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THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D.C. 20505

National Intelligence Council

NFAC #5893-81
18 September 1981

MEMORANDUM FOR: Deputy Director of Central Intelligence

25X1 FROM : [redacted]
Acting National Intelligence Officer for USSR-EE

SUBJECT : SIG Meeting on East-West Economic Relations 21 September 1981 (S)

1. There are two subjects on the agenda for the Monday morning SIG meeting:

A. The Yamburg Natural Gas Pipeline: What energy alternatives might the US offer the West Europeans to dissuade them from this venture?

B. The COCOM High Level Meeting (HLM) on Security Export Controls: What preparations are we making for the meeting (scheduled for early November)?

Both issues are contentious within the US policy community and will encounter strong resistance on the part of the Europeans.

(A) The Pipeline Issue. Defense, with major help from State, has produced a study on security aspects of the pipeline deal, vulnerabilities, financial details and possible US approaches to influencing Allied attitudes on the pipeline. The DOE ~~has compiled~~ is working on a package of energy alternatives to the pipeline. I have heard only oral reports on these studies. I believe they are quite comprehensive and will presumably be briefed at the SIG meeting. CIA was asked to prepare a paper on the status of European-Soviet pipeline negotiations. That study is at Tab A. The key judgments are worth reading.

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Our view has been consistently pessimistic on the chances of stopping the European momentum toward the pipeline deal. They see the dependency problem as a mutual one: Europe's dependence on Soviet gas supply is substantially balanced by Soviet dependence on crucial hard currency earnings. More important, they find the multi-billion dollar contracts for pipeline, compressors, etc. irresistible in an economically depressed, high unemployment environment. On the other hand, the demand

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for natural gas ~~is on a declining trend~~ in Western Europe is now expected to grow slowly and hence the need for Soviet gas may be much less than was originally believed. A crisp paper that makes this point was circulated to the SIG members earlier this week. See Tab B. It suggests that rather than trying to dissuade the Europeans, we should publicize the market uncertainties for the Soviet gas, in the mid- to late-80s, as a way of bolstering the European bargaining position. Incidentally, the strength of Europe's political commitment to the pipeline at this point was well illustrated by FRG Economics Minister Count Otto Lambsdorf's remark to Ambassador Arthur Burns in Bonn yesterday: "On the pipeline deal, the US is two years too late".

(B) The COCOM High Level Meeting. The purpose of the COCOM meeting is to persuade the Europeans -- at the political level -- that a major revision in the COCOM export control criteria is both warranted and desirable. The major US objective is to try to get the Europeans to accept a greatly enlarged scope for strategic controls, to include production equipment and know how for nine branches of industry that are closely, but not directly, related to defense production. This recommendation will be most unwelcome to the Europeans who, in the past, have always insisted on justifications for controls that trace a clear and tangible linkage to military capabilities. In addition, the recommendations seek to impart greater harmony to divergent national licensing procedures, and improvements in compliance with, and enforcement of, the controls. A Commerce-chaired working group has been working on the preparations for this meeting. I have a late draft of the Commerce paper, with State's revisions (see Tab C). A quick skimming of this draft will give you some sense of where this initiative is going.

CIA's contributions to the COCOM meeting are in the form of two papers still in preparation.

- An assessment of the effectiveness (narrowly defined) of COCOM over the past ten years, and some modest suggestions for improving this effectiveness.

- An assessment of the nature of circumvention and diversion under COCOM controls, and the importance of the clandestine acquisition problem. This paper is focused on the question of what kinds of improvements in compliance and what kinds of multi-lateral enforcement might be possible.

The export control policy community tends to have an exaggerated notion of what intelligence support they can expect in this realm. As you know, the problems of Humint intelligence sharing are very tough. Also, in the multi-lateral COCOM framework, enforcement cooperation (such as through Customs Bureau liaison arrangements) is best done informally rather than through official cognizance.

What I have seen of the preparations for the High Level Meeting does not give me confidence that the US presentation to the Europeans will be

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at all persuasive. The Europeans are well aware of what we have in store for them and they will be loaded for bear. My guess is that the best we can expect is some agreement on the proposed measures for tightening procedures, with the more controversial proposal for a change in criteria being remanded to a committee for further study.

2. Intelligence Implications. On both of these issues, our role has been to try to raise the intellectual level of the debate and to provide such factual assistance as could be useful. On the pipeline issue, we have probably done as much as we can. On the COCOM issue, you should be aware an enlargement of the scope of controls along the lines proposed would place a considerable additional burden on intelligence to provide answers to questions that are probably unanswerable and possibly imponderable. It would cause a lot of frustration and could erode our good record of relatively effective intelligence support of the export control policy community that we have accumulated.

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Attachments: three
As Stated

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