

April 6.

State Dept. review completed

CONFIDENTIAL

*left with Sakurai*Talking Paper

1. Pursuant to the conversation between Foreign Minister Sakurauchi, and Secretary Haig on March 23, the Government of Japan is requesting that the Government of the United States give favorable consideration to the issuance of licenses related to the Sakhalin Oil Development Project.
2. The Sakhalin Oil Development Project was initiated by the General Agreement signed between parties in Japan and the U.S.S.R. seven years ago. Based upon this General Agreement, the Japanese party has so far provided credit amounting to \$161 million (the credit shall be redeemable when the project becomes successful, to be repaid by means of produced oil and/or gas). The exploration activities in the past seven years resulted in the discovery of significantly promising oil and gas fields. Meanwhile, the Japanese party is obligated to continue exploration activities in 1982 and 1983 in accordance with the above agreement with the U.S.S.R. In order to continue the said activities and to fulfill the obligation under the agreement, export licenses by the Government of the United States for the related equipment and services amounting to approximately \$2 million are indispensable.
3. The Government of Japan has carefully examined the issue in the context of measures taken against the U.S.S.R. in relation to the situation in Poland, and, on the basis of the following considerations, it

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strongly requests that the Government of the United States issue licenses for the above-mentioned equipment and services related to the Project as it did in the previous years.

(1) In the absence of the U.S. licensing, activities under the Project have to be suspended. This will lead to the situation in which the U.S.S.R. may cancel the agreement at their own will, claiming the failure of the Japanese party to meet its obligation. Even if the U.S.S.R. does not cancel the agreement, the Japanese party will not be able to assess the commercial feasibility of the development of oil and gas without further exploration activities. In either case, there is a clear possibility that the Japanese party will have to lose not only the investment already made but also the two oil and gas fields so far discovered.

The Government of Japan believes that such an eventuality would only mean that an ally of the United States would be hurt rather than the U.S.S.R., contrary to the U.S. intentions to take sanctions against the U.S.S.R.

(2) The Project is an on-going project, the licenses of which were continuously provided even after the introduction of the U.S. sanctions against the U.S.S.R. in relation to the Afghanistan problem.