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NATIONAL SECURITY COUNCIL MEETING

DATE, TIME
AND PLACE: August 6, 1982, 12 noon-1:00 p.m., Cabinet Room

SUBJECT: U.S.-E.C. Steel Dispute and Soviet Sanctions
Implementation

PARTICIPANTS:

The President

State
Secretary George P. Shultz

JCS
Admiral James Watkins

Defense
Mr. Frank Carlucci

White House
Mr. Edwin Meese III
Judge William P. Clark

Treasury
Secretary Donald T. Regan
Mr. Marc Leland

Mr. Robert McFarlane
Mr. Ed Harper
Mr. Richard Darman

Commerce
Secretary Malcolm H. Baldrige
Mr. Lionel Olmer

CEA
Mr. Murray L. Weidenbaum

Agriculture
Secretary John R. Block

NSC
Mr. Norman A. Bailey

OMB
Mr. David A. Stockman

CIA
Mr. Harry Rowen

USUN
Ambassador Jean J. Kirkpatrick

USTR
Mr. David Macdonald

Minutes

Secretary Baldrige reported to the President on the tentative settlement of the steel controversy with the European Community. Possibilities for ultimate failure were outlined, including non-agreement by U.S. steel companies, non-agreement by member countries of the E.C., and failure of subsequent negotiations on pipe and tubes. The President congratulated the Secretary

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of Commerce and approved a Presidential statement on the subject.

Secretary Regan reported on the export credit agreement within the OECD as well as studies that are proceeding on monetary matters. On August 4, 1982, the Treasury intervened in the exchange markets for the second time since the Versailles Summit. Secretary Regan also reported on the Mexican financial crisis. They have exhausted all of their U.S. swap lines with the Federal Reserve and the Treasury.

Secretary Regan then outlined the sanctions situation. It was emphasized that they were related to the Polish situation. Some of the questions which must be answered soon include whether to proceed with legal action or wait for European moves; try to enjoin foreign action or not; what fora to use; what products the sanctions were in fact supposed to reach; alternative energy sources and what positive steps might be taken to alleviate the sanctions situation. He stated that paper on the legal implications and strategies was being prepared by the legal departments of the departments of Justice, State, Treasury, Defense and Commerce.

Harry Rowen of the CIA reported that in their judgment the Russians will be able to deliver the gas they have contracted for on schedule using other fields and other equipment. Additionally, the buyers may not take the full amount. There would be costs, of course -- less gas for Soviet internal use and for Eastern Europe as well as diversion of materials and equipment.

The President asked whether there wasn't an obligation on the part of foreign companies not to use our components and technology contrary to U.S. laws and regulations.

Secretary Shultz explained the G.E.-Alsthom Atlantique contract as it relates to compliance with U.S. law.

Secretary Baldrige stated that we must decide soon, since the regulations have to be enforced.

Mr. Harper stated that it would preferable to stop making public comments about the sanctity of contracts.

Secretary Shultz recalled that when he was recently talking to Foreign Secretary Pym he had reminded Pym that many contracts were broken when we declared sanctions against Argentina.

Secretary Regan gave some hypothetical examples of the type mentioned by Europeans who question what U.S. reaction would be if other countries tried to apply their sanctions extra-territorially to our companies.

Judge Clark stated that we must all keep in mind the reason for the sanctions.

Mr. Carlucci mentioned the fact that we maintain control over sales of foreign military equipment with our components and technology all the time.

Secretary Shultz said we must always keep in mind that there are many interrelated factors -- Poland, relations with allies, exports, etc.

Secretary Regan stated that the lawyers must tell us how to do what is needed, not why it can't be done.

Secretary Block asked if there were any hope in Poland.

The President said that he had tried to get the Europeans to pressure the Polish Government while he was in Europe but no one had listened.

Secretary Shultz said we must try to find a solution which will cause least offense to the Europeans while doing maximum damage to the Soviets. We are in danger of an escalation of legal measures.

Ambassador Kirkpatrick quoted the French magazine Express to the effect that the Europeans had not considered that the President was serious and thus had made no serious attempt to negotiate.

MEMORANDUM

NATIONAL SECURITY COUNCIL

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CHRON FILE

August 19, 1982

SECRET ATTACHMENT

INFORMATION

MEMORANDUM FOR WILLIAM P. CLARK

FROM: NORMAN A. BAILEY

SUBJECT: NSC Meeting of August 6, 1982 -- Minutes

Attached at Tab I are the minutes of the NSC Meeting of August 6, 1982.

Attachment
Tab I Minutes

*Approved
KAM/br
WPC
8/20*

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