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NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

National Security Council Meeting

Friday, December 2, 1983, 11:00 a.m., The Cabinet Room

SUBJECT: Libya and Oil and Gas Export Control Issues

PARTICIPANTS:

The President

The Vice President's Office:
Admiral Daniel J. Murphy

State:
U/S Lawrence S. Eagleburger
U/S William Schneider, Jr.

Treasury:
U/S Beryl W. Sprinkel
A/S John M. Walker, Jr.

OSD:
Deputy Secretary Paul Thayer
U/S Fred C. Ikle

Commerce:
Secretary Malcolm Baldrige
U/S Lionel Olmer

OMB:
D/D Joseph R. Wright, Jr.
A/D Dr. Alton G. Keel, Jr.

CIA:
Director William J. Casey
Maurice Ernst, NIO, Economics

OSTR:
Ambassador William E. Brock
A/USTR John E. Ray

White House:
Edwin Meese III
Robert C. McFarlane
Richard G. Darman

NSC:
Robert M. Kimmitt
Donald R. Fortier
Roger W. Robinson, Jr.

Minutes

Ambassador McFarlane began the meeting by reviewing past export control measures against Libya. He noted that notwithstanding continuing evidence of Libyan misbehavior, terrorism and subversion as well as the growing propensity of the Soviet Union to use Libya as a base for its own naval activities in the Mediterranean, we were on the verge of significant new sales. McFarlane said that we now confront a number of important questions: namely, the effect significant new sales would have on our credibility and on the morale of threatened states in the region; whether we wanted to contribute to a further enhancement of Libyan power; whether the projects in question constituted a "legacy" which Qadhafi could use to solidify his own internal standing; and on the other side--whether allied sales to Libya would nullify the impact of any unilateral actions we might take.

Ambassador Eagleburger presented the State Department's position in favor of extending the current presumption of denial to items

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valued at more than $1 million dollars which were destined for the development of Libya's strategic infrastructure. Eagleburger said that State's position began with the recognition that our controls were intended primarily as a political statement. Eagleburger said that State felt strongly, on the basis of regional and other considerations, that new controls should be implemented. Eagleburger recognized that new controls would be painful to U.S. industry and added that State would work with Allies to try to ensure we were not alone. Eagleburger said he was not confident we could get the Allies to accept our position.

Secretary Baldrige said he abhorred Qadhafi's behavior and that we were in a "bar-room fight" requiring serious effort rather than shadow boxing. Baldrige said there were three reasons for imposing controls: 1) to bring about a change of behavior; 2) to prevent a state from acquiring a certain capability; and 3) as a symbol of our moral indignation, as for example with Cuba or apartheid. Baldrige said our earlier economic sanctions had been intended as a signal, but the signal hadn't registered. Secretary Baldrige cited several specific problems with the State Department recommendation: it would be seized upon by opponents of the Export Administration Act, who would argue that the action demonstrated unpredictability; it would reopen old wounds on the subject of extraterritoriality; and it would hurt U.S. business. The Secretary urged that we make a concerted effort to bring our Allies on board before doing anything ourselves.

The Special Trade Representative, William Brock, said what we call "strategic infrastructure" is, in reality, equipment as simple as water irrigation systems. In every case, foreign availability is virtually assured. Brock quoted an interagency study to the effect that the restrictions would have little ultimate impact on Libya's programs. He compared the action to shooting holes in a boat.

Deputy Secretary Thayer, speaking for Defense, said he found State's position fundamentally appealing. At the same time, he personally saw the validity of Secretary Baldrige's argument. Thayer said that he too felt we ought to make a concentrated effort over the next several months to gain Allied support for a serious embargo.

Ambassador McFarlane noted that there were various ways of expressing "costs." One was the cost to the U.S. of foregoing new business with Libya; the other was the cost in terms of hundreds of millions of dollars in security assistance for states Qadhafi continued to threaten. McFarlane noted that Ambassador Brock had been somewhat modest in his reference to U.S. contracts since the irrigation project alone totaled on the order of $10 billion or more.

Ambassador Brock concurred that was so.

Secretary Baldrige intervened at this point to say that some of these projects would take years to complete and that perhaps we ought to take a more optimistic long range view toward Qadhafi.

Under Secretary Sprinkel said that Treasury was sympathetic to State's objection, but that Commerce's logic was more compelling.

Ambassador Eagleburger said that on purely economic grounds State had no quarrel with the Commerce position: in short, the new measures would clearly hurt us economically. He noted, too, that we should not defer for six months with any real confidence the Allies would agree to join with us. In all likelihood, six months from now, and even after active diplomacy with our allies, we will confront precisely the same issue. Still, Eagleburger said, new sanctions can have an important psychological impact. Even though Qadhafi can replace American goods, he desperately wants the seal of U.S. approval which new business with us would implicitly carry. Qadhafi is concerned when he has no relationship with the U.S.

The President inquired as to whether a new diplomatic approach to Qadhafi made sense in light of the feelers he had extended through third parties.

Ambassador Eagleburger responded that such feelers are part of a recurring pattern, that they are never followed by any concrete change of behavior and that, on the contrary, Qadhafi merely uses the appearance of dialogue to sow suspicion among our U.S. friends in the region.

Counsellor Meese said we cannot have it both ways. We cannot engage in rhetorical condemnation of terrorist behavior and then do business as usual with terrorists. We should ask ourselves if Qadhafi's behavior is sufficiently bad to warrant all possible sanctions and other more serious measures. Perhaps we need a full court press.

Secretary Baldrige agreed; if we are to take new actions, let's be certain it really hurts.

Director Casey agreed. He said the time had come for a complete Libyan embargo. This would be the worst possible moment to relax our efforts. Qadhafi's principal worldwide export was violence and terror; and yet American companies continued to account for more than forty percent of Libya's oil production. He said the President should declare that our national security requires the invocation of the International Energy Economic Power Act. We should not be timid about this.

Counsellor Meese added that at least we should keep existing controls in place.

Director Casey said our export restrictions have severely damaged Qadhafi's credibility around the world.

At this point, discussion on Libyan export controls concluded, and the NSC then moved to consider whether the U.S. should move twenty-one strategic, dual-use oil and gas equipment items already proposed for COCOM controls to U.S. national security controls

The issue was introduced by Robert McFarlane who established that the origin of this issue as going back to November 1982 when the President lifted our unilateral oil and gas equipment sanctions in exchange for allied agreement to initiate urgent work programs in each of the key areas of East-West economic relations -- credits, energy dependency, NATO involvement, and COCOM.

Mr. McFarlane commented that everyone around the table agrees that these work programs were a useful effort in leading to greater allied awareness of the security assets of East-West trade and led to certain concrete results, i.e. ending preferential treatment on credits to the USSR by raising the consensus interest rate and upgrading the effectiveness of COCOM. He went on to explain that earlier this year the U.S. submitted seventeen oil and gas equipment items (later expanded to twenty-one items) for addition to the COCOM list. This question has not yet been finally considered with the next major meeting scheduled for January. Mr. McFarlane then explained that within the USG the sub-Cabinet group responsible for export controls, the Advisory Committee on Export Policy (ACEP), recommended that these twenty-one oil and gas items be placed under U.S. national security controls with the objective being that such a move would enhance the credibility of our resolve and persuade the allies to take similar action. He then invited Secretary Baldrige to provide an overview of the issue.

Secretary Baldrige began by stating frankly that Secretary Shultz, Ambassador Brock and he were surprised this issue was being raised. He stated that the subject was surfaced in an Assistant Secretary-level meeting and that it was his understanding that it was not originally on the agenda. He went on to state that if the U.S. were to unilaterally place higher technology oil and gas items under national security controls rather than maintain them under foreign policy controls, two things would happen. First, Secretary Shultz negotiated the agreement the President expected in obtaining the cooperation of the allies in the area of East-West trade. This process has moved forward successfully -- with the twenty-one items being considered as part of the agreement with the allies. At the meeting of the Assistant Secretaries, they felt that if we move first on these twenty-one items, it would convince our COCOM partners to do the same. Secretary Baldrige did not agree with this premise stating that such an action would upset our COCOM partners because we would be viewed as not treating them as partners. Second, this U.S. action would work in exactly the opposite way that we would expect. The French, Germans, and UK would have their companies make massive sales. The French would view with delight our unilaterally removing ourselves from competition. We would then witness reverse pressure from these European companies on their COCOM representatives to delay further the negotiations.

Mr. McFarlane then turned to Mr. Thayer for the view of the Defense Department. Mr. Thayer cited his understanding of our COCOM activities in the areas of oil and gas equipment and technology. He stated that we are strengthening COCOM by enlisting French and UK support for our efforts. Mr. Thayer commented that he could see the logic of Secretary Baldrige's remarks regarding our allies filling the vacuum created by unilateral controls, although he was not sure they could substitute for U.S. suppliers in all cases. He stated that he thought we have technology that the allies do not have, particularly for drilling in the Arctic Circle. Mr. Thayer was therefore not convinced that such an action by the U.S. would not hurt the Soviets. He added that the U.S. and Canada have technology that others don't.

Secretary Baldrige made an intervention that he had a list before him indicating that there exists foreign availability for every one of the twenty-one items and that Defense already has an opportunity to review these licenses.

Mr. McFarlane then turned the discussion over to Mr. Eagleburger who was representing the State Department. Mr. Eagleburger commented that State thoroughly agreed with the arguments of Commerce on this issue. He stated that we do have a chance of bringing the allies on board with tighter controls on these items but that a U.S. move to the national security controls at this time would make less likely our ability to succeed in these COCOM discussions.

The President then stated that in his experience it gets down to whether we do this with the view that it encourages others to follow and that it increases the likelihood of achieving these controls. He commented "every instinct I have tells me that to do this in advance makes our position less possible."

Mr. Meese remarked that if we cannot get COCOM controls, it does not make much sense to control these ourselves.

Director Casey stated that the NSC had requested a study on the contribution of Western equipment and technology to Soviet oil production. He commented that Soviet oil production will be a big problem and that the contribution of Western equipment and technology could be vital to them.

The President posed the question of whether it is more dangerous to shut them off from developing their own supplies when they could essentially throw up their hands and look to the Gulf or somewhere else. The President then recounted a conversation he had with a former Secretary of State who, in turn, referenced a discussion with a senior level FRG official. The FRG official had quoted a high-level Soviet official telling him that they [the Soviets] would eventually have access to Middle East oil to supply Western Europe. He remarked that this is a problem we have to face with our allies.

Mr. McFarlane concluded the meeting by stating that he believed a consensus had been reached on this latter agenda item.

Prepared by:
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