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NATIONAL SECURITY COUNCIL MEETING

Date, Time and Place: Thursday, July 9, 1981; 3:30 - 4:30 p.m.; The Cabinet Room

Subject: East-West Trade Controls

Participants:

The President
The Vice President

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

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

OSD:
Secretary Caspar W. Weinberger
Dep Sec Frank C. Carlucci

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

Treasury:
Secretary Donald T. Regan

NSC:
Dr. Allen J. Lenz, Notetaker
Dr. Henry Nau

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

Energy:
Dep Sec W. Kenneth Davis

OPD:
Mr. Martin Anderson

OMB:
Mr. Edward Harper

CIA:
Mr. William J. Casey

USTR:
Ambassador William E. Brock

USUN:
Ambassador Jeane Kirkpatrick

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The discussion began at 3:40 p.m.

The President: Before we get down to the serious business of the day -- Happy birthday to General Jones.

An exchange of pleasantries followed.

Mr. Allen: Mr. President, we have a full agenda today. If you will permit me, I would like to state the objective of today's meeting and then a suggested method of procedure.

We have two topics to cover. We will continue our discussion of East-West controls. We would also like to devote some attention to the Caribbean Basin Policy. Secretary Haig and Ambassador Brock will be going to Nassau this weekend for a Foreign Minister's meeting.

With regard to the East-West portion of our discussion, we have only a short period to make decisions required to be presented to our Allies at the Ottawa Summit meeting. We need, at that meeting, to seek their support for important initiatives that will have a profound effect on both near- and longer-term military, political and economic facets of our East-West relations.

Our objective today is to complete the NSC discussion of the East-West trade topics, though the President may choose not to make his final decisions for a few more days.

There is a great deal of complex material to be covered and each agency should have an opportunity to advance its key arguments. Therefore, I propose to proceed as follows:

There appear to be substantial areas of agreement on the Allied Security Controls topic. While there is not unanimity on the precise course to be followed, I believe the positions of individual departments are quite well defined. Perhaps some adjustments could be made to narrow if we spent more time. However, I believe it would be better to spend the major portion of time on those key issues where wider divergencies exist; that is, on the Oil/Gas and Siberian Pipeline issues. Additionally, we have three new papers to consider on these issues.

Therefore, Mr. President, unless you wish to propose some questions on the Allied Security Controls, I suggest we move on to the Oil/Gas and Siberian Pipeline problems.

The President: I suggest Mac, Al and Cap get together to work out something. Leaning a little toward Option III would be fine with me.

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Mr. Allen: Mr. President, I suggest the following procedure for the remaining items. Based on an NSC memo request to Secretaries Haig and Weinberger, they have made two additional submissions, answering certain questions. These two additional submissions have been provided to all the participants here. Additionally, today I sent them two further questions based on their submissions. If you will forgive the somewhat rigid nature of this procedure, I will now pose to them the two questions they were provided earlier and they could then answer these questions.

Following that we could then go around the table for additional comments and questions. Secretaries Haig and Weinberger could collect the questions for a response in one fell swoop.

Is that satisfactory to you gentlemen?

Secretary Haig: Yes.

Secretary Weinberger: Yes.

Mr. Allen: Mr. President?

The President: O.K.

Mr. Allen: Secretary Haig, your July 8 paper proposes a "very tough Option III" under which we would "press" our Allies to take several specific measures to minimize their dependency on Soviet gas. If we do not ourselves deny licenses on exports related to the project, and if we do not enlist the aid of the Japanese and British in restricting exports critical to the project, what is it that is "tough" about our policy? Also, what kind of pressure would we put on our Allies to get them to give anything more than lip service to the program of minimizing dependence you have outlined?

Secretary Haig: We should be clear on the two questions. You have singled out the pipeline. The other issue is Oil/Gas Controls. On that issue we don't believe we could get Allied cooperation on controls on technology and equipment. We want to control the technology, but don't believe we can do the equipment as well.

Related to the original question, "Where are we on the pipeline?" Gentlemen, we have been talking about "jawboning" -- that's what it is. And we have been doing it. We have talked with Genscher. We have talked with Schmidt. They want the pipeline! It is important to them! If we ask them to stop, we are asking them to sacrifice from a goal of diversifying their energy supply and on trade at the same time. We lifted the controls on three-fourths of our own trade with the Soviets when we lifted the grain embargo. It would be inconsistent to put pressure on them when we are loosening our own controls.

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We have been trying to get them to stop the pipeline, but cannot get them to do it. Schmidt has committed himself publicly to this transaction. Public arm-twisting by us would be counter-productive. However, I believe intelligent handling can convince them to decrease their vulnerability and to increase their protective measures.

Now, as far as a "tough Option III is concerned, "tough" may be a misnomer. We need to be tough vis-a-vis the Soviets. We need to be tough on our budgeteers; we need to be tough on our Allies. We need to be tough on getting a program to put in place on energy security. We need to press our Allies to cut in half the size of the pipeline deliveries. We need to assist them to diversify -- to limit their imports of Soviet gas.

In recent weeks the increase in interest rates, the decrease in the projected demand for gas, etc., has been causing consumption problems and a glut in oil.

We should be prepared to give our Allies an alternative package that would involve, perhaps, Alaskan oil. We should deregulate natural gas, make provisions to deepen our harbors to expand coal shipments. This may require some Federal financing. We should reinforce and increase energy sharing arrangements. We must do this whether or not the pipeline is built. We had to help the Dutch in the last oil crisis.

I think, Mr. President, you should mobilize at the Summit a high-level monitoring group.

(The following question was posed in writing to Secretary Haig before the meeting. He answered without the question being reposed.)

Mr. Allen's question submitted earlier in writing follows:

Would it be inconsistent with your scenario to press very strongly at Ottawa, especially on the Germans and French, perhaps privately, for their agreement to delay further negotiations on the pipeline for, say six months, pending a thorough inter-Allied review of the project and alternatives to it?

Secretary Haig: With regard to the second question, "Would we ask them to delay six months?" We shouldn't do this. If we start the work to demonstrate there are other alternatives, they don't want to spend their money there (on the pipeline). But the pipeline is a public problem for Schmidt. He is publicly committed to it. They will tread water anyway, without our requiring them to do so.

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Mr. President, you will find at Ottawa that our European Allies are in a blue funk about their economic situation. They blame us in part for their problems, because of our approach to our own economic problems -- because of our interest rates. A rigid approach to this problem of the pipeline will bring a repeat of the disastrous Carter Administration confrontation with the Germans over the sale of German nuclear technology to Brazil -- with a far more significant effect on our ability to deal on East-West matters!

Mr. Allen: You asked and answered the second question.

Secretary Weingerger, why couldn't your objectives be best served by imploring -- persuading our Allies to delay the pipeline, rather than stop it (Mr. Allen paraphrased the following question that had earlier been delivered to Secretary Weinberger:)

Your objective, as stated in your paper, is to stop the pipeline or, if that is not possible, to scale it down. Why wouldn't this objective be best served by requesting, at least as a first step, that our Allies, especially the Germans, agree to delay further negotiations for at least six months, until a full examination of all aspects of the project can be completed, rather than approaching them now with a statement that the project must be stopped, and with threats to block exports by the U.S. and other Allies of critical components?

Secretary Weinberger: We are unequivocally in favor of stopping the pipeline. Leadership does not add up the columns on the opinions of our Allies, then conclude you are defeated. You decide what is needed and you do it. The Europeans should be clear on that.

I suspect that the speculation re a shaky economic base for the pipeline is true. We should drive home that we are unalterably opposed to it.

Nobody here at this table wants it built. We can do all the things listed that have been talked about to provide alternatives to the Europeans. They are all good. We can do all the substitutes. But why do all that and build the pipeline too?

We have the objective of stopping it. That may be impossible, but we must try. If built, it will produce large hard currency earnings for the Soviet Union. It will increase European dependence on the Soviets. We worry, even now, about the course of the Germans.

Realistically, we have persuasive power. We must exercise it. Otherwise, to offer these alternatives is useless. If the pipeline is built, we have lost. We give the impression of a weak, undecided country. We must use all reasonable leadership and tactics and alternatives.

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If someone believes we can use delay as a means -- fine, but our objective should be to stop the pipeline. We need to be firm, resolute, in our objective to stop it. We must use all the proper tactics and strategy.

Mr. Allen: My second question is: "As you indicated, compressors that must come from either the U.S. or the UK are critical to the pipeline. However, these compressors offer potential sales of as much as \$300-\$600 million to Rolls Royce, a sick company in a sick British economy with a current unemployment rate of about ten percent. Faced with high levels of unemployment and with a German and French desire to go ahead with the pipeline, what incentive would there be for the British government to block the sale of these compressors? What pressures or incentives could we bring to bear to motivate the British to go along with our desire to block the pipeline? Wouldn't British cooperation be significantly easier to obtain if our stated objective was only to delay the pipeline, pending a review of alternatives and/or steps to minimize European dependency, as compared to a position where we propose to the Allies that the pipeline be permanently blocked?"

Secretary Weinberger: In the last three years, we have spent \$265.3 million with Rolls Royce. We have under current consideration purchase of the Harrier aircraft. There are many other co-production possibilities. It is very easy to give them other sales. Of course, we must not publicly bludgeon them, but motivating them can be done by giving them other contracts.

Mr. Allen: Mr. President, we also have a new submission from the CIA providing new information. Bill, would you like to summarize your paper?

Mr. Casey: Yes, Mr. President, I would like to make three points.

First, minimizing their dependence (on OPEC oil) would not be achieved by Soviet gas which would provide only three percent of West European energy. More important, this pipeline is the largest East-West deal ever. We have to take this matter very seriously. This is our greatest opportunity ever to force the Soviets to divert resources from military programs.

Second, the \$16 billion to be lent to the Soviets for this project should better be lent on this side of the curtain to develop Western sources. There are probably better and less expensive alternatives in the West than the pipeline.

Third, with regard to the tactics at Ottawa, at a minimum we should put it off until we explore other alternatives that will be permanent assets to the West.

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Mr. Allen: Mr. President, the CIA paper was delivered this morning. You may wish to look it over at your leisure. I commend it to you as I do the other papers received since the last meeting.

We can now move around the table for the comments and questions of others.

Secretary Baldrige: Mr. President, the essence of leadership is to take the strongest possible position. But we are weakened if we fail. We don't believe it is practical to stop compressors and pipelayers and the other equipment needed for the pipeline. There is a cable in today that reports a Japanese sale of 500 pipelayers to the Russians. Caterpillar has been told by the Soviets that if they do not have a license by 30 July, Caterpillar loses the sale. There are 1,400 pipelayers in the USSR now. They can be moved to work on the pipeline. Other smaller equipment alternatives are available now from other than the U.S. and Japan. These other alternatives can be developed over time to build the pipeline.

The same is true of the compressors. There are two sources now, but others can make compressors in the reasonably near future. In the time needed to get the pipeline going -- three to four years -- many other alternatives can be developed.

Mr. Casey: What about the money?

Secretary Weinberger: If they can't get the money, they can't build it. We need to stop the entire European support, including the money.

Secretary Haig: I think Mac is talking about the technology.

Secretary Baldrige: My point, is that simple bilateral arrangements with two countries cannot stop the line. I would like to associate my position with that of State. I recommend a strong program to develop alternatives. We have said we want financing of dredging of harbors, etc., by the private sector. We want foreign capital to develop our resources.

Mr. Allen: Mr. Davis, please keep your comments to two minutes, or less.

Deputy Secretary Davis: We would like to see it stopped or scaled down. However, we defer to others for evaluations of the prospects of success of doing so.

In either event, we need to increase other alternative sources. However, the other alternatives are not necessarily direct substitutes for gas. Nuclear power development takes considerable time. Deregulation of U.S. gas would free supplies for Western Europe. But we need to get going on such programs.

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Ambassador Brock: In the last meeting I spoke about the economic aspects of this issue. Now I want to look at it as a politician. There are desperate economic problems in Europe. There is the effect of high U.S. interest rates, which has resulted in a revaluation of the dollar that has brought to Western Europe the equivalent of a "third oil shock." Western Europe has a \$13 billion trade deficit with us.

It is better to go with a request that they delay. I am intrigued with Bill Casey's suggestion of gas from coal. We have lots of coal here, but we can't guarantee it will be economic until we cost it out.

How we do it (persuade the Allies to stop/delay) is important. I support, essentially, State's position.

Mr. Harper: I think the points that Mr. Stockman wanted me to make are that by discouraging the pipeline today and subsidizing other sources, we will wind up later with the Soviets having their energy, while we are depleting ours.

The key question is where are we going on a broad picture basis?

Secretary Regan: I would support delay of the pipeline.

Secretary Haig: Code words cause problems. We could not (in the State Department) be able to support going to Schmidt with a request for him to delay. We seek delay, but the way we skin that cat is not to go to Europeans now with a request to stop a project three years along.

We cannot be seen as intervening in their economic fate. It's their money! It's their project! We must be very careful on how we intervene.

Mr. Allen: There is no intention to use code words. We are talking about our security.

Secretary Weinberger: Our interest rates won't decrease if the pipeline is built. Their deficit won't be decreased if it is built. We must make our position clear. Is the best way to stop the pipeline to go for a delay?

The alternative supply concept is useful, but not much good if the gas is already coming in.

General Jones: We want to stop the pipeline, but others are best qualified to decide how.

Mr. Casey: Our approach should be that we want to show them another way -- a way to avoid building the pipeline.

The President: I don't understand.

Mr. Casey: I want to spend the \$16 billion some other way. We could add to the kitty -- do a better job.

Mr. Allen: Your argument is that we want the \$16 billion of investment on our side of the line -- not theirs.

Mr. Harper: There are budget implications in "adding to the pot."

Ambassador Kirkpatrick: The pipeline would tie Western Europe to the Soviet Union. It's already tied strongly. Three hundred thousand West German jobs are now dependent on East-West trade. If the Federal Republic becomes thirty percent dependent on Soviet gas, the number of jobs dependent on East-West trade will increase.

Will this make the Germans or us more secure?

We don't want to increase the tendency toward the Finlandization of Europe. We don't want to help the Soviets. We don't want to sell them the rope to hang us!

_____ : The question is, if you stop or slow the pipeline, does it hurt the Soviet economy?

Secretary Haig: This is a fundamental Foreign Policy and Security Policy issue. We have just lifted the grain embargo. Three-fourths of U.S. trade with the Soviet Union has been decontrolled. We are about to negotiate a new grain agreement with them. We must be careful that we do not follow inconsistent policies.

I have just spent time with Thorn (EC). There are riots in Europe -- unemployment, disaffected youth; there are problems in the Federal Republic of Germany.

No one at this table should think we have not taken a hard position on the pipeline -- and I have done it personally! I have already told them no. They have gone ahead anyway.

Nobody here wants this pipeline. The question is how can we best manage this problem. It would be a tragedy even to demand a six-month delay. We must provide alternatives. We must suggest they don't need it. It is interesting that the Department of Defense and State papers use the same statistics. Yet, we come to different conclusions.

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Secretary Weinberger: There are significant differences. We have have not yet done anything unequivocal concerning a position against the pipeline, coupled with a positive alternative program. If they think we are going to plead with them, they will not go along.

The pipeline won't stop the unemployment or the riots. If we are unequivocal, we may stop the pipeline. If we are not unequivocal, we will not have assumed a leadership role.

The President: Is the idea the Europeans are going to do the financing? If they do not, the Soviets will do it themselves for their own use?

Mr. Casey: There are two separate projects. This one is for exports. If there is no prospect of exports, they won't build it.

The President: I'm glad no one has said "have a happy weekend!"

Mr. Allen: We would welcome added papers on this topic of three or four pages if you wish to submit them to summarize your arguments. Mr. President, we could devote some portion of Monday's meeting to this subject, if needed.

Secretary Regan: I don't buy the argument that Western Europe is in such tough economic shape. Much of what they are saying is posturing. The French Socialists are finding the money to nationalize their industries.

Secretary Haig: I hope my comments did not indicate that I thought they were in such desperate economic condition.

Secretary Weinberger: Building the pipeline won't stop their economic problems.

The President: Could the same individuals get together (as on the Allied Security Controls issue) on this issue and without bloodshed work out a solution?

Secretary Haig: Mr. President, that would be O.K., but DOD has all the armaments. (Laughter).

The arguments are the same.

I suggest we handle the problem as we (State) have recommended.

If I thought to stop or delay was achievable, I would be leading the charge, but I do not think that it is.

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Mr. Meese: As I see it, there are three basic questions:

1. Should we oppose unequivocally?
2. Should we develop alternatives?
3. Does the President say anything at Ottawa?

Ambassador Brock: Isn't there a fourth?

What are we willing to pay in damages?

Secretary Weinberger: It's not a function of damages. The pipeline would cause us damage.

Mr. Meese: It's part of the question.

The President: Is this an oversimplification? Sixteen billion dollars to build the pipeline -- to buy something that will then come through the pipeline? Is there an alternative in the West?

Mr. Casey: Yes.

Mr. Allen: It would take some development. But what is the inconsistency of "why don't you look at what we have to offer before you go ahead?"

Secretary Weinberger: The ways of saying you oppose vary, but leadership is a firm, consistent position.

Mr. Allen: Mr. President, this clearly is a monumental issue. It is very important. Do we need one more attempt at a synthesis position? We can devote time on Monday if needed.

The President: It seems we are all saying the same thing.

Secretary Haig: Let's be frank. It will take us years to develop alternatives. The Europeans know that. We have been working seven years on alternatives. Nothing has happened! We need to go in with something. Not because we are subservient, but because they are our Allies and we need them!

The President: How long, if they go ahead, before completion of the pipeline?

Response: Three to four years.

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The President: Why is it impossible during that same three to four year period to supply them from other alternatives?

Secretary Weinberger: If we can say to them, you'd have to wait that long to get gas, why not wait that long for other alternatives? It involves resources for coal and nuclear development, etc.

The President: It involves harbor development, among other things. I remember those ships lined up at Norfolk.

Deputy Secretary Davis: In a three to four year period, there are small prospects of increase of supply to Western Europe by anything we can do. We are talking eight to ten years to accomplish anything.

The President: What about nuclear? We are the only ones that take eight to ten years to build a nuclear plant.

Deputy Secretary Davis: It takes about six years actual construction time to build a nuclear plant. And electricity is not a direct substitute for all uses of gas.

Mr. Allen: We have exhausted all our time with no discussion of the Caribbean Basin.

Secretary Haig: I don't see this (lack of NSC discussion on the Caribbean Basin) as a problem. Ambassador Brock and I are going down there this weekend to talk about our Caribbean Basin Policy.

The President: Portillo indicated to me they want to be a conduit for our Latin American Policy. He did seem to listen when I said we are talking about the whole area.

As they begin to see some of this in other places, I wonder if Castro won't begin to wonder if he shouldn't get back where he belongs (in the Western camp).

Ask him one thing. We'd have a lot better time if they would take back all those Cubans we have.

Mr. Allen: Mr. President, I'm sure you have been pleased not to read this past week about the Monday NSC meeting in the Washington Post or the New York Times.

The President: Yes. There are sometimes leaks -- perhaps in background briefings. I don't think by anyone in this room. Perhaps by persons not here, who know only a little. But if we can get through another week, perhaps it will become a habit. I want to see an end to the stories of our speaking with different voices. We only speak with different voices in this kind of briefing. If there

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is no other way to cure it -- other than blowing up the Post and the Star -- then, if I found out about them (the leakers), then they are going back to South Succotash, Wisconsin, in a hurry.

The meeting terminated at 4:40 p.m.

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