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NATIONAL SECURITY COUNCIL MEETING

Date, Time and Place: Monday, July 6, 1981; 11:09 a.m. - 12:22 p.m.; The Cabinet Room

Subject: East-West Trade Controls

Participants:

The President
The Vice President

State:
Secretary Alexander M. Haig, Jr.
Deputy Secretary William P. Clark
Mr. Robert D. Hormats

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

Treasury:
Secretary Donald T. Regan

Commerce:
Secretary Malcolm H. Baldrige
Mr. Lawrence J. Brady

Energy:
Deputy Secretary W. Kenneth Davis

OMB:
Mr. David A. Stockman
Mr. Ed Harper

CIA:
Mr. William J. Casey

USUN:
Amb Jeane J. Kirkpatrick

USTR:
Amb William E. Brock

JCS:
General David C. Jones
Lt General John S. Pustay

White House:
Mr. Edwin Meese III
Mr. James A. Baker III
Mr. Michael K. Deaver
Mr. Richard V. Allen
Admiral James W. Nance
Ms. Janet Colson
Mr. Frank Hodsoll

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

NSC:
Dr. Allen J. Lenz, Notetaker



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MINUTES

The President: Opened the meeting with a brief account of a letter he had recently received from a Navy man.

Mr. Allen: The items we will discuss today are of great importance. Mr. President, the decisions you make based on today's meeting or perhaps on two NSC meetings this week will set the course of our East-West Trade Policy and will be important in setting the course of our relations with the Soviet Union. Our Allies and the Soviets will both see these decisions as setting the course of our economic and strategic trade policy.

We need decisions before the Ottawa Summit, so that we can inform our Allies of our policies. The Summit countries together do more than 70 percent of the West's trade with the Soviet Union.

The issues to be discussed are complex and interrelated, ranging from our Allied (COCOM) national security export controls, through U.S. and Allied controls on Oil and Gas Equipment and Technology and U.S. policy on the Siberian Pipeline, to the U.S. decision on a specific export control case -- the export of 100 Caterpillar pipelayers to the Soviet Union.

The complexity and breadth of the issues -- heavy in both economic and security context -- required enlarging the Council for this topic.

Because of the complexity and enlarged attendance, this meeting will be introductory, with a second meeting Thursday to deal with the detailed issues in more detail.

The objectives of this meeting are to determine the basic positions of each agency and the key factors in reaching those positions, and to identify differing views for examination in the second meeting.

The papers to be discussed can be divided into two groups. The first deals with Allied Security Controls. The remaining three papers deal with various aspects of controls on Soviet energy development.

I would like to proceed as follows: In the first round each participant will have two minutes to state his position on the options concerning National Security Controls and to identify the major considerations in his decision. Following that round, the President may wish to ask some questions. Again, we will have to limit the comments to two minutes. Then, we can follow a similar procedure for the second group of papers.

The first paper presents three options for strengthening security controls on exports to the USSR. These options would tighten COCOM security controls by varying degrees. Each would require negotiations with our COCOM allies to implement. The difficulty and length of the negotiations would, of course, probably vary with the degree of tightening of controls.

I suggest we begin with the statements of positions. Secretary Haig, would you like to begin?

Secretary Haig: Yes. It is important to know that we are dealing with a group of interrelated -- and sometimes contradictory issues; to recognize that the decisions will affect both our relations with our Allies and with the Soviets. It is also important in making our decision to balance what we want against what we can do.

Option I maintains controls on equipment and technology and would be much as the policy in recent years. Our Allies are comfortable with this policy and it will be difficult to change it.

Option II would add to the controlled items equipment and technology critical to military related industries; for example, shipbuilding and heavy equipment.

Option III would control all military relevant technology.

I believe we should elect Option II, which would significantly broaden restraints. It will be difficult to do this. For two years we have been negotiating in COCOM to make a narrow increase in militarily relevant metallurgical technology with little result. Selling Option II to our Allies will be very difficult. We should seek at the Summit meeting a subsequent high-level COCOM meeting. At the same time as we increase these controls, we should loosen up on lower level controls.

Secretary Weinberger: We must consider our Allies' position, but we must consider whether we wish to aid the Soviets or not, and we must not adopt the attitude that if we don't sell to them someone else will. This is sometimes true, but our policy should be very restrictive. Almost everything aids their military and helps their economy. We know that they will only be satisfied by world domination, and we cannot satisfy them by appeasing them.

We should not give in to the argument that "if we don't, others will." To go along with this weakens our ability to lead and to not supply them.

While Option III is not considered feasible, following Option I should be discontinued. Option II is an improvement, but will still continue to help the Soviets. There will be slippages. We should strengthen Option II by an ad hoc examination of things under Option III. They turn against us what we provide them.

Secretary Baldrige: Mr. President, we have to have a program that works. The present program does not work. We have 5,000 applications in process. Some 2,000 are legally overdue. Our business people -- and our Allies -- do not understand our current policy.

I think we should go for Option II -- tighten controls at the top (the higher technology) -- loosening at the bottom on routine items. With fewer items to process, we can process them faster and give more attention to the more important items at the top.

For example, robots are not on the list now. We would deny some under Option II, but the simple "pick and place" robots would go.

Super alloys -- there are some 2,000 of them. We can't control all of them. We would deny the vacuum induction furnaces and technology used to make them, but not the items themselves.

We have the same kind of problem with computers. We would differentiate between the important and the not important -- allow shipments of items that can be had from electronic stores.

We believe we could update the COCOM regulations by October.

Deputy Secretary Davis: I note that restrictions on atomic energy items would be continued under any of these options. We lean to Option II. However, denial may stimulate their own research to develop capabilities in the long term they otherwise would not have if dependent on imports.

Ambassador Brock: I follow Mac (Baldrige) in his recommendations. I feel we should ship almost anything in hardware -- deny the technology. That way we can freeze them into a position five to ten years behind us.

Mr. Casey: It is a mistake to help the Soviets by exporting to them items they need. There is a greater negative impact from the exports than positive economic value to us as an export. We should be concerned not only about technology, but also about products.

We should go as close to Option III as our Allies will allow.

General Jones: We should impose the tightest possible controls. The policy should be somewhere between Options II and III.

Mr. Stockman: I prefer Option II, but would urge the tightest possible analytical framework as to the effects of the option. We need an estimate of the cost to the Soviets in terms of the impact on military investment and the linkage of our policy to their economic expansion.

Ambassador Kirkpatrick: We need to be concerned about the impact of our policies on our Allies. But we also need to be concerned about their impact on the rest of the world. Strengthening Soviet capabilities increases their power around the world and their ability to interfere. I don't believe that denying exports to them will increase their ability to innovate on their own. We should force them to divert productive capacity to developing their own technology. We should follow Option II, plus an item-by-item analysis.

Mr. Allen: Mr. President, after your questions, I would propose following the same procedures on the remaining papers.

The President: I do have a question. The Caterpillar tractors for the pipeline. Where would they fall in the options discussed?

Mr. Allen: Under Option I, the pipelayers could go.

Under Option II, they could go -- unless restricted by an ad hoc analysis.

Under Option III, they would not go.

The President: Is all this predicated on dealing with our Allies? It is not much to us economically, but, for example, the whole pipeline thing if the Soviet Union can meet its own needs, there is less need to go to the Gulf. But does Western Europe become more dependent?

Secretary Haig: The pipelayers are not related to COCOM controls. I suggest we cover that item, Mr. President, under the next discussion.

Secretary Weinberger: The question was what would happen under these rules? Under Option II, they would get it. This is the reason that Option II must be strengthened to avoid pre-automatic approval that would strengthen Soviet export capabilities.

Mr. Baker: In other words, energy would not be considered a Defense priority item?

Secretary Weinberger: It could be.

Mr. Allen: Let's go through the arguments on the remaining papers.

Mr. Meese: This topic controls the others.

Secretary Weinberger: I continue to have concerns about Option II.

The President: One more thing. Is this unilateral, or what is the effect on the Allies?

Mr. Allen: Your decision would be a fit topic for the Summit. We all agree on the need to strengthen controls. The vehicle used (to approach the Allies) will be critical. As Al said, your decisions will have tremendous undercurrents.

Secretary Haig: We might look at the history on this. Carter decided post-Afghanistan on a tightening of the controls. We have been attempting to tighten the controls for the last year, but there are two problems. One was the lack of a coherent U.S. policy. The second is the reluctance of our Allies. It will be a strong, uphill battle to strengthen controls (even going for Option II), but is can be accomplished by strong leadership. We would all like Option III, but we can't do it.

Secretary Baldrige: But they still want to buy them from the U.S. Allowing them to have the pipelayers helps them (to solve their problems).

Mr. Allen: I suggest we go through the same routine on the remaining papers. The remaining three papers examine the U.S. and Allied positions on the export of equipment and technology that would assist the Soviets in the exploration and production of oil and gas.

However, they do not pose the question of whether it is in the interest of the U.S. and the Western Allies to assist development of Soviet energy? The major arguments on this question are:

For:

-- Developing Soviet energy helps them overcome potential energy and hard currency shortages and reduces their motivation to aggression in the Persian Gulf Oil area.

-- Increases the world oil supply and keeps the Soviets from purchasing on Western oil markets, reducing pressure on world oil prices.

-- Maintains a cooperative relationship with the Soviet Union in an important economic area to offset the competitive relationship in the military sectors.

-- Results in substantial export and employment benefits for U.S. and Allied countries.

Against:

-- It is unlikely that he Soviet Union will ever become dependent on the wor l market for oil imports; if it decides to intervene in the Persian Gulf, it will do so for reasons other than to obtain oil; e.g., to deprive the West of il.

-- Western equipment an technology reduces the costs of energy development t the Soviet Union and frees resources for applic tion in the military sector.

-- Western assistance c ntributes to an expansion of Soviet energy export to the West and to Eastern Europe and increases their dependence on the USSR.

-- It is inconsistent t seek increases in defense expenditures while m king it easier for the Soviets to devote resources o their military.

These are some of the very com lex issues. Al, would you like to begin the discussion?

Secretary Haig: There are fiv options to consider (referring to Oil/Gas Controls). The fir t three are so restrictive we cannot get Allied cooperation on them The Allies would argue that these options would result in greate Soviet demand on the world oil market and lead to more aggres ive Soviet behavior. This is a complex issue. The toughest t be decided today. It involves -- is it in our interest to hinder S viet energy development? What are the implications of decreased oviet production? What can be negotiated with our Allies? The A lies will perceive us as rigid. The Soviets will appear to be fort coming. We give them no incentive to negotiate with us. The que tion is do we wish to concentrate on limiting exports of technol gy, or on end use equipment that is available elsewhere?

We should focus on preventing ccess to technology -- Option IV -- but with a case-by-case analysis o end items. But as an overall policy, we should go for controls on e port of technology.

Mr. Allen: That covers the se ond paper, but are you prepared to state your position on the pip line?

Secretary Haig: Yes, if you w nt me to. The first two options are overly harsh and not sustainab e. Our Allies see Soviet energy as more secure than OPEC. They w nt to diversify by taking in Soviet energy.

I am concerned about the depen ency question. I would recommend a modified Option III, where we ould look at end items before licensing. We can put major p essure on our Allies at the Summit,

but I have talked to Schmidt twice and to Genscher three times on the pipeline and they refuse to give up on it and, Mr. President, you received a call from Schmidt over the weekend. They say they can go for six months in the event of a Soviet cut-off. I favor Option III, very much toughened on any item.

On the pipelayers, the Japanese are going to sell them anyway. The Soviets have approximately 1,500 of them in inventory. These are replacements for existing equipment. They are not for the Siberian Pipeline. They involve no sophisticated technology. They are not COCOM controlled. They can be used only for pipelaying. They have no other applications. They do not involve a technology transfer. The Japanese would provide them.

Secretary Weinberger: I feel differently on all three issues. I haven't heard all the Schmidt arguments, but I am weary of defining our policy on what Schmidt wants. Our policy should be leadership -- not anticipating what our Allies will say and setting our policy on that. The Schmidt government is weak and may not be around long, anyway.

It should be clear to our Allies that it is definitely against our (mutual) interests to increase Soviet capabilities by $20 billion per year.

We sent scrap iron to Japan before World War II and we are doing a great deal to increase Soviet capabilities. We need a harder line position.

We should come closer to Option I on Oil/Gas Export Controls. We need to demonstrate to our Allies that it is not in our interest to increase Soviet capabilities. It will take hard work to develop energy substitutes (alternative supplies for them).

The easy way to go is to give up. The Soviet ability to build the pipeline without Western assistance is questionable. Compressors are necessary to the pipeline. We can work with our competitors to develop internal arrangements to make the Japanese less willing to sell.

Komatsu gets a subsidy from the Japanese government. The Japanese can subsidize because they don't have to pay for their own defense. We need to persuade the Allies with alternative solutions (to their energy needs) that the pipeline is not in their interest. For example, Komatsu wants into the U.S. market.

I would take a position much closer to our security interests. It seems wrong to authorize equipment they want from us. On the Caterpillar pipelayers, I would elect Option I (deny). On the Siberian Pipeline, somewhere between Options I and II. It is not in our interest to increase Allied dependence.

The Vice President: Suppose Caterpillar has a French facility, would U.S. restrictions apply?

Secretary Weinberger: Yes, we can enforce U.S. law on a U.S. company. We can persuade them under U.S. law.

The Vice President: Suppose the company is 51 percent foreign owned?

Secretary Weinberger: There are means by which we can control the exports.

Secretary Baldrige: We want to be as tough as we can, operating in the real world. If we go too far and can't get our Allies to go with us, it won't work. I have with me Assistant Secretary Larry Brady, who is known as "the toughest gun in the West" on export controls and he supports this position. The products -- pipelayers, compressors, drill bits -- are generally available from other sources.

As Al said, there are 1,400 pipelayers in the USSR. Komatsu is 1/3 the size of Caterpillar and has the market targeted. We cannot stop all these countries from shipping to the USSR.

My position is Option IV on Oil/Gas Controls, Option III on the pipeline project.

The pipelayers get to be an emotional argument. The Japanese will sell them to the Soviets. The existing licensing requirements were imposed for human rights reasons.

Deputy Secretary Davis: The theme of the discussion seems to be what our Allies will support. We want to restrict export of technology, but this requires Allied support. The international oil companies are the transferors of technology. To control them would require strong Allied support.

My main concern is the Siberian Pipeline. It will have an important effect on Soviet exports. I would like to delay or restrict it.

On the Oil/Gas Controls, I would prefer Option III, if strongly supported by our Allies; Option IV if we do not get that support. On the pipeline, I prefer Option II, but Option III is more likely practical. The pipelayers should not be supplied, but our decision should depend on the Japanese position.

Ambassador Brock: I would recommend Option IV on Oil/Gas; Option III on the pipeline, and Option III on the pipelayers.

There are strong feelings in this room on what should be done. However, I believe there are two threats to oursecurity. There is the Soviet threat and the economic threat.

Increased oil prices have put heavy economic burdens on the Free World. The fact that Schmidt is in trouble and that there are four communists in the French government illustrates the economic weakness. Our Allies are all in political jeopardy, including Mrs. Thatcher. We give far more than $20 billion annually to the OPEC countries. A way to break OPEC would be desirable. But we are not working on it. To break a potential dependency on the Soviets, we need to increase exports of coal, nuclear, etc.

Secretary Regan: We want the Soviets to keep producing oil and gas. We could not supply Europe. We are probably going to have a shortage of gas in the mid-80s. Now Western Europe is hostage to Algeria. Their economies are weakened by energy events. It is advisable to keep the gas flowing.

My recommendations are: Oil/Gas -- Option IV; Siberian Pipeline -- Option III; Pipelayers -- Option III.

Mr. Casey: We need to talk turkey to our Allies. The OPEC problem is a separate one. We are talking about getting two percent of the energy we need from the Soviets at the expense of increasing their hard currency by 25 percent. The Soviets are a small factor in the Allies' trade accounts. We are a larger factor.

The Soviets cannot do without gas. They will have to divert resources to building pipe and compressors if the West doesn't supply them.

I understand there is a Senator Garn letter signed by 40 to 50 Senators opposing the pipeline. We have the right to tell our Allies they should not put in the pipeline if they expect us to defend them.

Senator Garn proposes increased exports of coal and nuclear power.

General Jones: Oil/Gas has a definite security concern. We recommend on Oil/Gas Controls, Option II; on the pipeline, Option I or II; and on the pipelayers, Option I.

But we cannot restrict everything if the Allies let it flow. We should not take unilateral action. Should have some flexibility in getting our Alliess cooperation.

Mr. Stockman: I have grave doubts about frustrating Soviet production of energy for three reasons:

1. There is an asymmetry in oil resources versus world populations, with reserves concentrated in the Middle East and in the USSR. Restrictions on Soviet production would impose a burden on the West, which needs energy.