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SUMMARY AND ANALYSIS OF DISCUSSION

at July 6, 1981, NSC Meeting

The objective of the meeting was to determine Agency positions and supporting rationales on two important facets of U.S. and Allied policy on trade with the Soviet Union: security controls and controls on the export of oil and gas equipment and technology. The options presented in four papers and the agency positions identified during the discussion are synopsized in the table at Tab I.

The "Security Controls" issue requires a decision as to the general policy guidelines we will propose to our Allies for adoption by the "Coordinating Committee" in its multilateral agreement to jointly restrict the export of certain equipment and technology to the Soviet Union (and other Communist countries).

The NSC meeting discussion revealed unanimity in recommendations to press our Allies for significant increases in existing COCOM security controls, with the majority favoring Option II, which would restrict technology and equipment critical to production in "defense priority industries," as well as that critical to military production and use which would be restricted under Option I. Some, however, recommend moving as close as is practical to Option III (restriction on all items for use in defense priority industries).

The major arguments advanced for settling for the increases in restrictions that would result from successfully negotiating with our COCOM Allies the policy guidelines set forth in Option II are:

- o Option II would accomplish a significant broadening.
- o Though Option II will be extremely difficult to sell to our Allies, it is doable. Option III is not achievable. (Functioning of the COCOM system depends on unanimous acceptance of the guidelines by the 15 members; the NATO countries plus Japan.)
- o Tightening controls at the top (on high technology items) while loosening them at the bottom (on lower technology items) will allow more effective controls on the more important items and faster action on all license applications.

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The major arguments advanced for moving toward Option III are:

- o We must consider our Allies' position, but we must also consider whether we wish to help the Soviets.
- o Subscribing to the "if we don't sell to them, others will" argument weakens our leadership ability.
- o The negative effect of exports that help the Soviets outweighs the positive economic benefits to Western economies of these exports.
- o Refusal to provide the Soviets equipment and technology forces them to divert resources to developing their own.

There is a more pronounced diversion of your advisors' views on the "Oil and Gas Controls" and "Siberian Pipeline" policy choices (see table at Tab A). Defense, CIA, JCS and Mrs. Kirkpatrick recommend the license denials and pressures on our Allies reflected in Options I or II of the Oil-Gas and Siberian Pipeline papers. State and the other remaining agencies, on the other hand, favor denying technology, but licensing equipment (Option IV) in the oil-gas issue, and recommend we recognize an inability to cancel or significantly delay the pipeline, but work to minimize its strategic implications (Option IV).

While the Siberian Pipeline policy will be a subset of our policy on oil and gas controls, because of the size, visibility, and long-term economic and strategic implications of the pipeline project, it is probably the most important and also likely the most difficult and contentious of the two issues. The Caterpillar license decision will, of course, flow from your decision on the Siberian Pipeline.

The major arguments concerning U.S. and Western policy on Western exports that would aid Soviet oil and gas development are:

Assist:

- o Developing Soviet energy helps them overcome potential energy and hard currency shortages and reduces their motivation to aggression in the Persian Gulf Oil area.
- o Increases the world oil supply and keeps the Soviets from purchasing on Western oil markets, reducing pressure on world oil prices.
- o Maintains a cooperative relationship with the Soviet Union in an important economic area to offset the competitive relationship in military sectors.

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

Impede:

- o It is unlikely that the Soviet Union will ever become dependent on the world 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 oil.
- o Western equipment and technology reduces the costs of energy development to the Soviet Union and frees resources for application in the military sector.
- o Western assistance contributes to an expansion of Soviet energy exports to the West and to Eastern Europe and increases their dependency on the USSR.
- o It is inconsistent to seek increases in defense expenditures while making it easier for the Soviets to devote resources to their military.

All of the above arguments also apply to the Siberian Pipeline. However, the key U.S. concern is that the pipeline will promote a Western dependency on Soviet gas that will increase our Allies' vulnerability to Soviet leverage.

At bottom line, however, the polarization of views of your advisors rests not so much on differing judgments of whether it is in U.S. interest to impede Soviet production (most would favor that, other things equal), but rather on differing individual evaluations of whether our Allies can be persuaded, at a reasonable cost, to follow a U.S. lead to do so.

This concern about West European attitudes is particularly crucial to the Siberian Pipeline analysis. The West Europeans cite the Pipeline as a means to diversify their energy sources. These arguments can be refuted, but what is more difficult to refute is a factor which the West Europeans choose not to emphasize. The fact is that the hard currency income generated by the pipeline for the Soviets will be the basis of a continuation of a West European trade with the USSR that might otherwise dwindle. Further, given Soviet import needs, the West Europeans recognize that payments for Soviet gas will be spent by the Soviets for West European products. This assures the West Europeans a means to pay for the gas imports, a very important consideration in today's world.

The development of such a trade interdependency, seen as advantageous by the West Europeans, is, of course, the very fact that concerns the U.S.

	Security Controls	Oil/Gas	Siberian Pipeline	Caterpillar Pipelayer License
I	Restrict Equipment and technology critical to military production and use.	Deny all oil and gas equipment and technology licenses. Pressure our Allies to do same.	Deny U.S. Licenses. Press Allies to cancel negotiations.	Deny the license.
II	Restrict as in I plus items for Defense priority industries which would significantly enhance Soviet military.	Attempt less restrictive multilateral approach than in I. Deny licenses while consulting with Allies.	Withhold U.S. licenses. Encourage Allies to do same until safety net plans set.	Deny if Japanese will also deny.
III	Restrict as in II but for all items for use in Defense priority industries.	Strong effort to impede major Soviet energy projects thru multilateral action. Deny licenses while consulting.	Recognize inability to cancel or significantly delay project. Continue work to minimize strategic implications.	Approve the license.
IV		Deny exports of technology. License equipment.	Laissez faire. Let market determine European energy import and security policies.	
V		No special controls on oil/gas equipment and technology. Continue existing security controls.		

AGENCY POSITIONS ON ALLIED SECURITY AND ENERGY CONTROLS

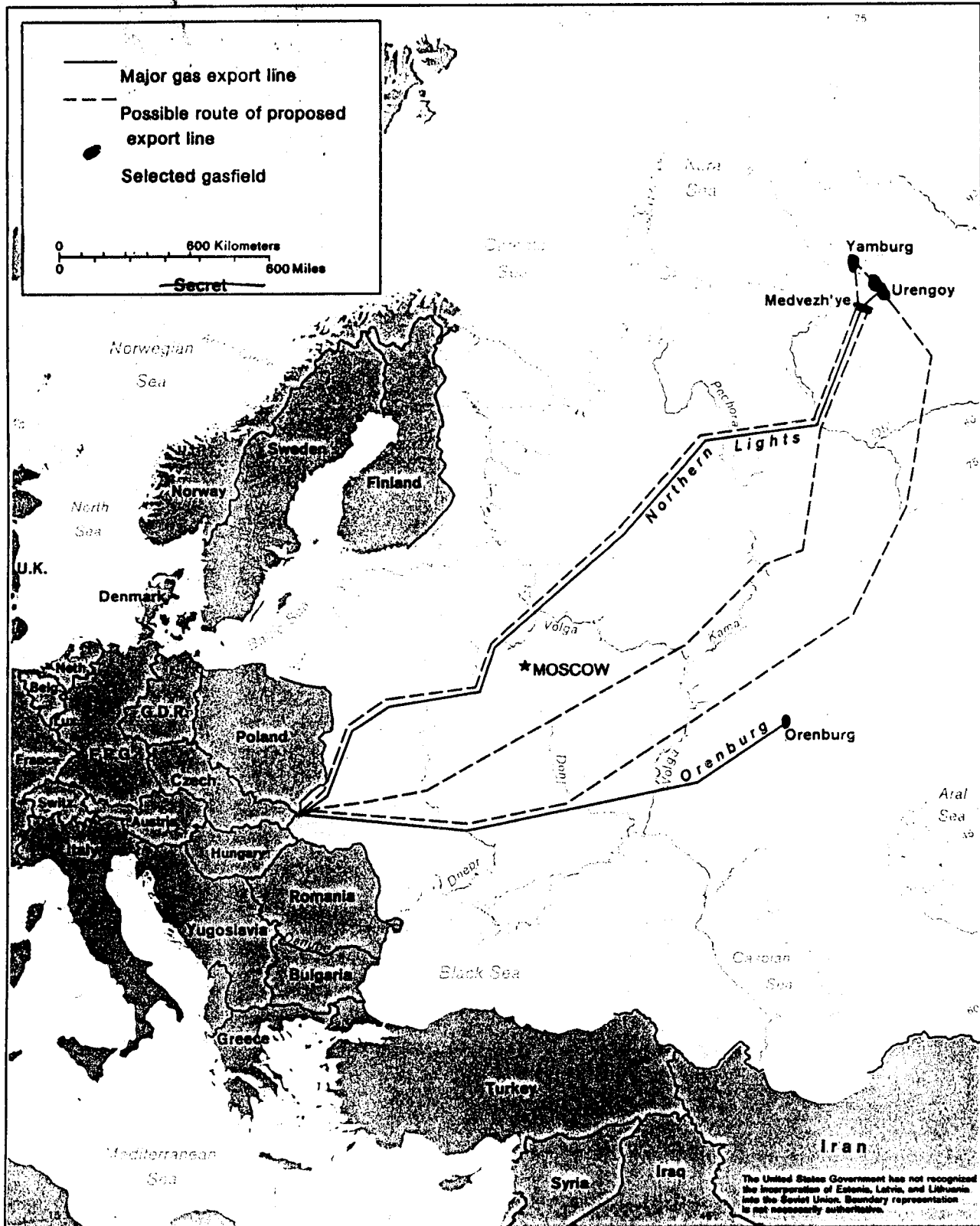
	Security Controls	Oil/Gas	Siberian Pipeline	Caterpillar Pipelayer License
	II	IV	Tough III	Issue License
Defense	II plus ad hoc III	I to II	I to II	I (Deny)
Commerce	II - Tighten at top - Loosen at bottom	IV	III	Issue (III)
Energy	II	III or IV	II, but III more practical	II
TR	Modified II Limited to high technology - Less concern re product	IV	III	Issue (III)
Treasury	II	IV	III	Issue (III)
A	As close to III as Allies will accept	I or II	I or II	Deny
S	As tight as possible II - III	I	I-II	Deny (I)
B	II	IV	III	Issue (III)
	II plus item by item analysis toward III	I	I	I

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Soviet Union: Major Gas Export Pipelines



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