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NATIONAL SECURITY COUNCIL MEETING

DATE, TIME
AND PLACE: September 22, 1982, 10:30
Cabinet Room

SUBJECT: Pipeline Sanctions

PARTICIPANTS:

The President

State
Secretary George P. Shultz

OPD
Mr. Roger Porter

OSD
Secretary Caspar W. Weinberger
Deputy Secretary Frank C. Carlucci

CEA
Mr. William Niskanen

Treasury
Secretary Donald T. Regan
Mr. Marc E. Leland

JCS
General Jerome F. O'Malley

Commerce
Secretary Malcolm Baldrige

White House
Mr. Edwin Meese III
Mr. James A. Baker III
Mr. Richard G. Darman
Judge William P. Clark
Mr. Robert C. McFarlane
Admiral John M. Poindexter

CIA
Mr. John McMahon

The Vice President's Office
Mr. Donald Gregg

USUN
Ambassador Jeane J. Kirkpatrick

NSC
Mr. Norman Bailey

USTR
Ambassador William E. Brock

OMB
Dr. Alton Keel

Minutes

Deputy Secretary Carlucci reported on Senate action on missile basing. At this point, we have the basing decisions we want in committee. Senator Stevens has been recalcitrant and will create problems on the floor.

Judge Clark presented the agenda items.

Secretary Baldrige reported on the rules being followed in connection with sanction violations. Temporary denial orders (TDO's) are being

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issued against alleged violators, whether the violation was a company decision or taken under governmental duress. They are also applied to subsidiaries and affiliates where appropriate. TDO's do not extend to non-oil and gas related items. We are getting many requests for exceptions on hardship grounds, such as the Sensor case where a Dutch court has ordered the company to ship. Unintended effects cases are also coming in, such as a case preventing supply for an Australian pipeline. He said there should not be any exceptions at this time -- it would represent opening Pandora's box. But after Secretary Shultz has had his meetings in New York, we should consider refining the rules. If equipment or technology is for free world projects, if significant hardships are being imposed on innocent third parties and if the project involved reduces energy dependency on the Soviet Union, we should examine a change in rules.

Secretary Regan mentioned that there will be political fallout because of lost jobs in the U.S. Many of the products involved are interchangeable so that effects are mainly on U.S. companies. He agreed with Secretary Baldrige's recommendation, but the domestic implications should not be overlooked.

The President: We want to hurt the Soviets. Are we stopping an Australian pipeline?

Secretary Baldrige: It might be delayed. But we should not make exceptions now. One exception leads to another.

Judge Clark: Ambassador Hermes (of West Germany) said last night that they don't agree with the sanctions, but you (the President) should not show vacillation now.

Ambassador Brock: A number of Europeans have told me that if all of this leads to greater allied unity, it was worth doing. But we are on extremely weak legal grounds if our actions are seen as punitive rather than deterrent. How is a pipeline in Australia a deterrent? We must be very precise about the standards on which we make our decisions.

The President: Can't we buy from Caterpillar and others?

Secretary Weinberger: We do. We even have increased purchases from John Brown. But I'm disturbed at Europeans being unwilling to meet. I support Secretary Baldrige's recommendation.

Secretary Shultz: Procedurally, you authorized discussions with the Europeans if they wanted to have a meeting. Foreign Secretary Pym asked for a meeting. I accepted. Since then they have had trouble getting together -- the British, Germans and Italians want to have a meeting. The French believe if they wait we will fold. We have maintained the posture that we will meet, but they shouldn't believe we're looking for a way out. We're looking for a better

approach to East-West economic relations. The British, Germans and Italians understand this. The French don't yet. I have meetings set up in New York. The first is with Cheysson next Sunday. At some point, they will probably decide on a joint meeting. They will have to take the initiative. If we move from the pipeline to the broader issues of East-West economic relations, we must involve the Japanese and perhaps also the Canadians, at least on a parallel track. I have to play with the situation as it emerges. There must be room for maneuvering and exploration.

We should aspire to a strengthening of COCOM controls, a list revision and a firming of the process of policing. The question of insufficient funds must be addressed.

Secondly, credit restraints on the Soviet Union must be addressed. It is easier to persuade people now not to be too liberal on international lending. It is difficult to police and define. We need to emphasize both substance and procedure. The deals are very complex.

Thirdly, we must try to get agreement on not selling certain key oil and gas technologies and equipment to the USSR. U.S. companies control a major portion of this material, so the Europeans can't say we're being unfair. One possibility might be no government guaranteed credit for this material.

Finally, there is concern over the Soviets taking a bigger share of market than implied by the first pipeline. The temptation is there to go ahead and gain a much higher percent of the European market. We must reserve space in the market for additional Norwegian North Sea gas. There have been changes in attitude in Norway due to changed market conditions. We are considering an interesting combination of Dutch/Norwegian gas in the future.

The British don't want to discuss this without discussing food exports to the USSR. We should reply that our policy is no subsidized sales of American grain. There is no all-out trade war planned -- we're talking about European vulnerability. The Europeans are out of their minds to put themselves in the position of reliance on Soviet energy they are moving towards.

As I told Geoffrey Howe, they're not offering us something. This is an alliance -- we see Soviet behavior, technology transfer and other unacceptable actions. Let's get together and decide what to do about it. The whole atmosphere is cockeyed now.

Secretary Weinberger: We are in full and total agreement on this matter. We are not trying to wriggle out of the sanctions.

The President: I have no quarrel with this exposition.

Secretary Regan: What if something happens in Poland -- have we come to grips with this problem?

The President: Our pipeline position has to do with European exposure. Poland gave us a reason to act. There is more at stake here than Poland.

Secretary Shultz: The political, strategic and economic factors are related. We will not alter the sanctions until we see moves by the USSR. We will stick to our positions. We can't fall off on COCOM and other things. We must move to a strategic posture not necessarily related to Poland.

Ambassador Brock: We must separate what we hope to achieve strategically from the sanctions per se which are related to Poland.

Secretary Baldrige (to the President): You have said that if the three conditions were met we would lift sanctions.

The President: Yes.

Secretary Shultz: Even if the conditions are fulfilled and we lift sanctions, we still want to do these things.

Mr. Baker: But by agreement, not unilateral sanctions.

Secretary Shultz: Any measure will be much stronger if taken with allied agreement.

Ambassador Kirkpatrick: We hope for improvement in Poland. I was in France and the French press thinks our legal position is stronger and our companies' licensing contracts more important than we do. But there is confusion on our motivations. Our policy must be made clear.

Judge Clark: We were opposed to the pipeline before the declaration of martial law. Favorable developments in Poland would lead to a review of the sanctions, but the issue is broader.

Secretary Regan (to Secretary Shultz): Be careful. The OECD consensus rates are now at the top of the range and may have to be negotiated downwards.

Secretary Shultz: We must move with the market.

Secretary Baldrige: The sanctions were imposed because of Poland. We must not be ambiguous. We want other things, of course. But we are giving the allies leadership on high moral grounds on Poland, not to force our allies to do things they don't want to do. Sanctions

are a means to an end, not an objective in and of themselves.

The President: This is what we indicated at the Summit. The Europeans should go quietly to the USSR and put on the pressure. But they did not agree. We must stick to our position that the sanctions are related to Poland.

Judge Clark: Please review the press guidance.

Secretary Weinberger: "No" movement, not "sufficient" movement (the text was changed).

Secretary Bladrige: Just a final word to emphasize that the measures we have taken are preventive, not punitive. If asked why they are not effective, we should say they represent only the tip of the iceberg so far.

The President: President Roosevelt called for a quarantine on Germany in 1939. He had his brains kicked out. What would history have been like if he had been listened to?

Judge Clark: Thank you, Mr. President.