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THE WHITE HOUSE

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SUBJECT: Debrief of Under Secretary Buckley's Trip to Europe

PARTICIPANTS: President Ronald Reagan
Secretary of State Alexander M. Haig, Jr.
Secretary of the Treasury Donald T. Regan
The Attorney General William French Smith
Secretary of Commerce Malcolm Baldrige
Edwin Meese III, Counsellor to the President
Director of Central Intelligence William J. Casey
United States Trade Representative William E. Brock
Deputy Chief of Staff to the President Michael K. Deaver
Assistant to the President for National Security Affairs William P. Clark
Deputy Secretary of Defense Frank C. Carlucci
Chairman, Joint Chiefs of Staff General David C. Jones
Under Secretary of State James L. Buckley
Under Secretary of Defense Fred C. Ikle
Dr. William Schneider, Jr., OMB

Observers:
Lawrence J. Brady, Assistant Secretary for Trade (Commerce)
Marc E. Leland, Assistant Secretary (Treasury)
Lt. General Paul F. Gorman (JCS)
Richard G. Darman (White House)
John M. Poindexter (White House)
Michael O. Wheeler (Staff Secretary, NSC)
Norman A. Bailey (NSC)
Richard Pipes (NSC, Notetaker)

DATE, TIME Thursday, March 25, 1982, 1:00 p.m.
AND PLACE: The Cabinet Room

The meeting opened at 1:02 p.m.

Clark: Mr. President, Jim Buckley, having returned from his mission to Europe, will report on the results of his consultations with our Allies on the subject of restricting government and government-guaranteed loans to the Soviet Union.

Buckley: The purpose of the mission was to show the idiocy of subsidizing the Soviet arms buildup through credits: we wanted to look at credits extended to the USSR in strategic terms, to treat them in the same manner as we do the transfer of sensitive

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technology. Specifically, we wanted to discuss (1) subsidized credits, offered at below market rates (sometimes as much as 50 percent below), and (2) government-guaranteed loans. Most countries provide both types of loans: the Germans have a peculiar form of loan insurance known as "Hermes" which is private but has government backing, so it amounts to the same thing.

More specifically, the mission wished to accomplish three objectives:

1. To consult with the European Allies and Japan on the need for credit restraint and the creation of an appropriate mechanism to achieve this aim.
2. "Transparency": the exchange among ourselves of information on loans; and,
3. "Pause": a moratorium on further credits and credit guarantees until the mechanism to control them has been set in place.

We failed in the third objective. The Germans and French said they could not adopt such a moratorium. The Italians said they have already stopped extending credit anyway but for purely economic reasons. We obtained cooperation on "transparency". The reaction to our first objective, the request for consultations and a "mechanism", met with a mixed response. It was coolest in Germany where it was said that that country finds it beneficial to extend credit at preferential rates and that "Hermes" is a private organization (although admittedly government-backed). The Germans were also disturbed by the notion of singling out the Soviet Union for discrimination in matters of trade, a practice they described as "hostile". We stressed that indeed one must single out the Soviet Union -- such discrimination is implicit in the maintenance of NATO and in our defense buildup. (Ambassador Hermes of the FRG, however, whom I saw today, was more forthcoming.) The French were very French: they were prepared to do away with subsidies but they claimed they could not cooperate in restraining the flow of credits because of a 1981 protocol with the Soviet Union committing them to provide the moneys necessary for Soviet purchases in France. We will try to smoke out this accord: we doubt that it exists in this form. The British expressed a willingness to act as "middlemen". The Italians were a joy: fully willing to cooperate, as long as no country took advantage of the arrangement at the expense of others.

The meeting in Brussels was immensely encouraging. We met with the NATO Council, the EC, and Belgian Foreign Minister Tindemans. The smaller industrial nations are sick and tired of having to compete with larger powers.

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In general, one could discern growing Allied concern over East Bloc debts and an understanding that easy money helps the USSR solve its critical problems. The idea of doing away with subsidized loans met with sympathy. We stressed President Reagan's sense of urgency: that the President has put the December 30 sanctions on hold until we have reported on our mission. There is also growing congressional impatience. A telling argument was that our ability to cooperate in the matter of the ballooning debt [of the Soviet Bloc] depended entirely on the willingness of the Allies to restrict loans to the Soviet Union.

We laid a groundwork to go forward with bilaterals. We will start these bilaterals with the Germans next week. After the bilaterals there is to be a conference of the leading powers to create a consensus. An agreement should be reached well in advance of the Versailles Summit.

The President has also asked us to raise the matter of energy dependence. We did this everywhere. We spoke of North Sea gas, opening the ears of our Allies, especially in Italy and Belgium which are not yet committed to the Soviet pipeline. The Germans may reduce their commitment for Siberian gas by 10 percent.

The President: Well done.

Clark: The question is whether we should continue bilaterals on credits and continue deferring the decision on applying extraterritoriality to sanctions. Al?

Haig: Jim Buckley spoke for me.

Carlucci: Defense favors bilaterals but also extraterritoriality: we believe we can stop or at least delay the pipeline.

Clark: There is no doubt of the Defense Department's position on this.

Ikle: If we give up too soon [on extraterritoriality] we may lose leverage. We should hold on to it.

Baldrige: The position of Defense is wrong. We cannot stop the pipeline. The Russians will delay completion until 1986 (rather than 1984) -- any delay based on a 1986 deadline therefore has no value. We have gone on this matter as far as we can. It is unfair to the United States -- there is plenty of evidence of cheating (e.g., the Japanese backdating of memoranda). No one is going along with us: this is costing many jobs in the U.S. I have no recommendation to make but we should be aware that (1) the Allies are not cooperating with our sanctions, (2) we are losing jobs, and (3) we cannot delay the pipeline.

Clark: Should the President void the December 30 sanctions?

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Baldrige: We should think about that. Credits are strong action. I would not propose voiding the sanctions without credit controls.

Regan: Let us continue negotiating a while longer. No one expected complete agreement from such a quick trip. Some two to three months are needed. Soviet trade and credits go beyond the pipeline issue: there are many other things we want to cut off besides the pipeline. Our lever lies in the fact that all East European countries are coming up for review: Poland, Romania, Hungary. The rescheduling of loans, where the Allies want help, can be tied up to their actions vis-a-vis the Russians. If we get no cooperation in two-three months, that will be the time to pull the stops.

Casey: We have ample leverage on credits. Delaying the pipeline is not adequate: it will be on stream in 1985-87. We should take advantage of the economic situation. The demand for gas is declining, also in Germany. Our fundamental objective should be to develop energy on our side of the line, not theirs. The Allies ought to commit themselves not to support the second pipeline, to keep the gas takes to a minimum, and to develop resources elsewhere (Norway, etc.). Do not worry about the [Siberian] pipeline.

Brock: I completely agree with Bill Casey. Our opportunities are: (1) expediting development of Western gas resources; (2) tackling the fundamental problem of credits. This should not be jeopardized for the sake of delaying the pipeline by one year. Place extraterritoriality on hold and continue active negotiations on credit. This will really hurt. If we push the extraterritoriality game we will lose out on credit constraints.

Smith: If we enforce sanctions they should be extraterritorial or they are not credible. Talks [on credits] should go on.

Haig: We recently had a meeting of some Soviet experts from the universities, including the Wharton School. Their conclusions agreed with the consensus that seems to be forming here.

The Norwegian Government wanted to delay the exploitation of its substantial gas reserves until the 1990s because of the energy glut. However, the new Norwegian Government is different from the old one which opposed large-scale economic development. Let us move away from trying to tamper with contractual agreements [on the Siberian gas line]. The Europeans are beginning to feel we are crazy. This takes attention away from the really important issue: the second pipeline and the substitution for it of Norwegian energy, which would give good business to U.S. firms.

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On extraterritoriality, I agree with Baldrige: European subsidiaries and licensees must fulfill their contracts. This does not hurt us. But there was an agreement that there would be no undercutting and this is being circumvented (for instance by Komatsu which backdates trade agreements).

I also agree with Bill Casey: trying to stop the pipeline is a secondary objective which irritates Europe. Keep this issue dangling. The same applies to the default.

The academic experts on the Soviet Union said that the U.S. is beginning to acquire a reputation for economic warfare against the Soviet Union. This would be disaster when Eastern Europe is drifting away, when we should want to differentiate [between the Soviet Union and Eastern Europe].

I hit the ceiling when I read a Reuters dispatch claiming Cheysson spoke of "insurmountable" differences with the United States. I telephoned Cheysson and he said there was no truth whatever in this report. The same applies to the Buckley Mission. We began to open Europe's eyes to overcommitments in Eastern Europe: that it is bad business. This awareness causes them to cooperate. They are afraid they will never get back their \$80 billion. We must show the same patience here that we have shown in COCOM. In the meantime, things aren't so bad: the private banks are not rushing to lend money [to the East].

The President: Does anyone believe they will ever get back their money?

Haig: Experts say you can write \$40-50 billion off.

The President: Should we not cut off credit?

Haig: To the Soviet Union, yes; to Eastern Europe, no.

Meese: We should look at credit worthiness.

Haig: On occasion you have to make a political judgment to keep a country afloat. The academic experts say: we will not bust the Soviet Union. This is a crazy idea. They are in trouble but you will not change their system with economic warfare.

Brock: We can make them change priorities.

Casey: Yes.

Haig: Jim Buckley did great work: he established the mechanism for the June meeting.

Clark: The President has asked Bill Casey to supply daily data on the Soviet and East European economic situation. Al Haig will report to the President on this next week.

Carlucci: There is a question of interpretation. What is meant by "putting extraterritoriality on hold"? Only one firm is involved, Alsthom-Atlantique. The question is: will they manufacture the rotors or not? Will they desist if we request them to?

Clark: The December 29 sanctions applied only to domestic firms. The President deferred the extension of sanctions to subsidiaries and licensees.

Carlucci: Only one firm is involved, a GE licensee in France.

Buckley: Also a German firm.

Ikle: They are waiting for a signal.

Baldrige: That is right. The situation is confusing. There are reports they only have to be asked and they will stop. Other reports say they will expand production.

Haig: Keeping the issue hanging gives Buckley great leverage. We threaten Europe that we will apply extraterritoriality if they do not cooperate on credits.

Baldrige: Credit restraints are a far stronger measure.

The President: If we control credits they won't be able to buy.

Regan: The more uncertain the situation the less credits will flow because the banks will be unsure of government guarantees. They are shortening loan periods as is. We are accomplishing things. Uncertainty restrains banks.

Clark: What we have is "organized uncertainty".

The President: Let me raise a question from the world of fantasy. So far we are doing things which threaten to deny. But they are still in Afghanistan, they are still supplying Cuba, they are still preventing Jews and Christians from emigrating. Is there a right time for the West to cooperate? The Europeans do not understand. Can we foresee a time when they [the Soviets] are in a desperate plight, when the military deprives the people of food, and we might be able to say to them: "Have you learned your lesson? If you rejoin the civilized world we will help you bring wonderful things to your people. But you must get out of Afghanistan, deal realistically in Geneva. No one wants to attack you."

Brock: If you tie this to real reductions in arms so that their insecurity does not increase. They must accept the carrot.

Carlucci: They are not convinced we mean it.

Brock: Like the Japanese, they feel that if they can only hold on until the next Administration... There has to be a carrot.

Ikle: Economic pressures may force them to deal with us.

The President: Will they be desperate enough to grab Middle Eastern oil and tell Europe you will have to buy it from us?

Carlucci: A new generation is coming in: it may be different.

Clark: You may have a Pearl Harbor in Iran if we press them too hard on credits.

Mr. President, anything further on what appears to be a consensus? We then have two alternatives: (1) prepare a short, low-keyed statement [for the press]; (2) await a leak. I recommend the second option.

The President: Let us write a statement as a courtesy and correct any errors that may appear in the leak.

The meeting adjourned at 1:50 p.m.

Attachment:

Statement