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THE WHITE HOUSE
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NATIONAL SECURITY COUNCIL MEETING

MINUTES

SUBJECT: Review of December 30, 1981 Sanctions

PARTICIPANTS: The President
Secretary of State Alexander M. Haig, Jr.
Secretary of the Treasury Donald T. Regan
Secretary of Commerce Malcolm Baldrige
Secretary of Energy James B. Edwards
Counselor to the President Edwin Meese III
Director of Central Intelligence William J. Casey
Ambassador Jeane J. Kirkpatrick, USUN
Chief of Staff to the President James A. Baker, III
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
Chief of Staff to the Vice President Admiral
Daniel J. Murphy
Deputy Attorney General Edward Schmults
Deputy United States Trade Representative, Ambassador
David Macdonald
Dr. William Schneider, Jr., OMB
Under Secretary of State for Security Assistance,
Science and Technology James Buckley
Under Secretary of Defense Fred C. Ikle

Observers:

Under Secretary of Commerce Lionel Olmer
Mr. Marc E. Leland, Treasury
Lt. General Paul F. Gorman, JCS
Mr. Richard G. Darman, White House
Admiral John M. Poindexter, White House
Colonel Michael O. Wheeler, Staff Secretary, NSC
Mr. Norman Bailey, NSC
Mr. Henry Nau, NSC
Mr. Richard Pipes, NSC (Notetaker)

DATE, TIME Monday, May 24, 1982, 10:30 a.m.
AND PLACE: The Cabinet Room

Clark: Mr. President, this is the time and the place to further consider our sanctions of December 30. The question is whether they should be maintained, expanded or rescinded as we approach the Versailles Conference. Jim Buckley is present here, awaiting

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Classified/Extended by WPClark
Review May 26, 2002
Reason: NSC 1.13(f)

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BY Ad NARA DATE 12/4/06

further instructions. Secretary Haig, would you please present the State Department's view.

Haig: Mr. President, as you will recall, you have decided to hold in abeyance the extraterritorial application of sanctions in order to give Jim Buckley the opportunity to see if a mechanism to restrict the flow of government guaranteed credits can be put in place. He and I have worked with the Europeans on this matter. We have not made an explicit offer of a deal, but we have told them that we would be flexible on existing contracts if a mechanism similar to COCOM could be put in place to control the flow of credits for the remainder of this century. Most European countries are very supportive and so are the Japanese. The most negative response comes from the French who claim that they have a private arrangement with the Soviet Union which precludes such measures. There is a problem with the rotors for the Siberian pipeline, but the Europeans are determined to go ahead and find alternate sources if we give them no choice. Cheysson suggested that they would be flexible on this matter, however. This Thursday [May 27] Jim Buckley will have further meetings with the Europeans. I suggest that we make the Europeans a specific, rather than an implicit, offer. The Europeans realize that we are prepared to suspend extraterritoriality if we obtain in return good and hard commitments on the pipeline issue. The first leg of the Siberian pipeline is a fait accompli: whether or not we help, we cannot prevent its completion. Our leverage applies only to the future. I suggest that we ask Jim to tell the Europeans we are prepared to be flexible on sanctions if they support credit controls and promise to limit future pipeline construction: that is, that they not build a second leg of the Siberian pipeline. They also should be prepared to limit their purchases of Soviet fuel in the future. Then, after the Summit, we should go back and take a look at the whole issue of sanctions because there are serious doubts as to whether they are effective and whether they do not punish us more than the Soviet Union. A good case can be made that they do.

In addition, there is a peripheral question of lesser magnitude. It involves the Japanese participation in the Sakhalin project. The Japanese require critical drilling equipment, worth about \$2.0 million, which they can obtain only in the United States. The Japanese must know before the end of the month whether this equipment will become available to them or they will be in deep trouble with the Soviets. The Soviets threaten that, if they do not get it, they will go elsewhere. We must be consistent. Painful as it may be, we should let the Japanese obtain this drilling equipment, if they give us in return firm support on credits and energy.

Casey: I have difficulty in understanding what sort of a deal we could obtain from the Allies on long-term energy projects. We believe that the probability of the completion of the first leg of the Siberian pipeline is only about 85 percent.

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Haig: We think it is 100 percent. The United States should be constructive. I have talked to the North Sea energy producers and they think the development of this source is very viable. It will provide business for us and for the Europeans. However, we should move fast.

Carlucci: We disagree in general with the State Department's position. We concur that the Sakhalin project is part of an overall problem and that if you give in to the Japanese you will jeopardize the sanctions as a whole and open us up to European pressures. This is no time to lift the sanctions. Martial law continues in Poland and we should continue our pressures. Al Haig is right that our pressure will cause the Europeans to look elsewhere and that GE jobs will in effect be exported to France, but the alternative is to lift the sanctions entirely and this is not the time for that. Credit controls are fine, but we seriously doubt if anything tangible can be obtained on this issue before the Versailles Summit, given the French attitude. Should the Siberian and Sakhalin pipelines be built, this will be as important in the long run as are credits. The pipeline is by no means set, many Europeans have doubts about it. The CIA estimates that the construction of the rotors by Alsthom-Atlantique will push up the price. It is true that we cannot stop the Siberian pipeline, but we can delay it. Some Europeans are beginning to worry whether the construction of the Siberian pipeline will not preempt the development of North Sea oil resources.

Baldrige: I am not speaking for any business constituency, but I am convinced that the sanctions won't work in the sense that we want them to work, that is to delay the pipeline construction. The Russians will have many delays in any event. It is unlikely that the pipeline will be completed before 1986. I support the position of the State Department, but I believe we should not make specific promises until we have had a chance to agree with the Europeans on alternate sources and credit restrictions. What we will lose in sanctions will be well worth the gains attained by this strategy. As concerns Sakhalin, we have seen some movement from the Japanese on credit restraints. In general, the Japanese have been cooperative even though there is evidence that they have backdated their Komatsu contracts. I have mixed emotions on the Sakhalin project, but if we can get help from the Japanese on credits and a promise of no further Komatsu sales, then it may be well worth it to let them have what they want.

Murphy. When the Vice President was in the Far East, he was approached on the Sakhalin issue and asked whether we could be helpful. The Vice President would agree more with Al Haig and would concur with his position if we can get commitments on credit restraints or, better yet, an agreement on this subject. On the Siberian pipeline, the Vice President would be torn between the two opposite positions, but he would be inclined more toward the position held by Al Haig.

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Regan: We should keep the two problems [the pipeline and credit restraints] separate. If I were you, Mr. President, I would not make any decision today. Let us see what Jim Buckley will accomplish on the 27th on the issue of credits. After that we can give attention to the pipeline. We should send a letter to the heads of state urging an agreement on limiting credits to the Soviets. If we get concurrence on this, then this issue can be removed from the agenda of the summit. If the Japanese feel that they have to go ahead, let them, as long as they keep the downpayment to 40 percent. But don't let them have the equipment unless they agree -- they are desperate for time. I think we can let the GE rotors go but not until we have obtained a real commitment on limiting purchases of gas and the development of the North Sea. As concerns credits, this is not a big deal. There are only \$400 - \$500 million of export subsidies a year. Let us ask the Russians to put up 30 percent instead of 15 percent. The French say they have a protocol with the Russians, but no one has seen it. They claim they are committed in it until 1985 to go on 15 percent. Their credits are mainly government backed. Private sources charge more than the government. By placing the Soviet Union in the top bracket, all one got was a raise in interest rates from 11-1/2 to 12-1/2 percent. We are really not talking about an awful lot in restraining credits. It will cost the Russians something, but not bring them to their knees. In sum, I urge that a letter be sent to the heads of state, tied to the Buckley mission, to get an agreement. Then we can talk about the pipeline after the summit.

Clark: What should one tell Buckley?

Regan: Push as hard as you can. If we trade, make sure we get something for what we give up.

Haig: This is precisely what we propose, except we would prefer to call in the French Ambassador and write to Mitterand. It is not necessary to write to the other European heads of state because they are already on board. Hence, the President need not write to everyone. But on Thursday, Jim has to be specific rather than general. The French do not want the summit mucked up.

Buckley: I feel we've made a lot of progress yesterday, except for the French. We have secured agreement on a mechanism, but I have not been able to give the Europeans a quid pro quo. We are getting more vibrations on the rotors. We could offer them the rotors. If I have authority, I would have something more concrete to give. The French do not want Versailles to get bogged down in East-West controversies.

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Baldrige: The French want specific commitments, but if the French say no to credit controls, do we apply extraterritoriality?

Buckley: Yes, this will have to be our position.

Baldrige: In other words there will be no extraterritoriality if we get concessions [on credit restraints]. We will still keep the sanctions at home. If your mission fails, then we will apply extraterritoriality. This gives you leverage.

Buckley: It has been implicit all along that the President can extend the sanctions extraterritorially. Sanctions will still apply to new contracts.

Casey: Europe will depend for 20 - 25 percent of its energy resources on the Soviet Union. If Soviet energy supplies are fully developed, then whoever sits where you are sitting now, Mr. President, ten years from now will confront a situation where Europe obtains 50 percent of its gas supplies from the Soviet Union. The Soviet Union at that time will earn 80 percent of its hard currency earnings from gas sales. Any leverage we have should be used because credit controls are not adequate. It is true that the pipeline cannot be stopped, but we can delay it and make it more costly. We should aim at a swap: develop North Sea resources and give up the pipeline. I certainly agree with Don Regan that no decision should be made before the summit. Also, we should not relax the sanctions imposed on Poland, where the situation has gotten worse. Norway has great potential to supply energy. It is critical that we do what we can to restrict long-term dependency on Soviet supplies. Credit restraints are nowhere near adequate compensation.

Jones: The Joint Chiefs are concerned over controversies in the Alliance: controversies over such issues as nuclear strategy and the presence of troops in Europe. This should be a time of healing at Versailles. We prefer that no pipeline be built, but if we try too much at the summit, we may get nothing. We need a successful summit at Versailles.

Macdonald: Brock feels, as does Baldrige, that our first objective should be to convince Europeans to get alternate sources of energy. This objective cannot be achieved by technology restrictions. The latter penalize us.

Kirkpatrick: I would like to say that there is a great deal of criticism in France of the gas deal, even in the Socialist Party. The critics agree that anything that can be done to delay the pipeline and develop North Sea resources would be to the good. In other words, we have support inside France. More importantly,

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I believe that to lift sanctions would be political dynamite. On four specific occasions, Mr. President, you have publicly committed yourself to take stronger measures if there is no easing of the situation in Poland. There has been no easing of the situation there and now we may retract the sanctions. You have been criticized for being too weak. We would be very vulnerable. To permit the rotors to be built abroad would leave us open to the charge that we are exporting U.S. jobs.

Schmults: This is a bad time politically to lift the sanctions. Europe should be passive on the Siberian pipeline and develop closer contacts with Norway.

Haig: All this is good stuff. No one is happy with the pipeline: we have been arguing against it for 17 months, but now you have hard choices. British and other European firms can no longer wait to fulfill existing contracts. You may end up where the Europeans will develop alternatives and you will put U.S. manufacturers out of business. All this for an enterprise that is already set in place. When you hit a mule with a baseball bat, he will start kicking. The contracts have been signed and there is no use talking about them. [Turning to Casey.] Why do you say that the credit mechanism means nothing? It does. COCOM has for many years meant nothing but Jim Buckley has put some teeth into it after Poland. We are in a cooperative mood. We want something similar for credits. It would be a major advantage to have a credit control mechanism in place. It will not only affect money but also improve cooperation. We should tell the Europeans to put their money where their mouth is.

Buckley: What I want meets Bill Casey's objections: a commitment to build no second pipeline and exploration of Norwegian resources. But we must bear in mind that the latter will take ten years.

Casey: I believe that unless we can come to an energy and credit agreement with the Europeans on the basis of their own self-interest it won't work and won't mean too much anyway. There can be no deals on this matter.

The President: I will not decide on this matter today, but I will tell you how I feel in a manner that perhaps will indicate that I lean one way rather than the other. I felt all along that we imposed the sanctions because of Poland and that credit controls were to be a quid pro quo for our not applying extraterritoriality. Now it looks as though we are backing off. I am feeling myself like that mule who is ready to kick. How much do we have to give up to get a harmonious meeting at Versailles? What is it worth to go to Versailles? All you get is some jet lag ... We said there would be more punishments coming and here Walesa is still in jail and we are already talking about relaxing the sanctions. We will lose all credibility. We talk well, but the Europeans

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will always back off. The Soviet Union is economically on the ropes -- they are selling rat meat on the market. This is the time to punish them. The Europeans should tell the Russians to ease up in Poland, relax martial law, release Lech Walesa. We are not able to afford politically to relax. The Europeans should have a bit of guts. We should tell them: we will help you with North Sea energy resources -- O.K. have your pipeline, but no second pipeline, and develop Norway. I had to swallow hard on the sanctions. I care for the U.S. unemployed. How are we going to explain that nothing has improved in Poland, but that business is business? We have arguments on our side. Why don't we provide the leadership and tell the Europeans who is the enemy -- it is not us. We are willing to help the Russians if they straighten up and fly right. We want deeds and they can begin with Poland. We don't even wait for the finale on the credits and are ready to give up.

Buckley: But, there is a quid pro quo.

The President: But this is for extraterritoriality. What happens to our promise that we shall do more nasty things? The Europeans are in a better position because they do business with the Soviet Union: let them tell the Russians we want action on Poland.

Baldrige: On the quid pro quo. I do not agree with Bill Casey that credit restraints are not significant. They are more significant than restraints on manufactured goods. Today you can always obtain technology in two years or so, but credits cover the entire economy. Control on credits will hurt the Soviets more. This, however, may be difficult to explain politically.

The President: I agree. Yes, our sanctions are a leaky sieve and if credit sanctions are imposed, they will have to pay hard cash. Here they are vulnerable. Moscow has to hold out its hand.

Clark: Unless there is something further, we will now adjourn. In sum, there is no decision to be taken, but a strong direction has been indicated. Please hold all this in the family.

The meeting adjourned at 11:30 a.m.

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NSC Meeting
East-West Issues / Versailles
5/24/82

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NSC
5/24/82
East-West
Trade/Versailles

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Judge: introduce mtg

Haig: we've been discussing w/ Europeans ... flexibility if could get credit controls for our falling off our position — French are the sticking point — Jim Buckley's last discussions in Europe disappointing re: French — Buckley has 27 May mtg, we feel time has come to make specific offer of allowing contracts in return for credit controls — our judgment is that 1st leg of pipeline is gone — we can get ① credits ② limit on dealing with Soviets on energy beyond 1st leg of pipeline — far less vexing, urgent issue is the Sakhalin question ... lesser order of magnitude question but we should be consistent — let them have it for ① support on credits ② future energy

Casey: what kind of assurances on future of pipeline

Haig: they're going w/ 1st leg

Casey: probably ... 85%

Haig: we get a different assessment each time —
(discusses curtailment)

Casey: (inaudible)

Haig: North Sea ... viable alternative

Carlucci: generally disagree w/ State ... if we reward Japanese, we'll undercut our European position — this is no time to lift sanctions, w/ Polish situation unimproved — we have no problem w/ support on credits, but doubt that you can achieve anything tangible in time for summit, esp. w/ Fr. position — agree w/ CIA (Casey) that pipeline's

not a fait accompli - Eur. wanting N. Sea oil -
Fred? (no comment)

Baldrige: sanctions will not delay completion of pipeline
- schedule has slipped anyway - support
State position, but want to make sure we are
specific enough in our agreements that Buckley
will discuss next Thurs re: Sakhalin, we've
seen movement from Japanese on wanting to
support us

Judge: Ed on Bill

"Ed": support State

Murphy: VP came back wanting to see if we could
be helpful on Sakhalin - believe he'd
support AI if we could get specific -
on Siberia

Judge: Jim on Ed? (no)

Regen: don't make decision today - wait unt. 1
we see if we can get agreement in
principle on 27th - ^{send} ltrs to heads
of state pre 27th ... take off agenda
at Summit ... re: Sakhalin, suggest ()
- when we later revisit pipelines, let Rotors
go, contingent on real agreements - coming
back to credits, not much we're looking
at (\$400-500M/year) - want to get down payment
- Fr. say this violates a protocol they don't
show us - 11 1/4 to 12 1/2 - not talking about much ...

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will beat the Soviets a little bit more, but certainly won't bring them to their knees

Judge: what authority to Jim for Thurs?

Regen: push as hard as he can

Haig: that's precisely what we're proposing, w/ one possible exception — we'd lay it out only to French, since others are with us —

Jim's problem Thurs. is to be specific vice general — Jim...

Buckleley: we've made much progress w/ all but the French — I've felt an absence of not having quid other than general logic of not helping the enemy get stronger — French don't want E-W at Versailles

Baldrige: question: It's my understanding, for yes, we'd lift — for no, we apply territoriality?

Buckleley: yes

Baldrige: (Discuss — door clicks)

Buckleley: (comment)

Casey: when pipeline finished, Eur depend on USSR for 20-25% of its gas ... ^{Soviet} hard currency — far too great to bargain away — true that it's far along ... can delay, make more expensive, maybe a change of heart

Gen Jones: we concerned about controversy in Alliance — this should be a time of healing in

the Alliance, but what's obtainable —
we want to come away w/a successful
Summit

(USIA): don't want to get caught only penalizing
our own manufacturers

Kirkpatrick: there has been criticism in France
of the Fr. government's position — you've
committed us to taking stronger measures
if pressure doesn't ease... it hasn't ...
to make decision to allow sale of rotors
by subsidiaries

(Energy): don't think this is time to lift sanctions
— push for development in North Sea

Haig: all of this is good stuff — nobody's
happy w/ pipeline, but you're faced
w/ hard choices now — if you continue
hard, Eur. will develop alternative,
Summit will fail, American jobs will
be lost — commitments have been
made by heads of State, contracts
signed — credit mechanisms do mean
something... we've had COCOM for many
years, and after this crisis, it's working
& credits now could work in psychology
& cooperative terms

Buckley: believe our position meets your problem,
Bill (Casey), to keep them from going

30-6-60% dependency

Carey: unless agreement on mutual interests, won't work in long run

Pres: won't make decision today, but have questions to answer for myself:

- ① more funds for their govt, it sounds to me now — throwing in rest, for credits
- ② how much do we back down to have a harmonious mtg in France
- ③ Waleza still in jail, nothing's done, and we're relaxing
- ④ credibility at stake
- ⑤ economically, we have Soviets on the ropes
- ⑥ tell Allies to tighten screws — if Waleza out of jail, martial law strengthened, etc., then we'll go along
- ⑦ tell them to get a little guts, stop playing rabbits
- ⑧ I swallowed hard on sanctions originally given unemployed Americans — how can I explain to world
- ⑨ let's provide some leadership; tell them who's the enemy; it's not us
- ⑩ where do we keep promise that unless Poland changes, we'll do more — & credits about all we have left

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Baldrige: Re: quids — I think credits more important over long run ~~than~~ than sanctions — difficult to explain politically

Pres: (equipment) ~~not~~ Soviets can't go much further

Judge: Summary

- ① no decision
- ② strong direction
- ③ hold within family at this point