue, Mr. President, is not unlike that concerning the default question. Your decision here was correct. European governments are very hesitant to put into effect sanctions which will cause loss of jobs, especially if they involve existing contracts. I have discussed this issue in Madrid with Cheyson. The Europeans tells us that the most painful way of hurting the Soviet Union is by limiting future credits. Our long-term policy should aim toward reversing the flow of hard currency. If the Europeans will cooperate with us in choking off the flow of credits, this would represent a trade-off for our willingness to go easy on signed contracts and on the issue of retroactivity. I am against a high-level mission which would go to Europe with the intention of confronting our Allies and producing the impression that there will be winners and losers. I would rather prefer a low-level mission. Credits are more meaningful in any event. What we are talking about is not the complete cutoff of credits to the Soviet Union, but an incremental decrease which would force the Russians to borrow at prevailing market rates and thereby pay more for borrowed money. We should establish a mechanism that would supervise all financial deals between East and West. If the credits would go to purchase strategic goods, then no credit should be extended at all; if what is involved are non-strategic purchases, then the Russians should be compelled to borrow at prevailing market rates. For this reason, the Terms of Reference for the proposed Buckley Mission should be modified. If there is a Buckley Mission, it should be downgraded. The

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pipeline question should not be included in the Buckley Mission. Our pressure in this respect would produce no results and in any way even in this respect control of credit is the most effective impediment. If the pipeline issue becomes a test of European "manhood", they will reject our pressures.

The President: I must take the blame for having been careless. At the time that I announced the sanctions, I believed that the United States was the dominant factor in what went into the production of the pipeline. Now, Maggie Thatcher has made me realize that I have been wrong. I now realize that the important factors are the subsidiaries and licensees of U.S. corporations. Now it seems to me that if we do it at all, we should figure out whether we want to throw a block at the Soviet Union. If we are not prepared to do that, there will be a split between us and American labor. Labor will refuse to load ships. The question is, can we avoid going all the way? Can we avoid telling Europe that our sanctions apply to subsidiaries and licensees?

Secretary Weinberger: I understand Al's point. Sanctions, however, had a purpose, and to be effective have to be followed through. One cannot tell American corporations: "You cannot, but your son can." i.e., General Electric cannot sell the Russians goods, but their subsidiary abroad, under license, may. Hence, we must go for the full reach. Otherwise, we will not appear either as sincere or effective. We do want to stop the pipeline, because of the advantages it gives the Soviet Union in the military sphere -- it gives them the capacity to turn off the valves; it also gives them hard currency. The Department of Defense believes that we are able to delay the completion of the pipeline for at least two years by limiting the supply of rotors. To produce these rotors in Europe, it would be necessary to construct a new plant, and this would require two years, during which costs would be rising, and this would give us an additional advantage. Any delay in the construction of the pipeline has great military benefits. I am fully in favor of placing restrictions on the availability of credit, but the European proposals are very limited. They involve five-year loans instead of eight-year loans, raising the interest rates by half a percent, etc. If the so-called Buckley Mission goes over and talks only about credits, this would demonstrate that we are not willing to stay on course. The loss of jobs is unfortunate -- the loss of freedom is worse. I hope also that we can make further attempts to demonstrate to the Europeans the availability of alternate sources of energy. We cannot always modify our policies to adjust to the Europeans. The Department of Defense hopes that the President will adopt that option that calls for the extension of our sanctions to foreign subsidiaries and licensees.

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Secretary Baldrige: Two points need to be made. One, there is no way to stop the pipeline. Two, we cannot even delay the pipeline significantly. We talked to experts, and they tell us that at most we can delay it by a very short time. The pipeline will be finished in 1987. It will be a far tougher policy to have Buckley get from the Europeans a framework on credit guarantee restraints. Extraterritoriality is not a practical way to get Europe to cooperate.

Judge Clark: You would then revoke the earlier President resolution on sanctions?

Secretary Baldrige: No, but I would review it to see where it is effective and where not. We should particularly emphasize credit restraints.

Ambassador Brock: I know of no expert who says the pipeline can be completed by 1984. Baldrige is correct. They can replace the missing equipment during this period. Our action will not delay completion of the pipeline. The other factor to consider is that extraterritoriality would be a fundamental violation of international agreements. The French certainly would never be allowed to apply extraterritoriality to their firms operating in this country. Britain passed a law through Parliament that would make it impossible for us to extend extraterritoriality to the United Kingdom. The way to deal with the problem is to stop imports from the Soviet Union -- these amount to \$25 billion -- and to place restrictions on credit.

Judge Clark: You then would repeal the decision of December 29?

Ambassador Brock: I would exempt subsidiaries and licensees.

Admiral Murphy: The Vice President agrees with the Department of State.

Mr. Meese: We should include subsidiaries and licensees to the extent allowed by law. We should do anything that we can. We should declare a default as soon as possible.

Deputy Secretary McNamar: We cannot stop the pipeline, we can delay it. Extraterritoriality will not be effective -- European parliaments can pass laws to get around it. The stuff is available elsewhere. If the Mission goes to consult, it will not look as if it is backing off if it has no success. Controls on credit will greatly enhance the Soviet problem.

Director Casey: I have reluctantly come to agree with the Department of Treasury that extraterritoriality will not work. The pipeline is an accomplished fact. We should invoke the Tank Clause to delay the pipeline. This has a real prospect. The Tank Clause and the threat of extraterritoriality will work. We might be successful in stopping the construction of a second pipeline. We should press the Norwegians to produce more gas. We should restrict credit. This will give us a chance.

General Jones: We favor the maximum sanctions, but the health of the Alliance is not in the best of shape right now. One should be balanced.

Ambassador Kirkpatrick: I would like to call attention to the fact that the French press was very hostile to their government's pipeline deal with the Soviet Union last month -- that credits were given at eight and a half percent. What the French media criticized was not so much the growing French dependence on Soviet energy, but that French jobs are becoming dependent on the Soviet Union. In other words, that Soviet orders create jobs that make Europeans dependent on the Soviet Union. There is widespread discussion of this in Europe. We should provide leadership in this matter. I don't know if we can stop the pipeline: this is a technical and a legal question. The issue is: do we wish to make it clear that we would like to stop Europe's growing dependence on the Soviet Union.

Attorney General Smith: I favor extending the sanctions extra-territorially. However, if we go retroactive, we may make ourselves liable to having to pay compensation.

Judge Clark: Any further questions? Mr. President, there is a consensus that you should take the matter under advisement. Next, should the Buckley group go?

Secretary Haig: We have a major political problem on our hands. It has to be attended to. The Europeans expect us to sit down with them and discuss the matter. They would like us to give them relief from contractual pressures and in return they will give us concessions on credits. The Buckley group should not be a "high-profile" group; it should not be involved in a test of strength; it should not endeavor to kill the pipeline. We all want to apply pressure, but we must get cooperation. Let Buckley go and when he comes back we can reassess our position.

Judge Clark: Are the Terms of Reference for the Buckley Mission O.K.?

Haig: No. The bracketed sections should be removed.

Baldrige: I agree. The bracketed sections should be removed.

Weinberger: The issue of extraterritoriality is overblown. We have information to the effect that the President of Alsthom-Atlantique, a licensee of General Electric, has said that if the President of General Electric called him and asked that they not produce these rotors for the pipeline, they would acquiesce. This is not a matter of law, but of the relationship between the two firms.

The meeting adjourned at 1:37 p.m. On March 1, Judge Clark signed a memorandum approving the Buckley Mission to Europe (Tab A).

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THE WHITE HOUSE

BY CAS, NARA, DATE 11/01/05 WASHINGTONCONFIDENTIAL

March 1, 1982

MEMORANDUM FOR THE VICE PRESIDENT  
 THE SECRETARY OF STATE  
 THE SECRETARY OF THE TREASURY  
 THE SECRETARY OF DEFENSE  
 THE SECRETARY OF COMMERCE  
 THE DIRECTOR OF CENTRAL INTELLIGENCE  
 THE UNITED STATES REPRESENTATIVE TO THE  
 UNITED NATIONS  
 THE DIRECTOR OF OFFICE MANAGEMENT AND BUDGET  
 THE UNITED STATES TRADE REPRESENTATIVE  
 THE CHAIRMAN, JOINT CHIEFS OF STAFF

SUBJECT: High Level Mission to Europe

The President has determined to defer his decision on applicability of the December 30, 1981, sanctions involving the embargo of oil and gas equipment exports to the Soviet Union pending return of a Mission to Europe headed by Under Secretary of State James Buckley to consult with representatives of the Governments of the United Kingdom, France, Italy and the Federal Republic of Germany.

The consultations will address restricting medium - and long-term government and government guaranteed export credits to the Soviet Union and convening a conference of these countries and others to consider the establishment of a standing mechanism for the management of such credit restrictions in the future. Agreement to convene a conference will be subject to concurrence by the governments involved that no new government or government-guaranteed medium - or long-term credit commitments will be made to the Soviet Union in the interim.

In its discussions with European leaders, the Mission should also encourage them to move ahead with further restrictions on non-essential imports from the Soviet Union. The Mission should also encourage the Allied Governments to join with us in an effort to limit European energy dependence on the Soviet Union. However, these latter points should be subordinated to the key objective of significant restraints on credits to the Soviet Union.

In addition to Under Secretary Buckley, the Mission will include representatives from the Departments of Treasury, Defense, Commerce and the National Security Council staff.

FOR THE PRESIDENT:

*William P. Clark*  
 William P. Clark

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Revised on 1 March 1982